

Starting point matters: Low wages in the job market

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Introduction

Recently, Dr Mohd Uzir Mahidin, the Chief Statistician of the Department of Statistics (DOS) was quoted saying “(New) degree graduates recorded a decrease in monthly income where the majority of them earned between RM1,001 and RM1,500 in 2020 compared to RM2,001 and RM2,500 in 2019”¹. This figure was shocking, considering since February 2020, the minimum wages for an employee are RM1,200 in selected cities and municipal council areas, and RM1,100 elsewhere².

This article discusses wages among graduates and why low wages for workers entering the labour market is a concerning issue. It is also associated with longer-term structural issues, requiring not only labour market policy interventions.

¹ Danial (2021)

² AGC (2020)

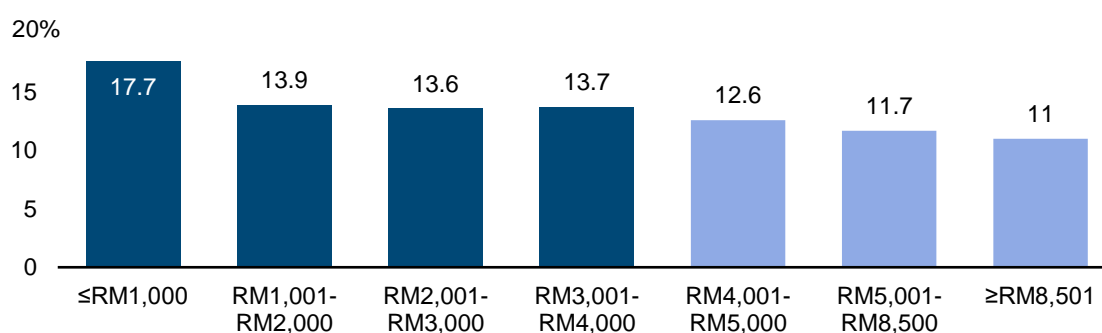
Low starting wages is an issue...

The economic condition when one starts working matters. A recession or an economic downturn reduces employment opportunities and tend to suppress wages. During the Global Financial Crisis (GFC) of 2008/2009, wages growth in 2008 and 2009 almost halved the growth rate two years before³. While Covid-19 is not directly comparable to past recessions, the pandemic exerted similar consequences on the labour market. The International Labor Organization (ILO) reported that two-thirds of countries with available data experienced downward pressure on the level or growth rate of wages in 2020⁴.

Recessions usually result in declining jobs, and it is difficult to find full-time work that offers promotion and training opportunities. In a review of research related to the effects of recessions on youth, Cockx (2016) mentioned that the adverse effects of recessions tend to fade about two years for youth with 12 years of schooling or below, but about ten years for college graduates. However, the effects are different between graduates' area of studies or subjects. In more rigid labour market conditions, the scarring effects of unemployment could be larger too. Flexibility to move from lower-paying employers to better-paying employers matters for recovery, but catching up rate was heterogenous among different area of studies⁵.

During tough times, workers face the trade-off between low-income jobs and no income due to unemployment. But when accepting a low-income job, they might face challenges to further bargain for higher wages because their starting pay is usually used as a baseline to negotiate future salary. Those who can afford to wait—for example, those with financial support from their family—might be able to postpone their entry into the labour market by upskilling or continuing their education and only look for jobs when conditions are better. However, not all workers are privileged enough to do this. In 2019, close to 60% of unemployed graduates were from households earning less than RM4,000 (Figure 1).

Figure 1: Share of graduates who are not working based on household income, 2019



Source: MOHE (2019)

