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Towards a progressive wage policy

TOWARDS A PROGRESSIVE WAGE POLICY

Push for wage increase that commensurates with worker productivity

THE white paper on the Progressive Wage Policy was tabled in Parliament in November to ensure that workers receive higher wages in line with increased productivity.

Presented by Economy Minister Rafizi Ramli, it supports the government's aspiration to restructure the economy towards Malaysia as a high-income nation by introducing a wage policy that reduces income inequality as well as enhances worker productivity and business competitiveness.

Rafizi stated that the Progressive Wage Policy features three main mechanisms – participation criteria, annual salary increases, and incentives based on rates and worker groups – complements existing policies such as the Minimum Wage Policy and the Productivity Linked-Wage System (PLWS).

"This important initiative is to safeguard the well-being of the people who are facing challenges due to the rising cost of living, while addressing the long-standing issues of economic structural weaknesses," he told the Dewan Rakyat.

The proposed Progressive Wage Policy model involves incremental salary increase that corresponds with the rise in worker productivity. This policy stands to benefit workers by enhancing their skills and also offers advantages to employers by fostering increased productivity, employee loyalty, and enhanced business competitiveness.

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The government's main goal is to create a more dynamic talent market by ensuring that employers offer a progressive salary model to attract the right people for their operations," says Economy Minister Rafizi Ramli about the Progressive Wage Policy.

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Employers will also be assessed and rated to encourage competition among companies to offer more attractive pay structures.

Policy features

The Progressive Wage Policy has three basic features: voluntary implementation, incentive-based, and productivity-related.

> Voluntary implementation: According to Rafizi, the implementation of the Progressive Wage Policy is voluntary without new legislation that compels employers to adopt this pay model.

"This will provide sufficient avenue for companies to be prepared and make adjustments without undue financial pressure, especially among micro, small, and medium-size enterprises (MSMEs) which make up 97% of employers in the country," he said.

> Incentive-based: The government will support voluntary participation with cash incentives for employers that implement the Progressive Wage Policy. These incentives will be given to companies that meet the criteria for one year. The disbursement of these incentives will be reviewed annually based on the government's fiscal position.

> Productivity-related: Salary raise based on enhanced productivity reflects a fair and reciprocal relationship between employers and workers, whereby improvements in productivity lead to corresponding wage increases, Rafizi explained.

"This concept aims to address the main concern of employers, which is that wage increases should align with the increased level of skills and productivity of workers."

Companies participating in the Progressive Wage Policy need to send their employees to attend government-recognised training

and skill enhancement programmes to increase worker productivity.

Employees, on the other hand, must comply with training requirements, which can upskill them into a high-quality workforce with higher output that commensurates with wage increases.

Engagement sessions with employers showed that the majority of the selected employees are willing to participate in the Progressive Wage Policy if it is voluntary, and they have time to assess their financial capacity and performance.

Employers also welcome cash incentives to offset potential increase in labour costs.

A survey of 2,038 workers found that 60% of the respondents support the implementation of this policy, and they are willing to enhance their skills and productivity to earn higher pay.

Positive impacts

According to Rafizi, the government is expected to allocate RM2bil for the incentives, and the Progressive Wage Policy would benefit 1.05 million workers – contributing an additional RM3.3bil to the gross domestic product (GDP).

When the policy is in place, it would add RM796mil in contributions to the Employees Provident Fund (EPF), increase income tax revenue by RM1.8bil, create 37,529 new income taxpayers in the first year of imple-

mentation, and reduce unemployment.

"Salary increase will boost the purchasing power of workers, which will have a multiplier effect on consumer spending and private investments," said Rafizi. "Although this policy will increase the inflation rate due to increased consumer demand and purchasing power, the positive effects on economic growth are expected to balance the inflation rate in the long term."

Pilot project

The implementation of the Progressive Wage Policy will begin with a pilot project in June 2024, involving 1,000 companies. The selection of companies will be based on policy support, sectoral needs, and fairness.

An impact assessment will be made on the effectiveness of the pilot project and employer readiness before the policy is implemented nationwide.

"For the sake of the nation and the people, this reform needs to be implemented as soon as possible to achieve the goal of increasing workers' wages."

"Decisions need to be made now to build a better future, and I believe that collective efforts will elevate Malaysia to the status of high-income nation."

"I hope that all stakeholders – including government agencies, employers and workers – will support this initiative through a national approach," Rafizi concluded.