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Progressive Wage Model (PWM)

POLICY AND RESEARCH DIVISION
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Progressive Wage Model (PWM)*Dated 24 August 2023***Theme:****Progressive Wage Model (PWM)**

1) Introduction

In Malaysia, wage-related challenges have long been a prominent concern, encompassing issues such as **stagnant wage growth, and income inequality**.

This complex interplay of factors underscores the importance of addressing wage issues to ensure a fair and sustainable standard of living for workers across the country.

2) Income Disparity in the Malaysian Labour Landscape

According to the Department of Statistics Malaysia (DOSM), this disparity is vividly illustrated by the already **low compensation of employees (CoE)** level, which stood at **32.4% in 2022 (37.2% in 2020)**. Moreover, DOSM reports that for the first quarter of 2023, over **2 million workers in Malaysia, on average, receive a monthly salary of less than RM2,000 in the formal sector**.

The situation for workers in **informal sectors is even more dire**, with the majority **falling below the RM2,000 threshold** due to the sector's lower living wage standards. The predicament is particularly alarming for individuals aged 20 to 24, as data reveals that the median monthly wage for this demographic is a mere RM1,682. For most Malaysian employees, the highest earning level throughout their careers is reached between the ages of 40 and 49, with a salary ceiling of RM3,500.

3) Why PWM Is Needed

Over the course of almost a decade, Malaysia has encountered difficulties in executing substantial increases in the minimum wage. The focus on wage distribution has largely been centred around the minimum wage level. The situation is exacerbated by the fact that even **many graduates entering the workforce receive salaries close to the minimum wage threshold**. This scenario is problematic, as it **relies solely on market forces to determine**

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wages for those individuals who do not fall below the minimum wage threshold.

To prevent distortion of the other income categories influenced by the minimum wage implementation, the government must intervene with the inequalities of wage distribution. This requires the government to gradually enhance wages for the higher-skilled workers by factoring in skills growth and productivity.

4) Progressive Wage Is Anticipated To Be The Complementary To The Minimum Wage

To address this issue and ensure a more equitable wage distribution, **the PWM and minimum wage are proposed to work in tandem**. The objective is to provide a wage increase beyond just those who qualify for the minimum wage. This is commonly referred to as "progressive wage," where the aim is to uplift the wages of individuals who are not part of the minimum wage category.

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Proposed Rationale

PWM

The PWM is a wage structure that aims to uplift and improve the wages of higher categories workers progressively over time, taking into consideration factors such as skills development and productivity. Let's delve into each of the given reasons:

- **Ensuring a Good Labour Market:**

One of the primary motivations for implementing the PWM is **to create a balanced and stable labour market**. Low-skilled workers often face challenges such as stagnant wages and limited career progression opportunities. By introducing a progressive wage structure, policymakers and employers aim to attract and retain workers in industries that rely heavily on low-skilled labour.

- **Increasing Productivity:**

The PWM incentives both employers and

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	<p>employees to focus on skill development and productivity enhancement. As wages increase with skill and productivity improvements, employees are encouraged to upskill and employers are motivated to invest in training programs.</p> <ul style="list-style-type: none"> - Welfare of Workers: Ensuring the welfare of workers, particularly those in low-paying jobs, is a significant rationale behind the PWM. By providing a structured pathway for wage growth based on skills and experience, the model helps to alleviate poverty and improve the living standards of workers. This not only benefits individual workers and their families but also contributes to a more equitable society by reducing income inequality. - Voluntary Initiatives by Employers: While the PWM may be supported by governmental policies and regulations, it also encourages voluntary initiatives by employers. Employers who adopt this model voluntarily demonstrate their commitment to fair wages and employee development. - Increasing Malaysia’s Wage Share Ratio The Malaysian government has set an ambitious target of achieving a 45% wage-share ratio, which denotes the portion of the GDP allocated to compensation for employees (CoE) or labour income share. Despite challenges, the implementation of PWM is expected to raise Malaysia's wage-share ratio to match other countries like Singapore, where more than half of the GDP is directed toward workers, highlighting a higher wage-share ratio.
Impact of PWM	The relationship between PWM and productivity is multifaceted and involves several key considerations:

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- **Economic Growth and COL Compensation:**
Higher productivity, driven by the PWM's emphasis on skill development and efficient work practices, can contribute to overall economic growth. A more productive economy has the potential to generate higher incomes and improved living standards for workers. As the cost of living (COL) rises over time, higher productivity can help workers maintain their purchasing power and financial stability, ultimately compensating for the increased expenses associated with a higher COL.