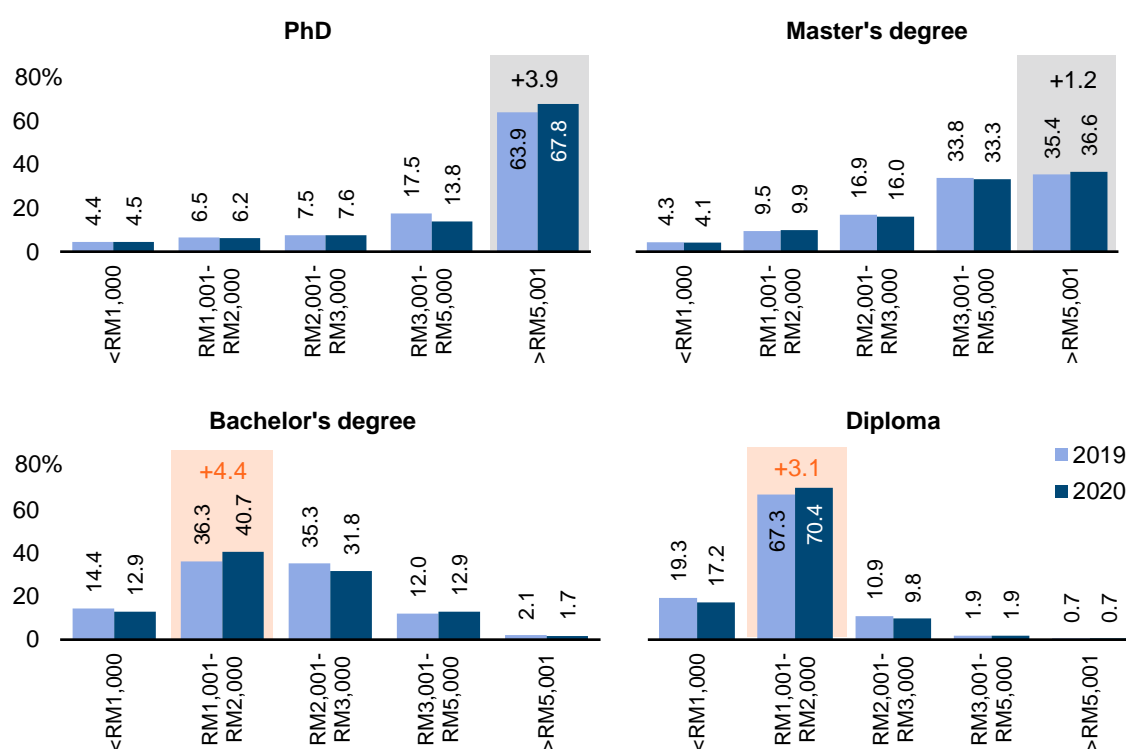
³ ILO (2010)

⁴ ILO (2020)

⁵ See Cockx (2016) and Oreopoulos, Von Wachter, and Heisz (2012)

The figure cited by the Chief Statistician is from the [Graduate Tracer Study](#) published by the Ministry of Higher Education (MOHE). It surveys the employment status of graduates and their monthly wages, among other things. Figure 2 shows the shares of graduates in different wage categories. Graduates with more advanced qualifications (PhD and Master's degree) tend to earn higher, as indicated by their larger shares in the wage categories above RM3,000. Meanwhile, graduates with Diploma and Bachelor's degree⁶ tend to earn lower, as indicated by their higher shares in the RM1,000-RM3,000 income categories. Between 2019 and 2020, the shares of the most educated workers in the high-income category increased, while the opposite was observed among other graduates (Figure 2). Among graduates with PhD and Master's degree, their shares in the ≥RM5,001 category increased by 3.9 percentage points (ppts) and 1.2 ppts respectively, but Bachelor's degree and Diploma experienced a rise of 4.4 ppts and 3.1 ppts in the RM1,001-RM2,000 income category.

Figure 2: Share of graduates, by monthly income category and qualification, 2019 and 2020



Source: Author's calculations based on MOHE (Various years)

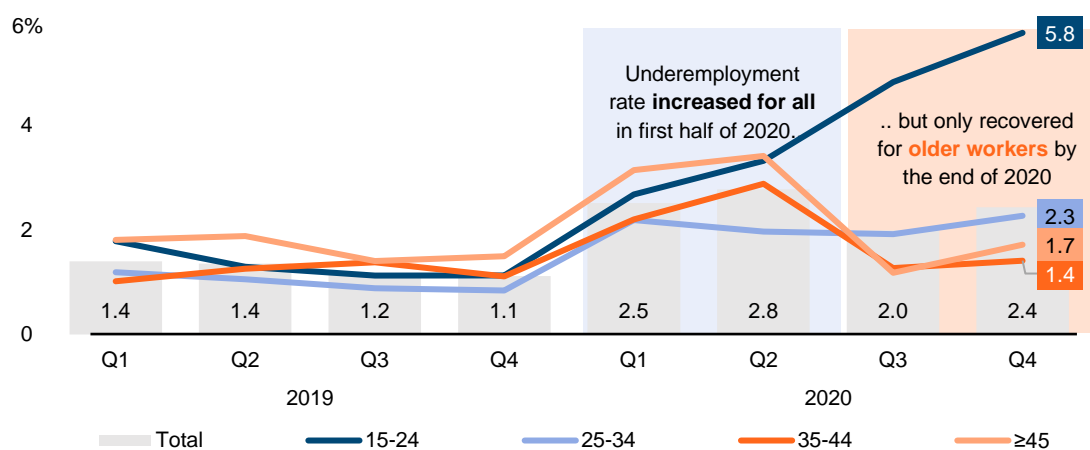
The rising share of graduates in the lower-wage category is claimed to be the result of Covid-19, as the pandemic has caused higher unemployment and underemployment. There is some basis to this argument. The survey defined working graduate as those who worked for at least an hour in the reference week, so it includes both full-time and part-time work⁷. **During the pandemic in 2020, a lot of younger workers (not necessarily just university graduates) were underemployed (worked less than 30 hours per week).** This was unfortunately one of the

