



## FACTSHEET ON MINIMUM WAGE

**The lowest level of remuneration permitted ... which in each country has the force of law and which is enforceable under threat of penal or other appropriate sanctions. Minimum wages fixed by collective agreements made binding by public authorities are included in this definition**  
**DEFINITION ACCORDING TO THE INTERNATIONAL LABOUR ORGANIZATION (ILO)**

### DEFINITION ACCORDING TO THE UNITED NATIONS

Earning a decent living – above the poverty line - is part of our human rights as stipulated in various conventions by the United Nations.

Article 7 of the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#) states remuneration must be adequate to provide workers with a decent living for themselves and their families.

Article 7 of the [ILO Convention No. 131 on Minimum Wage Fixing \(1970\)](#) explains all signatory member states of ILO are required to implement minimum wage mechanisms at respective national levels.

Article 7 of the [ILO Convention No. 131 on Minimum Wage Fixing \(1970\)](#) and its [accompanying Recommendation No. 135](#) articulates that the minimum wage should always be set above the poverty line with the intention of ensuring survival of not only the worker but also his/her family.

### GENERAL CRITERIA FOR CALCULATING MINIMUM WAGE

To calculate minimum wage, these six criteria should be taken into consideration as formulated by the ILO and can be found in their Recommendation No. 135.

- the needs of workers and their families;

- the general level of wages in the country;
- the cost of living and changes therein;
- social security benefits;
- the relative living standards of other social groups; and
- economic factors, including the requirements of economic development, levels of productivity and the level of employment.

Nonetheless, individual countries still employ various criteria to determine minimum wage. These factors can be purchasing power parity, assurance of a decent living, inflation and other factors. Usually, inflation will be the deciding factor for most countries.

## POVERTY INCOME LINE (PLI)

Another method of attaining the PLI is by calculating two third of a country's median income. The median income is obtained by halving the country's total income.

This method is used by countries like Australia and Britain. The same method has also been employed by PEMANDU in their PEMANDU Lab Highlights: Low Income Households report.

Source: Lab Highlights: Low Income Households, PEMANDU

The World Bank's standard, the Poverty Income Level (PLI) of medium-income countries should be calculated based on **USD 2** for food and non-food necessities per individual per day.

USD 2 x 4.4 people (according to the government, an average household comprises of 4.4 members) x 31 days = USD 272.80

Given the fluctuation of currency, **USD 272.80 would vary from RM 831 to 900.**

### Rising cost of living is increasing pressure on households in general

Increase in Consumer Price Index 2001-2009\*  
Percentage per annum



#### "Consumers upset over fare increase"

Johor Bahru: Many consumers are frustrated and upset over the Government's decision to allow bus operators to permanently incorporate the 30% surcharge into their fare. They feel the move is a financial burden, especially with the growing economic uncertainty with many people taking pay cuts and losing jobs."   
The Star  
Tuesday June 16, 2009

#### "Food and retail outlet operators blame suppliers"

Petaling Jaya: Food and retail outlets are not lowering their prices despite another drop in petrol and diesel prices because suppliers are not reducing theirs."   
The Star  
Thursday October 16, 2009

#### "Still paying the same prices"

Although fuel prices have come down, many still feel the pinch from the dramatic rise in the cost of goods. While the authorities predict prices will fall next year, consumers continue to tighten their belts."   
The Star  
Sunday December 28, 2008

1 Data Jan-Mar 2009

SOURCE: Department of Statistics Malaysia, thestar.com.my

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Not surprisingly, the report classifies all households with a total income of RM 2,000 or less as low income households. They note that while there may be a perception that RM 2,000 is relatively adequate to lead a comfortable life. However, with the rise in the cost of living, RM 2,000 is no longer sufficient.

## TYPES OF MINIMUM WAGE

There are two conventional ways of paying wages: **per hour and per month**.

The main issue with paying workers hourly is that workers rights can be easily violated and it exposes the vulnerabilities of workers. Employers may literally pay workers by the hour. Meaning, no more paid leave or paid lunch breaks.

Employers can easily re-hire workers with new contracts and impose those new conditions. As a result, workers end up earning less than they used to or end up working extra hard at the expense of their health and social lives.

Paying by the hour, if taken literally, may push women back into the private sphere after giving birth. Women are often put in the position where they have to choose between recovering, bonding with their newborns, and providing for the family. The same would apply to holidays, paternity leaves, and others sorts of emergency leaves. Workers will then be forced to come in to work even if they are sick, unwell, or recovering because of this.

While paying by the month is relatively safer for workers, productivity of workers will be questioned by the employers.

The other issue surrounding minimum wage is **provincial minimum wage** and **national minimum wage**. Provincial minimum wage means according to the area one lives in; ostensibly the cost of living.

