Squeezed between stagnating wages and rising prices

MY Say

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The New Economic Model's (NEM) goal of high income comes from the recognition that Malaysian workers are being squeezed by rising costs while real incomes have remained stagnant. The lower middle-income group and the young, in particular, are seeing their incomes lag behind price increases.

Let me start with a story, one that is not uncommon but worth telling.

In the early 1970s, a young man, having comfortably hurdled the Higher School Certificate examination, left for the UK to further his education. After four years, he proudly returned home to Malaysia with a degree in engineering. A job in the private sector got him started on RM1,700 per month, with a guaranteed one-month bonus at year-end.

Like any young man, owning a car was his highest priority. He resisted the temptation of a sexy second-hand MGB and bought a sensible 1,200cc Datsun for not quite RM8,000. He financed the acquisition on a hire-purchase plan over 24 months, getting into debt for the first time in his life.

Despite the high interest rates at the time, the hire purchase instalments left him with enough to spare for petrol, his one-third share of rent and food, and the obligatory RM150 a month to his mother. That still left some money to save.

He found his dream girl, got married and, as many young couples starting out in life do, they rented a terraced house. After some time, he purchased a newly completed double-storey link house in a new taman in the Kuala Lumpur suburbs. The house cost him a little over RM50,000. The thought of yet another loan, and a much larger one too, made him very nervous, but he took the plunge because the repayments were manageable.

Marriage and career progressed smoothly and sweetly. Today he is retired, free of debt, has upgraded his house and is living comfortably in a bungalow in one of the exclusive neighbourhoods in Kuala Lumpur. His children are all doing well academically. In fact, his eldest boy has done him proud and returned with a master's in engineering from a prestigious UK university. A job offer came at RM2,850, which pleased Dad immensely.

The father was not so pleased when the son soon asked him for a loan to buy a car and was shocked when he found that it was just for the downpayment for a 1,300cc car. The son needed more financial help because a bachelor's studio apartment in town amounted to 10 years of his salary. A link house outside town would probably cost twice that. The father is dismayed at the prospect of having his son as a long-term lodger.

As an engineer, the son could not explain his conundrum. Perhaps his sister, who returned with a PhD in economics from the London School of Economics, will do better.

The message of this story is that clearly, wages in Malaysia have not increased in tandem with prices. During our high growth period (1994-97), when the economy was growing at 9%, wages increased by only 6.2%. After the Asian financial crisis, wage increases were even lower at 1.6%. After deducting for inflation, the real income of workers declined even further.

Nobody will dispute that we need higher incomes to cope with rising prices and afford the standard of living of a developed nation. Unfortunately, there has been little discussion on how to double the average income from US$7,000 to US$15,000 by 2020. By the way, at the present rate of US dollar depreciation, we may soon have to express the benchmark average income in renminbi!

When the goal of higher income was announced during the launch of the NEM, the immediate question was "when are we going to get a pay rise?" Some people assume that it would come naturally or that the government would decree that we all receive higher wages.

It is naïve to think that the government is so powerful that it can instruct employers to increase wages all round. At any rate, all that higher wages do is to push up inflation. Without productivity improvement, wage increases will feed directly into the cost of making goods and providing services. In all the talk about higher income, many have conveniently

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overlooked the need for greater productivity, yet still think that we can remain globally competitive.

How do we get higher income? First and foremost, Malaysia needs good economic growth and for this, investment is critical. Therefore, Pemandu, the performance management and delivery unit of the Prime Minister's Department, has to ensure that investment projections, totalling about RM1.4 trillion by 2020 — of which 92% is to come from the private sector — materialise.

Equally important is that it should not be a "jobless growth". We need not only to create jobs for our young people — 48% of the country's population is under 25 years of age — but also the right jobs and high-paying ones too for the 70,000 new graduates entering the labour market each year. It is demoralising for students, who have worked so hard to graduate, and for their parents, who have made many sacrifices to send them to universities, if they do not get the sort of job they they had expected.

Again, the target set by Pemandu must be turned into actual jobs — 3.3 million new jobs are to be created by 2020 under the Economic Transformation Programme, of which 63% will be in the middle and high-income bracket. Of this, 33% jobs require a degree or higher qualification.

Wages can only increase if the wage mechanism is flexible. The sceptics believe that wages are very flexible at the senior management and CEO level and that flexibility only goes one way — upwards! On the other hand, at the lower level, wages are more rigid and very slow to increase.

This is partly due to Malaysia having a perfectly elastic supply of labour, thanks to the continuous inflow of unskilled low-cost foreign labour, which will keep the wage level of the bottom category of workers down. If Malaysia wants to upgrade the skills of its workers, increase productivity and pay better wages, it must have an effective foreign worker policy.

Productivity improvement is not exciting or headline grabbing but it is fundamental if wage rises are to be sustained. It also protects our competitiveness in export markets. Of course, productivity improvement is gained through quality education, technological capabilities, discipline, meeting international standards and hard work.

Unfortunately, sometimes, companies downsize to improve productivity but this is a destructive method. A more effective way is to have a wage-setting mechanism that is linked with productivity and to give incentives. The Malaysian Productivity Centre should renew the national drive to improve productivity.

The recently passed law establishing the National Wages Consultative Council Law is part of measures to improve wages, at least at the lowest end of the spectrum. Industries should be open on the issue of minimum wage because it is important that workers have wages that can afford them a decent living. Of course, the debate is about maintaining a balance between providing a minimum standard of living and less employment, higher business costs and difficulty in securing jobs for new entrants to the labour market.

The task of raising incomes should not be shouldered by just the government. These macro-level ideas must be accompanied by practices at the micro level, namely by companies. While the main aim of companies is to maximise profit, this can only be achieved if employees are productive, motivated and committed.

Loyalty is a two-way street — it is a privilege to be employed but it is a greater privilege to employ. Company directors should ensure that employees at all levels are compensated fairly and appropriately, according to their productivity and consistent with the maintenance of basic human dignity. Workers at the lower level should not just be paid above the poverty line.

So, at your next board meeting, the directors among you might want to ask these questions or perhaps debate where your company is in the spectrum of productivity, competitiveness and appreciation of human capital. E

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