Worker power – the missing link between a "tight" labour market and better wages

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Introduction

Economic theory posits that the scarcity of a good or service acts as a driving force to elevate its traded value on the market. Scarcity empowers providers to raise their asking price against those who demand. But this logic seemingly fails to hold when applied to our labour market, as the conventional indicator of labour market "tightness", a low unemployment rate, has coexisted with underwhelming real wage growth over the past couple of decades.

Figure 1 Malaysia and OECD unemployment rate, 2010 - 2019
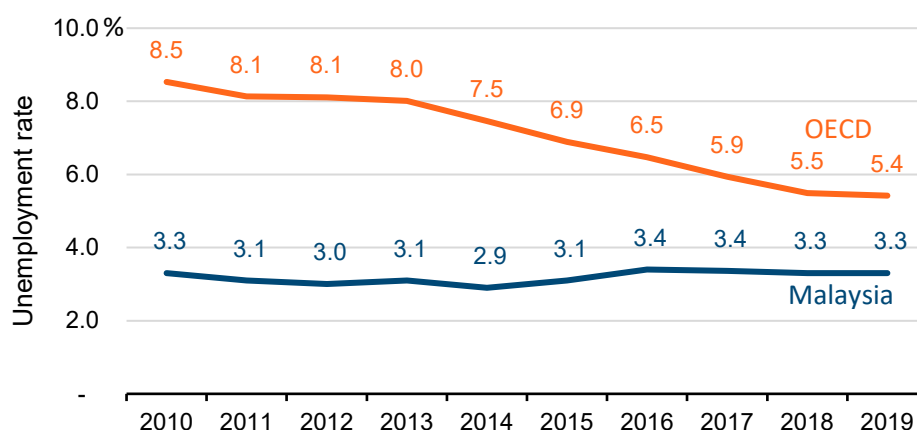
Source: DOSM (2022); OECD, n.d.; World Bank (n.d.)

Figure 1 above presents Malaysia's and the OECD's unemployment rate in the decade leading up to the COVID pandemic (2010 to 2019). We notice that Malaysia's rate remains within the 3-3.5% band, which is sizably lower than the OECD average, over this extended period of relatively robust and 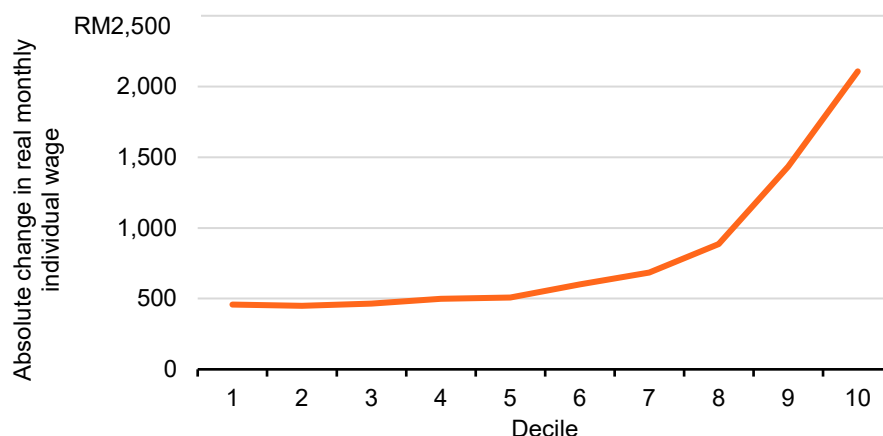stable macroeconomic performance for Malaysia[1]. The OECD defines full employment as an unemployment rate of 4%. By this measure, our labour market exhibited "tightness", as defined by high levels of demand relative to supply.

Figure 2 Absolute (2021 RM) change in real monthly individual wage, by decile, 2010 - 2019

Source: Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023)

KRI's recent study of wage dynamics[2] for this same timeframe indicates stagnant real wages for the vast majority of Malaysian workers. Figure 2 above demonstrates that the real monthly wage grew by only ~RM50 (in 2021 ringgit terms) on an annualized basis for the bottom 50% of

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[1] Malaysia's average annual GDP growth during this period was 5.3%, and the average annual inflation rate was 2.1%. Source: World Bank (n.d.)

[2] Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023)

Malaysian workers. Workers at the 8th decile (the threshold group for the "T20" group of waged workers) experienced average annual growth of less than RM100 in their real monthly wage. "Tightness" seems not to have translated into meaningful increases in the price of labour.