⁶ The term used in the publication is *ijazah pertama*, or First degree.

⁷ MOHE (2019)

consequences of restricting business activities to contain the spread of the virus. Even when the Movement Control Order was subsequently relaxed in the second half of 2020, young workers remained to be underemployed, and only older workers showed declining underemployment rates and were re-absorbed into full-time employment (Figure 3).

Figure 3: Share of underemployment per total employment, by age category, 2019-2020



Source: DOS (2021)

By the end of 2020, 5.8% of workers between 15 and 24 years old were underemployed. At the minimum wage of RM1,200 per month or RM5.77 per hour, an underemployed person who worked for 30 hours per week could earn about RM173.10 per week or RM692.40 per month. The concentration of low wages reported in the Graduate Tracer Study might include these underemployed graduates.

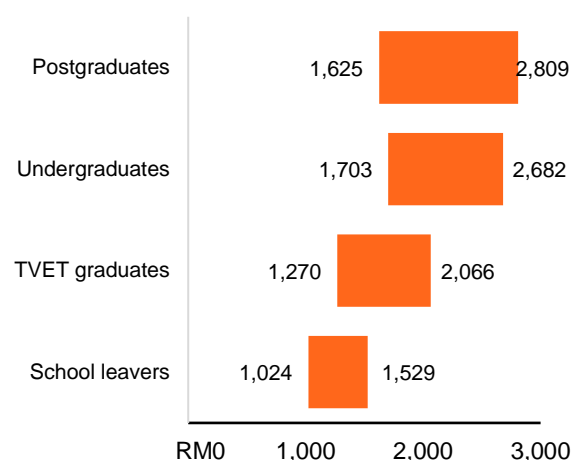
...but it is not just because of Covid-19

However, the low wages among graduates is a long-standing labour market issue that predates Covid-19. In a study on youth transitioning from school to work, KRI (2018) found that the average reservation wage for young workers was RM1,555 and their actual wage was RM1,846. Their expectation is reasonable, given the minimum wages (now RM1,100-RM1,200), allowance of graduate apprenticeship programmes (RM2,000 for then Skim Latihan 1Malaysia, now Protégé) and estimates of living cost for a single person in Klang Valley (RM2,490-RM2,700)⁸. The same study also reported wage offers by employers were between RM1,270 and RM2,066 for TVET graduates and RM1,703-RM2,682 for graduates with Bachelor's degree (Figure 4). While one might suggest graduates to invest further in higher postgraduate qualifications for better employment outcomes, employers do not offer substantially higher

⁸ KRI (2018) and Nur Thuraya (2019)

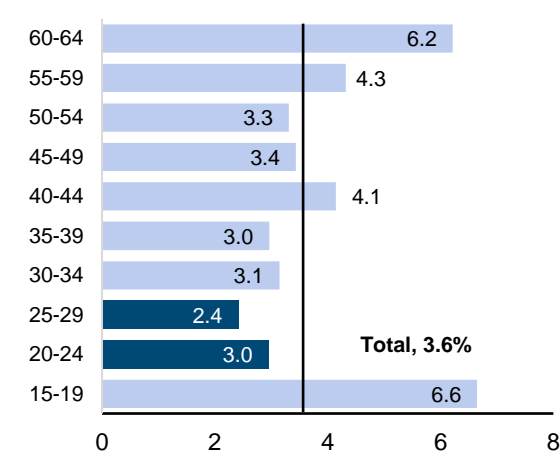
wages for new hires with this academic background. The difference between the maximum offer between an undergraduate and postgraduate was only RM127⁹.

