

Minimum Wages: Evidence-Based Methodology, Consultation with Social Partners and Regular Adjustment in Malaysia

Introduction:

In Malaysia, the Wages Councils Act No. 1947 (Act No. 195) was passed to establish minimum wages for some categories of workers. At the time the act lacked components to ensure regular revision and enforcement. The country has had the minimum wage policy evolve over the year, it now entails setting up a general and regional minimum wage, ensuring periodic revisions and strengthened enforcement.

Intervention:

Some of the important aspects of setting up Minimum Wages that are followed in Malaysia are discussed below:

- a. **Methodology or criteria for setting the Minimum Wage:** Malaysia uses a formula for determining the Minimum Wage for each region. It takes into consideration important indicators. “it uses the regional poverty line income (PLI) per worker to address the cost of living level, and the median wage to address the firms’ ability to pay (Ibrahim and Said. 2015). Both variables constitute the base criteria of the minimum wage and are calculated for the initial period.”

$$\text{Base criteria } MW_i = \text{Avg. } (PLI_i / \text{Avg workers per household} + \text{Median Wage}_i)$$

The rates are then adjusted by the percentage change in labour productivity and the consumer price index.

$$\text{Adjustment criteria} = [1 + (P_i / 100) + (CPI_i / 100) + (UE_i / 100)]$$

Where:

MW_i = Minimum wage,

PLI_i = Poverty line income,

P_i = Productivity growth (%),

CPI_i = % change in consumer price index

UE_i = Real unemployment rate (%): Actual unemployment rate minus natural unemployment rate of 4% i = Region

- b. **Consultative Procedure:** The Minimum Wage is reviewed once every two years by a council that follows a detailed methodology that comprises of impact assessment study, public consultation through focussed group discussions (FGD) with various stakeholders throughout the country, secondary research, public inputs through online web portal and memoranda, inputs from ministries and NGOs, inputs from the findings of various researches conducted by several parties, inputs from the Department of labour and the opinions from other organizations, such as the ILO.

The National Wages Consultative Council approves the MW based on the recommendation of the National Wages Technical Committee that calculates the value of a reference minimum wage based on an agreed set of criteria and provides its inputs to the council.

- c. **Regular Adjustment:** The minimum wage adjustment is carried out on a regular basis, as per the National Wages Consultative Council Act 2011 (Act No. 732) adjustment is done at least once in every two years.

Impact/ Learnings:

India can benefit by driving the consultation process in similar manner, deliberations and discussion backed by evidence. The regular adjustment can help ensure that the changes in the cost of living and other economic circumstances are considered.

Source: Minimum Wage Policy Guide, ILO and the Technical Memorandum Philippines Labour Inspection Audit, ILO