How do we reconcile these seemingly contradictory phenomena?

Mainstream voices previously emphasized the need for policy and government to enable and empower the "free" play of markets. But the tone and substance of these same voices now call for the active consideration of **institutional** arrangements and their influence on **power** imbalances in shaping how markets work and whether workers get a fair share[3]. The context in which a nominally "free" market operates is in fact heavily shaped by institutional factors, which either empower or disempower specific economic agents to claim a greater share of the economic pie.

In the Malaysian context, we must then ask what are the **institutional** factors that diminish the **power** of our workers to command higher wages, just as their services remain in high demand. Muthusamy and Wikstrom (2022) situate Malaysia's wage conundrum within a theoretical approach that emphasizes firm-worker power relations, and explore industrial relations policy responses that counterbalance the wage-setting power of firms. This Views piece recapitulates some of those arguments and considers additional institutional factors that could contribute to diminished worker power in Malaysia.

Deunionisation

The first critical factor is the systematic diminishing and weakening of organized labour since colonial times. Colonial laws, beginning from the Trade Union Ordinance of 1940, sought to limit and control the registration and composition of trade unions, which up until then had been a major source of anticolonial and nationalist agitation against British rule. Independent Malaya inherited and expanded this legal corpus to prohibit multi-industry or general unions, and to vest employers and the government with increased authority to limit union registration[4].

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[3] Stansbury and Summers (2020); Deaton (2024); Autor (2024); Naidu (2024)
[4] Nithiyananthan Muthusamy and Wikstrom (2022)

Figure 3 Industrial relations indicators by selected countries, 2018
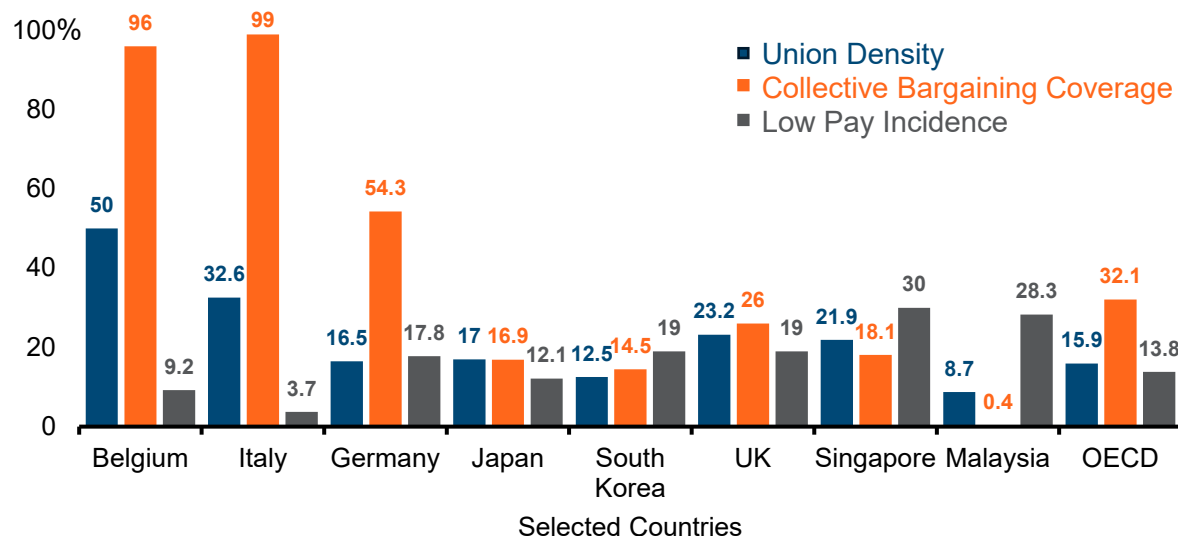
Source: Nithiyananthan Muthusamy and Wikstrom (2022)

Muthusamy and Wikstrom (2022) compared the state of Malaysia's industrial relations system to global comparators[5]; Figure 3 above demonstrates the effects of Malaysia's institutional and policy context on the unionization and collective bargaining landscape. Malaysia's unionization rate (union density) compares poorly with the OECD and comparator averages.