Figure 4: Minimum and maximum salary offered by employers for new hires, by type of worker



Source: KRI (2018)

Figure 5: Real mean wages annual growth, by age category, 2010-2019



Note: Data of citizen employees only. The high wage growth of workers between 15-19 years old is due to their very low wage level in 2010. Source: DOS (2020)

Administrative data by the Social Security Organisation (SOCSSO) also shows that 82% of vacant jobs in 2019 offered wages in the RM1,000 and RM2,000 category or below¹⁰. High shares of graduates earning between RM1,000 and RM2,000, as indicated by the Graduate Tracer Study, is in fact, a perennial issue.

But more worrying is how this issue is the outcome of **slow wage growth for young workers in the last decade**. In the Salaries and Wages reports published by DOS, the growth of real wages (accounting for inflation) for employees between 20 and 29 years old is much slower than other age groups—3.0% and 2.0% per year for 20-24 years old and 25-29 years old employees, as opposed to the national average of 3.6% per year (Figure 5).

The issue of sluggish growth among graduates can also be analysed using the Graduate Tracer Study. Figure 6 approximates the wage distribution of different qualifications over time. Two periods were isolated for analysis—the average between 2008 and 2009 for wage trend during the Global Financial Crisis, and 2020 for the Covid-19 pandemic. Other years were averages of 5-years interval (2010-2014 and 2015-2019).

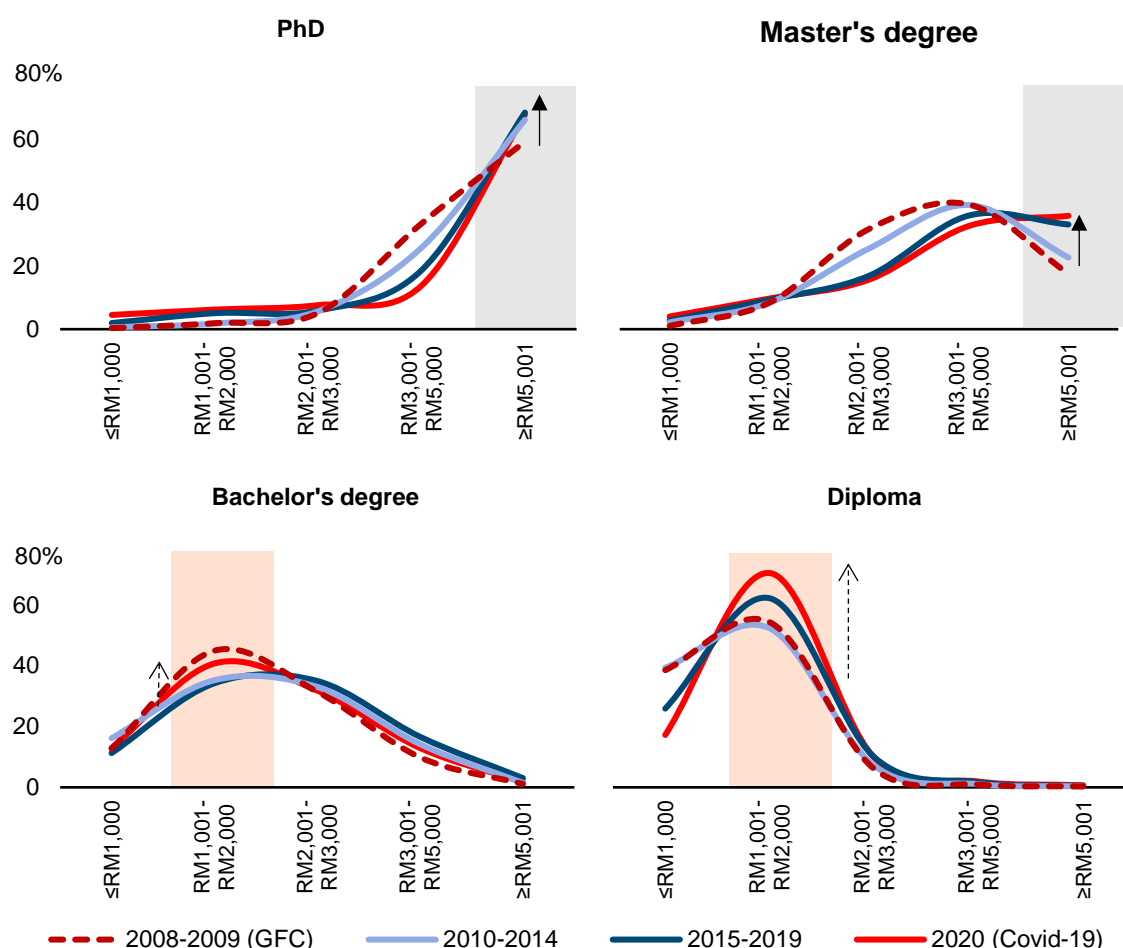
Whether during a crisis or a non-crisis period, the shares of PhD and Master's degree holders in the high-wage category (\geq RM5,001) increased over time. On the other hand, the share of Bachelor's degree holders in the low-wage category (RM1,001-RM2,000) increased during crisis