- **Productivity Incentives:**
The PWM is designed to incentivize skill development and productivity improvements among workers. The focus on wages alone might not be enough for a comprehensive progressive wage plan. It's crucial for such a plan to be coupled with skill enhancement and technological advancement.

As wages are tied to skills and experience, workers are encouraged to enhance their abilities to qualify for higher pay grades. This encourages them to learn new skills, adopt more efficient work practices, and contribute to increased productivity. When employees are directly rewarded for their efforts in improving productivity, it can lead to a more motivated workforce and better overall work output.

- **Skills Development:**
The PWM places a strong emphasis on skills upgrading and training. To move up the wage ladder, workers need to continuously acquire new skills and knowledge. This focus on skills development contributes to a more skilled labour force, which, in turn, can lead to higher productivity levels. When employees are equipped with the necessary skills to

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	<p>perform their jobs more effectively, they can produce better results in a shorter amount of time.</p> <p>In the context of Malaysia, it is noted that the success of the PWM is contingent upon its integration with skill development and the adoption of technology.</p> <p>This model is reflected in Singapore's approach, where their progressive wage model is seamlessly linked with skill enhancement and technological adoption. This alignment garners support from both employers and employees.</p> <p>In conclusion, the PWM's focus on skills development, productivity incentives, reduced turnover, and quality improvement can lead to higher productivity levels. This increased productivity can help workers offset the impact of a rising cost of living by enabling them to earn higher wages through skill enhancement and efficient work practices.</p>
<p>Recommendations</p>	<p>The Malaysian government must play a role in implementing and monitoring the policy, collaborating with industries and employers to ensure its effective execution of the PWM.</p> <p>1) Having effective governance is essential to ensure that the PWM achieves its intended goals and benefits both employers and employees. A well-defined policy framework needs to be established to outline the objectives, principles, and guidelines of the PWM. This framework should be developed through collaboration between government agencies, industry associations, and</p>

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relevant stakeholders. It should provide a clear roadmap for how the model will be implemented, monitored, and evaluated.

2) Expedite the growth of overall wages in Malaysia to incorporate a **more rapid increase in the minimum wage**. By doing so, the foundation for accelerated wage growth across different wage tiers would be established.

a) The PWP should embrace crucial elements such as **distinct minimum wage levels tailored to specific sectors, prerequisites for skills enhancement, and transparent paths for wage advancement**. This approach aims to ensure that workers are duly compensated for their industry-specific contributions and incentivise them to improve their skill sets over time. As skills are upgraded, workers become more valuable to their employers, which can, in turn, justify higher wages.

b) Implement the concept of Living Wage within the PWM that takes into consideration factors such as **living costs, inflation, and the needs of low-income workers**. By considering these factors, the minimum wage can be set at a level that aligns with the actual economic demands of workers' lives. Ensuring that the minimum wage adequately covers basic necessities bolsters workers' economic

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	<p>stability and enhances their capacity to contribute to the broader economy.</p> <p>c) Address wage disparities among different types of workers. Mandating employers to incrementally raise wages for non-regular employees based on their years of service can ameliorate the wage gap and offer greater financial security to these workers. Such an approach acknowledges their commitment and loyalty while creating a more equitable compensation structure.</p> <p>3) The PWM must also be coupled with skill enhancement and technological advancement. The focus on wages alone might not be enough for a comprehensive progressive wage plan. This can be done through labour reforms to produce more high-skilled workers to replace low-skilled ones. This can be done through:</p> <p>a) Invest in Education and Skill Development: Comprehensive education and skills development initiatives are essential to bridge the gap between available jobs and the skill sets of the workforce. This would empower workers to access higher-paying roles and provide a potential solution to stagnant wage growth.</p> <p>b) Promote Worker Representation: Empowerment of labour unions and worker representation in negotiations can aid in advocating for fair wages and improved</p>
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	<p>working conditions. Stronger collective bargaining can address the disparity between executive-level salaries and average worker wages.</p> <p>c) Support Small and Medium Enterprises (SMEs): SMEs are significant employers in Malaysia. Offering incentives for SMEs to provide competitive wages and benefits would contribute to fairer compensation practices across the economy.</p>
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