Unlike many other contexts, Malaysia's collective bargaining[6] coverage rate is *lower* than the unionization rate. In these other contexts, the terms of collective agreements in unionized workplaces are often extended to include non-unionized workers in similar industries or establishments[7]. But Malaysia's data indicates two key points; that unionized workers are themselves not covered by collective agreements, *and* that collective agreements aren't sufficiently extended to include non-unionized workers.

An institutional environment that deliberately weakens the organizational power of workers relative to employers serves to suppress the price of labour. Malaysia's low pay incidence[8], as observed in Figure 3, is elevated when viewed against comparators. Employers, endowed with the savvy and capital to organize and lobby, will shape pay patterns to suit short-term profits and neglect the needs of households and the wider economy. As Angus Deaton[9] notes in a recent essay, unions were often viewed by mainstream economists as an impediment to economic

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[5] Nithiyananthan Muthusamy and Wikstrom (2022)

[6] The ILO defines collective bargaining as "the activity or process leading up to the conclusion of a collective agreement". Collective agreements are defined as "as all agreements in writing regarding working conditions and terms of employment concluded between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more representative workers' organisations, or, in the absence of such organisations, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other". Collective bargaining is often facilitated and actively undertaken by workers unions in many contexts.

[7] Nithiyananthan Muthusamy and Wikstrom (2022); Bassier (2022)

[8] Defined as the share of workers earning less than two-thirds of the median wage.

[9] Deaton (2024)

efficiency but must now be acknowledged as an important balancing factor in economic and political relations.

Exploitation of Migrant Workers

Malaysia has a long history with labour migration in the modern era, beginning with the influx of Indian and Chinese labour in the colonial period (19th and early 20th century) for rubber plantations and tin mines. As the economic focus for independent Malaysia shifted towards export-oriented industrialization in the 1970s and 80s, migrant labour was relied upon to address labour shortages in primarily low wage occupations. Migrant workers now comprise a sizable share of the workforce in key sectors such as manufacturing, plantations, and construction[10].

The dependence on low-wage migrant labour relates to our argument through two channels. First, the true scale of migrant labour is undercounted in official statistics[11], thereby providing a potentially inaccurate picture of the tightness of our labour market. Second, even if the "true" unemployment rate (including the full migrant labour count) were low, the exploitative institutional conditions of migrant workers would dramatically reduce the bargaining power of a sizable share of the labour force and thereby contribute to the minimization of the wage bill. We will address each in turn.

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[10] Drabble (2000); Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023)
[11] Lee Hwok-Aun and Pereira (2023)

Table 1 Foreign worker estimates and definitions (2017)

Agency	Estimated Figure	Definition
Ministry of Home Affairs	1.797 million	Foreign workers to whom a VP (TE) issued for the given year (VP subject to annual renewal) (so-called 'registered' foreign workers)
Labour Force Survey (DOSM)	2.27 million	Non-citizen labour force, including irregular foreign workers but excluding tourists or foreign workers who do not reside in households
Population and Demography (DOSM)	3.287 million (estimate of 2018 based on the 2010 census)	People who are not born in Malaysia including children, students, spouses of Malaysian citizens, and expatriates and their dependents.

Table 2 Unofficial estimates of foreign workers[12]

Source	Estimated Figure
Nixon (2022)	6.28 – 8.24 million in 2017
World Bank (2020)	3.4 – 5.5 million in 2016
Lee and Khor (2018)	3.85 – 5.5 million in 2016, inclusive of 2.1 – 3.7 million undocumented workers

Source: DOSM; World Bank (2020); Lee Hwok-Aun and Pereira (2023)

Table 1 on the left provides the migrant estimates from official sources. The Labour Force Survey[13] (LFS) estimate from the Department of Statistics Malaysia (DOSM) is the important one (2.27 million in 2017) as it is included in the denominator of the unemployment rate. The challenge with the LFS figure is that sampling for the survey is focused on households, and excludes dormitories, hostels, workplaces, and institutional facilities[14]. Low wage migrant workers are likely to be concentrated in these latter locations, thereby contributing to systematic undercounting of migrant workers in our headline labour market statistics.

Table 2 on the right presents unofficial and alternative estimates using a variety of methods. Nixon (2022) used rice consumption as a proxy for estimating the true migrant worker count, while the World Bank triangulated multiple data sources in their methods. While the unofficial estimates vary widely, they are all significantly greater than the official LFS count.