⁹ The wage offers of <RM3,000 for postgraduates in KRI(2018) and the high shares of postgraduates in >RM3,000 income category in MOHE (Various years) is contradictory, and will be investigated further in future work. A potential explanation is the low response rate when surveying firms in KRI (2018) leading low sample of firms with postgraduate hires, compared to higher response rate when surveying students in MOHE (Various years).

¹⁰ Farqani (2019)

periods. During non-crisis periods, the share of Bachelor's degree holders in the RM1,001-RM2,000 category is almost equal to or lower than the next income category of RM2,001-RM3,000. This indicates the vulnerability experienced by Bachelor's degree graduates during economic shocks. Meanwhile, the share of Diploma holders in the RM1,001-RM2,000 category increased over time, irrespective of crisis or non-crisis periods. It indicates that wages are increasingly bunched at this low level.

Figure 6: Share of graduates, by monthly income category and qualification, selected years



Note: Source: MOHE (Various years)

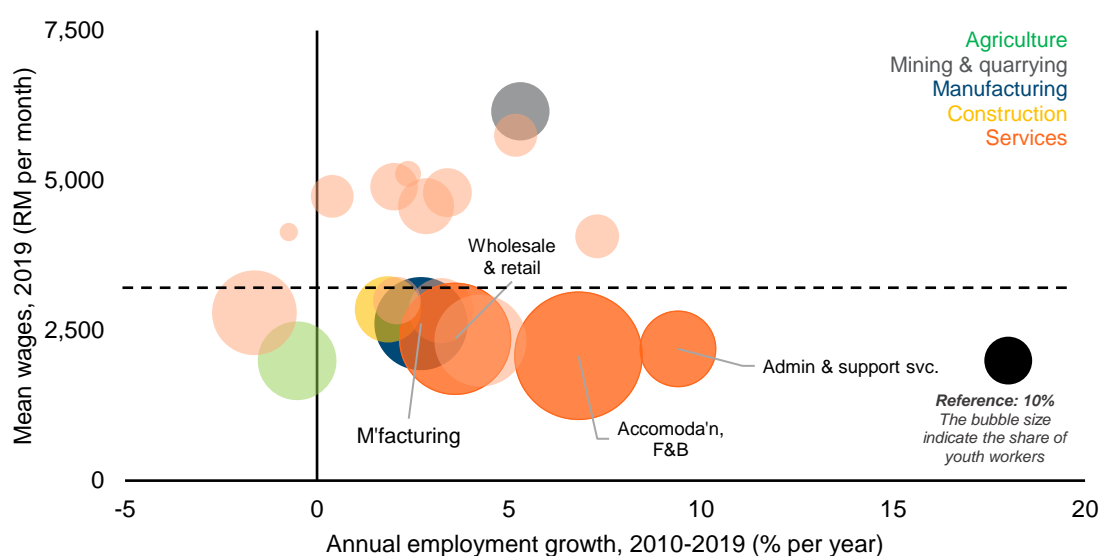
The issue of wages cannot be separated from the structural issues in the economy, and this is beyond the control of workers. **Employment growth in the last decade tends to concentrate in economic activities with lower wages.** Manufacturing used to employ close to 30% of the workforce, but it now employs about 18% of total employment¹¹. Deindustrialisation, argued to be premature by some¹², has shifted Malaysia to be a services-based economy. However, we are concentrated in domestic-focused services that typically do not have high value-added and

¹¹ DOS (2020a)

¹² See Asyraf, Shamri, and Sivabalan (2019) for discussion

wages¹³. They also tend to hire a larger share of semi-skilled instead of skilled workers. One-third of jobs are in retail, accommodation, food & beverages (F&B) and administrative support services—all of which experienced employment growth between 3.6% and 9.4% per year in the last decade (average for all sectors, 2.7% per year), but wages remain to be between only RM2,081 and RM2,363 (average for all sectors, RM3,224) (Figure 6). **Moreover, these low-wage economic activities tend to employ a decent share of young workers.** Modern services such as professional services, information and communication, and real estate services, which have higher value-added and wages, only employ about 7% of the workforce, and they tend to concentrate in the richer parts of the country (KL, Putrajaya and Selangor)¹⁴.

