

Microeconomics: minimum wage will cause unemployment and inflation essay sample

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Minimum wage policy will lead to surging unemployment, “black market” labour and inflationary pressure, employers and economists have warned. Datuk Seri Najib Razak announced on Monday a base wage of RM900 for the peninsula and RM800 in Sabah and Sarawak with a grace period of six months, or doubles that for micro-enterprises. “When employers refuse to hire at the minimum wage, desperate workers will look to the black market and agree to take less than that,” said Wan Saiful Wan Jan, chief executive of libertarian think-tank Institute for Democracy and Economic Affairs. The government began working on a minimum wage policy last year after over a decade of pressure from labour unions during which productivity rose by 6.7 per cent annually but real wages inched up by just 2.6 per cent each year. Malaysian Employers Federation executive director Shamsuddin Bardan also said that in some cases, such as plantation workers in Sabah, a minimum wage of RM800 would double salaries.

“On top of that, if Najib wins elections as expected, subsidy cuts will resume. In the end there will be very little positive impact for workers,” said Hafiz Noor Shams, an economist at a leading investment bank. Shamsuddin suggested instead that instead of “using the force of law,” the government should incentivize both employers and employees to upgrade the skill base of the workforce. The Human Resources Ministry says three-quarters of the 12 million-strong workers are unskilled. When there are unskilled workers, there are hard to give them a high salaries. This is because. It takes time to make them skills. Wan Saiful said the Human Resources Ministry had already identified price control and subsidies as the main causes of depressed wage growth compared to productivity gains.

“ Most employers base salary increments on the rate of inflation so they can keep workers satisfied while reaping the benefits. But instead of removing this distortion, they add another layer of intervention. The thinking here is convoluted. The Barisan Nasional (BN) administration has already spent over RM6 billion to raise civil service salaries by up to 13 per cent this year as it prepares to face an election that may be called by next month. Najib’s announcement on Monday follows the increase of minimum wage by around 40 per cent in Thailand last month, part of Thai Prime Minister Yingluck Shinawatra’s campaign pledge that helped propel her to win Thai elections last July. Taiwan have made the increasing of wage by 5 percent and Vietnam also will make move on to increasing floor wage for the public sector by 27 per cent in May after enacting a minimum wage increase of as much as 69 per cent in October for both private and state-owned enterprises.

Commentary and Solution

Open market operation – Buying the short term bonds

The central bank must buy the short term bonds from public or commercial in the open market to increase purchasing power of the public to encourage more spending. Increase in demand will create more job and will reduce the unemployment rate. Decrease in taxes

Through a reduction in direct and indirect taxes on household and firms, demand for goods and services will rise from a rise in consumption. Increase

in demand for goods will induce more investment and thus employment will increase from an increase in investment. Increase in government spending

On the other hand, government spending will be increased to boost aggregate demand. This means more people will be employed to meet the government's demand for goods and services. Creation of new job opportunities

Diversifying the economy can create new jobs. By diversifying, a nation produces goods and services in various industries and fields, even though it has no competitive advantage in producing the product. Other than encouraging labour force to enter the agricultural sector, the government can also develop cottage industries in villages or remote areas. Other sectors such as tourism and services should also be encouraged. Provision of professional skills and technical education

Through the provision of professional skills and technical and vocational education in appropriate fields, workers can adapt themselves with the change in technology. This may increase skills and help reduce structural and technology unemployment. It may also reduce unemployment in the long run.

Reference

Minimum wage will cause unemployment, inflation, say employers, economists By Shannon Teoh

May 03, 2012

KUALA LUMPUR, May 3 — Putrajaya's minimum wage policy will lead to

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surging unemployment, “black market” labour and inflationary pressure, employers and economists have warned. Datuk Seri Najib Razak announced on Monday a base wage of RM900 for the peninsula and RM800 in Sabah and Sarawak with a grace period of six months, or doubles that for micro-enterprises.

File photo of workers taking part in a Labour Day rally in Kuala Lumpur on May 1, 2012. — Picture by Choo Choy May

But employers and economists told The Malaysian Insider of the pitfalls of introducing minimum wage. “When employers refuse to hire at the minimum wage, desperate workers will look to the black market and agree to take less than that,” said Wan Saiful Wan Jan, chief executive of libertarian think-tank Institute for Democracy and Economic Affairs. “The irony is that the government introduced this to provide a social safety net but these workers will not have EPF or Socso,” he told The Malaysian Insider, referring to the state pension fund and social security organization. The government began working on a minimum wage policy last year after over a decade of pressure from labour unions during which productivity rose by 6.7 per cent annually but real wages inched up by just 2.6 per cent each year. But it was delayed as stakeholders continued to pressure the government.

Small-medium industries (SMIs) warned that 80 per cent of active businesses could fold under a blanket wage floor, cutting four million jobs from the labour market. SMIs say they make up 99 per cent of operational companies and employ 59 per cent of all workers as they are the most labour-intensive

outfits and will be hardest hit by a hike in wage bills. SMI Association of Malaysia president Teh Kee Sin told The Malaysian Insider they would need at least three years to “train and upgrade technology” to ensure enough productivity gains to justify an additional cost of up to 9 per cent due to the minimum wage rate. Malaysian Employers Federation executive director Shamsuddin Bardan also said that in some cases, such as plantation workers in Sabah, a minimum wage of RM800 would double salaries. “Many are going to contract and consolidate with some micro-enterprises shutting down. With the current labour shortage, very few SMIs are willing to take on long-term contracts and they will be even more cautious after this,” Teh said.

The Johor-based businessman and several economists also agreed that the additional cost will only create an inflationary effect. “On top of that, if Najib wins elections as expected, subsidy cuts will resume. In the end there will be very little positive impact for workers,” said Hafiz Noor Shams, an economist at a leading investment bank. Shamsuddin suggested instead that instead of “using the force of law,” the government should incentivize both employers and employees to upgrade the skill base of the workforce. The Human Resources Ministry says three-quarters of the 12 million-strong workers are unskilled. “Instead of a fixed rate, we can set a basic safety amount, say 70 per cent of the target rate, and the rest will be based on performance. This couples wages with productivity. It also spurs workers to want to gain more skills and employers naturally want better staff,” he said. Wan Saiful said the Human Resources Ministry had already identified price control and subsidies

as the main causes of depressed wage growth compared to productivity gains. “ Most employers base salary increments on the rate of inflation so they can keep workers satisfied while reaping the benefits.

But instead of removing this distortion, they add another layer of intervention. The thinking here is convoluted. “ With elections nearing, it’s one populist move to fix another populist move instead of the structural reforms outlined in the New Economic Model where on page 114, it actually says minimum wage is the wrong approach,” he said. The Barisan Nasional (BN) administration has already spent over RM6 billion to raise civil service salaries by up to 13 per cent this year as it prepares to face an election that may be called by next month. Najib’s announcement on Monday follows the increase of minimum wage by around 40 per cent in Thailand last month, part of Thai Prime Minister Yingluck Shinawatra’s campaign pledge that helped propel her to win Thai elections last July. Taiwan’s move to increase minimum pay by 5 per cent last year also helped President Ma Ying-jeou win a second term in January. Vietnam will also raise the floor wage for the public sector by 27 per cent in May after enacting a minimum wage increase of as much as 69 per cent in October for both private and state-owned enterprises. Thousands of workers are also expected to take to the streets in Hong Kong today, demanding Chief Executive-elect Leung Chun-ying address a widening wealth gap when he takes office in July.

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