The sheer scale of the unofficial estimates gives us pause. In the event that the excluded migrant workers are largely unemployed, or underemployed, then we are overestimating the "tightness" of our labour market. But it may also be true that the excluded group is employed to a degree that matches, or exceeds, the official headline figures, thereby making their exclusion less detrimental

[12] World Bank (2020); Nixon (2022); Lee Hwok-Aun and Yu Leng Khor (2018)
[13] DOSM (2022a)
[14] Ibid.

to our understanding of labour market tightness. In which case, the second channel (exploitation) becomes the primary means through which migrant labour contributes to wage suppression.

Migrant labour exploitation in Malaysia hit the headlines in recent years due to US Customs restrictions on Malaysian palm oil and rubber gloves imports under charges of abusive labour conditions[15]. Low wage migrants often incur significant payments and debt burdens as part of their transit into the country[16]. Their documentation compels them to stay with their sponsoring employer, failing which they are threatened with detention or deportation[17]. This institutional arrangement naturally weakens or eliminates their bargaining position and provides employers with significant leeway to minimize the wage bill through migrants.

The International Organization for Migration (IOM) carried out a study in 2023 to assess the causes of migrant workers becoming undocumented, and found that almost all the interviewed participants (35 out of 40) pointed to insufficient wages, unwarranted deductions, and other means of intentionally withholding wages as a major source of labour abuse[18].
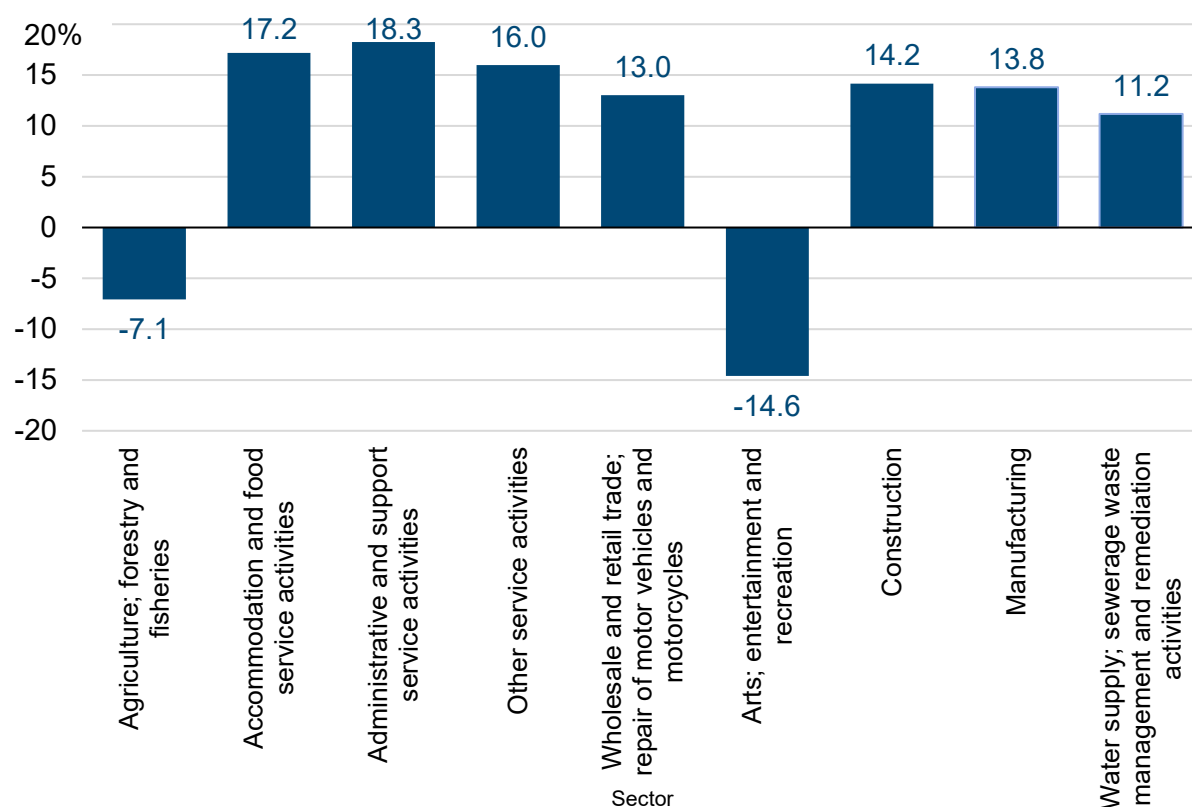
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[15] BBC (2020)
[16] IOM (2023a)
[17] Lee Hwok-Aun and Pereira (2023)
[18] IOM (2023b)