Whereas, national minimum wage would be a minimum wage set by the government for all states and areas in the country. In a federal state, states are allowed to set their own minimum wage. However, it cannot be lower than the minimum wage set nationally. Often, rise in prices and inflation are nationwide and not provincial. Therefore, a minimum wage rate solely based on the provision may not be adequate. This may also lead to intra migration in hopes to secure better jobs and subsequently for better living conditions.

## PROS AND CONS

Pros	Cons
<p data-bbox="235 457 810 489"><b>Fulfillment of basic human rights</b></p> <p data-bbox="235 495 810 772">Enforcement of minimum wage would allow workers and their family members to live a somewhat decent life without forcing them into debt, compromising one's basic human rights – education, health, food, etc. Young people in poorer families too don't have to resort to going out to work at an early age to bear the economic burden of their families.</p>	<p data-bbox="833 457 1430 489"><b>Uneven wage distribution</b></p> <p data-bbox="833 495 1430 772">With the enforcement of minimum wage, employers may reduce the number of workers, employ more part-time workers as opposed to full-time workers, changing working hours of each employee from 7 hours to 4 hours. This will especially impact low-skilled workers and particularly women (last hired, first fired), old people, and other vulnerable groups.</p>
<p data-bbox="235 856 810 888"><b>Happy workers are productive workers</b></p> <p data-bbox="235 894 810 1129">Workers are a lot more productive when they are entitled to better benefits. High turnovers in firms are caused by low wages, and long working hours, amongst other reasons. Thus, implementation and enforcement of minimum wage may motivate workers.</p>	<p data-bbox="833 856 1430 888"><b>Increase of unemployment</b></p> <p data-bbox="833 894 1430 1098">With the implementation of minimum wage, a manager of a restaurant with the allocation RM 100, 000 to hire waiters and waitresses will hire less people as opposed to the era prior to the implementation. This then, creates unemployment.</p>
<p data-bbox="235 1182 810 1213"><b>Better bargaining power for workers</b></p> <p data-bbox="235 1220 810 1392">With the implementation of minimum wage, workers are better informed and have better bargaining powers and tools. Workers no longer have to take any job as it comes along to make ends meet.</p>	<p data-bbox="833 1182 1430 1213"><b>Denial of rights at workplace</b></p> <p data-bbox="833 1220 1430 1423">Employers may take cost cutting measures to ensure profit is maintained while adhering to the minimum wage policy. The cost cutting measures may include removing paternity/maternity leaves, cancelling day care facilities or reduction in health care coverage.</p>
<p data-bbox="235 1476 810 1507"><b>Promote pay equity</b></p> <p data-bbox="235 1514 810 1780">Minimum wage can be used to promote pay equity and subsequently reduce wage gaps between women and men. In 1999 to 2000, full-time and part-time women workers in the United Kingdom earned better wages thanks to the introduction of minimum wage. Average full time earnings for women increased from 81 to 82% of average male earnings.</p>	<p data-bbox="833 1476 1430 1507"><b>Outsourcing</b></p> <p data-bbox="833 1514 1430 1780">It is a common practice in business to cut down cost so that you can maximize profit. So, if minimum wage were to be implemented, companies will look for cheaper labour resources. It could also lead to further exploitation of workers and also unemployment. This might also put TNCs off due to ethical concerns and they might reconsider investing in the country.</p>

## PROCEDURES FOR IMPLEMENTATION

### **Sensitization and awareness programs with employers and employees**

Without proper understanding, employers may not comply with the policy. Without information, employees may not know their rights and who to turn to.

Employers and employees should be briefed about the monitoring and evaluation mechanism, legal recourses besides debunking myths propagated regarding minimum wage.

For instance, awareness has to be spread that if one follows the ILO guidelines, implementing minimum wage will not cause unemployment, an argument also backed by Nobel laureates Joseph Stiglitz and Paul Krugman.

### **Governmental incentives and initiatives**

The government would normally introduce tax breaks and fiscal incentives for business owners and employers, so as to offset any costs raised by implementing the minimum wage. These initiatives can help persuade employers to implement minimum wages.

### **Effective and efficient monitoring and evaluation system**

Monitoring and Evaluation mechanism are crucial and they have to be in place in order to ensure the employers are indeed abiding by the minimum wage policy. The policy cannot act itself.

Studies done suggest that

- employers should be subjected to civil penalties even if they are first time offenders to illustrate the gravity of the matter.
- if an employer repeatedly violates the act, punitive measures such as employee suits, court injunctions, fines, and incarcerations are enforced.
- should also be accompanied by public education for both employer and employee.
- consistent survey should be conducted with employers and employees in order to ensure compliance. During these surveys, both employers and employees should be asked to submit their pay slips and other needed documents.