Figure 4 Adjusted citizenship pay gap, by sector, 2010 - 2019

Sector	Value
Agriculture; forestry and fisheries	-7.1
Accommodation and food service activities	17.2
Administrative and support service activities	18.3
Other service activities	16.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.0
Arts; entertainment and recreation	-14.6
Construction	14.2
Manufacturing	13.8
Water supply; sewerage waste management and remediation activities	11.2

Source: Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim, and Jarud Romadan Khalidi (2023)

The IOM's findings are somewhat corroborated by KRI's analysis of wages in the 2010 to 2019 period[19]. Figure 4 above presents the pay gap between citizens and non-citizens across low-wage sectors after controlling for a range of social, demographic, economic and geographic factors. A positive value indicates a wage deficit for non-citizens, and vice versa. In general, non-citizens experienced wage deficits of between 10 to 20% across sectors characterized by high concentrations of low-wage occupations.

Economic growth is impossible without migrant labour, but Malaysia needs to drastically reform its approach towards low wage migrants if it is to improve labour conditions and elevate our wage structure. First, it is critical to ensure that documented migrants possess adequate means of avoiding and reporting abuse without losing their documented status. Second, migrants should become part of the organized labour movement. Third, migrants should not be excluded from wage-setting schemes, such as the progressive wage policy. The sheer number of migrant workers in Malaysia, their presence across multiple sectors, and their increasing prevalence in mid-skilled occupations, necessitate their inclusion in employment and wage-setting schemes, failing which the impact of such schemes will be greatly weakened.

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[19] Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim, and Jarud Romadan Khalidi (2023)

Education debt and sluggish job creation

Malaysia has successfully increased the tertiary-educated share of its labour force. As observed in Figure 5 below, the share of tertiary-educated workers increased from 23.5% in 2010 to 32.0% in 2020[20].

Figure 5 Percentage of tertiary-educated labour force, 2010 - 2020
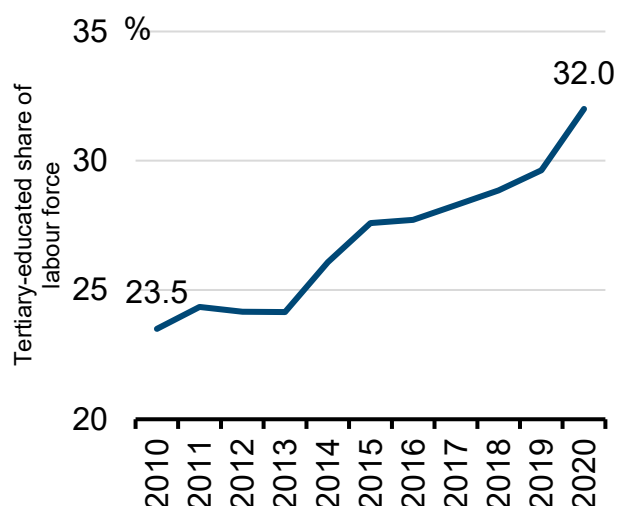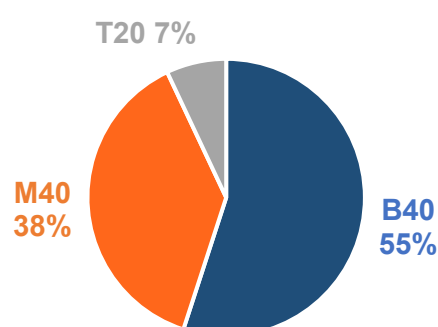

Source: DOSM (2022b)

While technology and shifting economic models are challenging the use of tertiary education as an indicator of skills accumulation, its relevance to our argument here is due to Malaysia's institutional set-up that encourages debt-financed attainment of tertiary credentialing in an economic environment marked by poor job creation.

Figure 6 Share of graduates by education sponsorship, 2015 - 2020
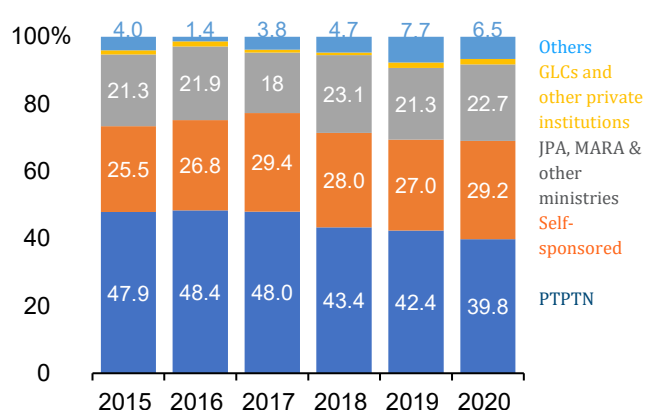
Source: MOHE (2022)

Figure 7 PTPTN borrowers by family income group, 2015

Source: Wan Saiful Wan Jan (2020)

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[20] DOSM (2022b)

Figure 6 on the left visualizes data from the Ministry of Higher Education's Graduate Tracer Study[21]. The state-backed PTPTN[22], which provides loans for higher learning, comprised the largest single source of higher education financing (42.9%) during the 2010 to 2020 period. While PTPTN debtors enjoy concessional rates (1% interest), it is important to note that the majority (55%) of loan recipients are from low-income households[23], as observed in Figure 7 on the right. PTPTN debt is directly borne by students, not parents.

Figure 8 Number & share of skill-related underemployment (per total employed graduates), Q1 2017 – Q2 2022
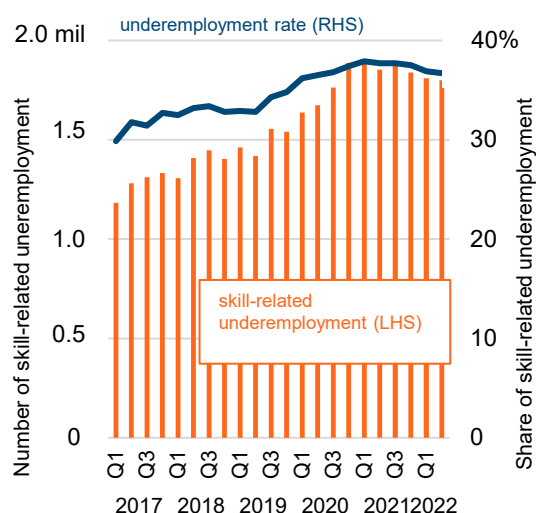
Source: DOSM (2022)

Figure 9 Cumulative percentage of working graduates, by monthly income range, 2010 – 2020
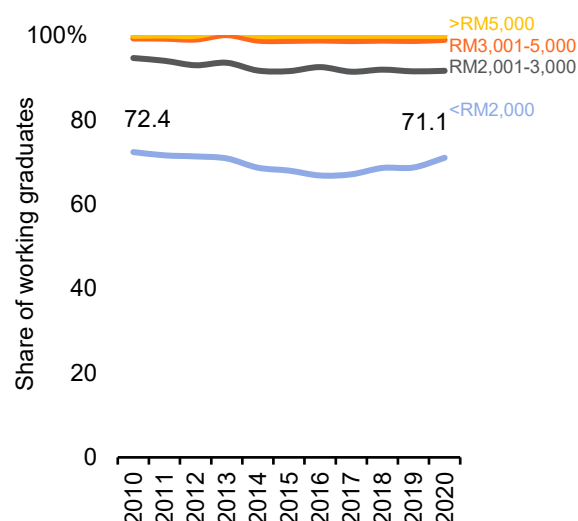
Source: MOHE (2022)

These indebted students enter the labour market and struggle to find well-paying jobs that are suited to their qualifications. Figure 8 on the left presents the skill-related underemployment rate, defined as the share of tertiary educated workers who are employed in low or semi-skilled occupations. We see that the rate has risen from ~30% in 2017 to ~37% in 2022. Figure 9 on the right indicates that a large majority (~70%) of fresh graduates earned less than RM2000 per month in the last decade. In addition, KRI's study of wage dynamics[24] demonstrated that the tertiary education wage premium, relative to secondary education and after controlling for a range of factors, declined from 29% in 2010 to 21% in 2019.

Another useful indicator of whether the job creation "engine" of the economy is tightening or slackening the labour market is the ratio of vacancies to the total number of unemployed[25]. In the context of Malaysia's relatively stable and low unemployment rate (see Figure 1 above), the

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[21] MOHE (2022)

[22] PTPTN, also known as *Perbadanan Tabung Pendidikan Tinggi*, is the main authority responsible for providing study loans for students pursuing tertiary education in Malaysia.
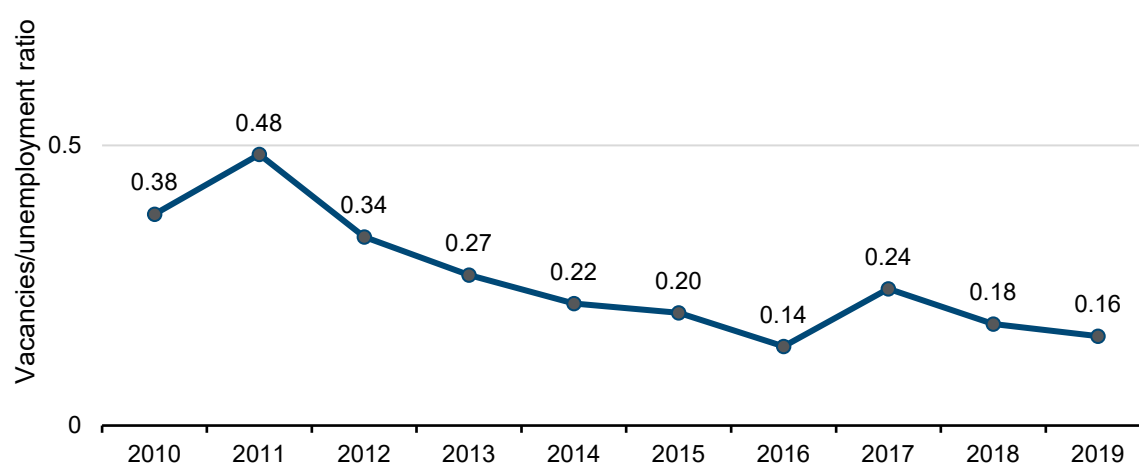
[23] Wan Saiful Wan Jan (2020)

[24] Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim, and Jarud Romadan Khalidi (2023)

[25] Autor et al (2023)

number of vacancies per unemployed worker provides a sense of the demand "pull" from employers through the creation of new vacancies.

Figure 10 Vacancies/unemployment ratio in Malaysia, 2010 - 2019

Source: CEIC (n.d.); Authors' calculations.
Note: Vacancies data sourced from CEIC (n.d.), unemployed data sourced from DOSM (2021).

We compute the V/U ratio using CEIC and DOSM data[26] in the 2010 to 2019 period in Figure 10 above. The trend is clearly downwards, indicating a slackening, not tightening, of labour conditions from 2010 to 2019.

It stands to reason that a large mass of indebted, underemployed and underpaid workers would suffer from low bargaining power. A worker subject to immediate claims on their income stream in the form of debt repayment, while struggling to find jobs of adequate pay and quality, and lacking the collective potential of a union, is less empowered to withdraw and withhold their labour in the pursuit of more satisfactory terms. This is compounded by an economy with a sluggish job creation "engine".

[26] CEIC, n.d.

Conclusion

Worker power has reassumed its analytical significance as a key structural feature of economic life, with the power to explain a range of phenomena[27]. The arguments presented here are an attempt to position worker power as an explanatory structural factor in the evolution of Malaysia's wages.

The unemployment rate, on its own, fails to provide an adequate picture of "tightness", if the term is meant to imply workers who are empowered to command a higher asking price for their services. Our understanding of labour market conditions should be enriched with a wider range of indicators that include dimensions of worker power and employer demand. Examples include the indicators used above; underemployment, V/U ratio, worker/household indebtedness etc. Other contexts have also used job-to-job separation rates for employed workers as an additional indicator of tightness[28].

As the government shifts towards more progressive and centralized forms of wage-setting, such as the progressive wage policy, indicators should be developed to assess the share of the workforce that is covered by centralized wage schemes. If unionization rates rise over time due to recent amendments to the Trade Union Act, an additional policy indicator for key ministries could be the collective bargaining coverage rate.

Finally, there is tremendous scope in Malaysia for future research to assess the links between worker power and other economic phenomena, such as our stalled transition from a low/mid to high value industrial structure.

[27] Stansbury and Summers (2024)
[28] Autor et al (2023)

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