Figure 7: Mean wage (2019), annual employment growth (2010-2019) and share of 15-24 years old employment (2019), by economic activities



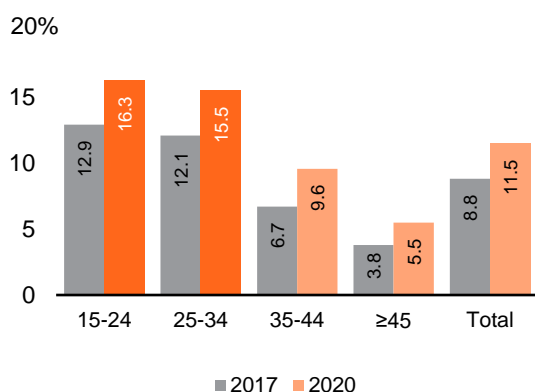
Note: Youth refers to workers between 15 and 25 years old. Source: DOS (2020a); (2020b)

The extent of skills-related underemployment (SRU) has been rising too, indicating structural mismatch in the labour market has worsened over time. Defined as tertiary-educated persons who are working in semi-skilled and low-skilled jobs that do not require tertiary education, the share of SRU increased from 8.2% of total employment in the first quarter of 2017 to 12.4% in the last quarter of 2020. SRU was more pronounced among workers under 35 years old (Figure 7). If workers cannot move out from these jobs that require less than their qualifications, they will continue receiving low wages. To progress, we not only need more skilled jobs but assistance for these workers to transition into higher-paying jobs.

¹³ KRI (2020)

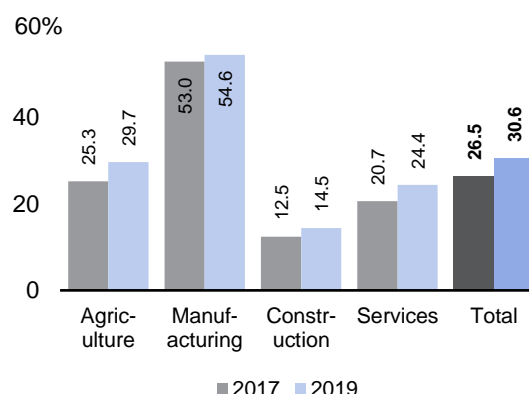
¹⁴ KRI (2020)

Figure 8: Share of skills-related underemployment, by age category, 2017-2020



Source: DOS (2021)

Figure 9: Share of productivity-linked wages system employees per total employees, 2017-2019



Source: MOHR (n.d.)

Monitoring and enforcing wages and employment policies could also be limited because of the large size of SMEs, which employs more than 60% of workers in Malaysia¹⁵. During Covid-19 specifically, addressing complaints on employers paying below the minimum wages is a lot more challenging as public resources were galvanized to address the more pressing needs of the pandemic. But even without Covid-19, the implementation of employment and wages policies might be harder to reach smaller and micro-enterprises. For example, the government has attempted to boost wages through the *productivity linked-wages system* (PLWS), which ties wages to individual productivity or through a profit-sharing formula¹⁶. However, the take-up rate remains limited—only around 30% of employees were paid based on PLWS, and the share was higher for workers in the manufacturing sector. Coverage rates were moderate or underwhelming for workers in other economic activities (Figure 9). To link productivity with wage levels better, reaching out to more employers and employees to adopt PLWS is essential.

Building back better

It must be recognized that low levels and growth of wages for graduates is a combination of various issues—some within the control of young workers, while others depend on the nature of labour demand by employers. Various initiatives have been introduced to help resolve these issues. Apprenticeship programmes such as Protégé tries to help young workers gain working experience. Covid-19 also saw the proliferation of upskilling and reskilling initiatives, for example through the introduction of [e-latih](#) by the Human Resource Development Fund (HRDF), which provides free training courses for Malaysians regardless of their age or employment status.

¹⁵ KRI (2020)

¹⁶ MOHR (n.d.)

Wage incentives to hire young workers were also introduced in the Graduates@Work and Apprentice@Work through the Budget 2020¹⁷ as well as PenjanaKerjaya 2.0 in Budget 2021¹⁸. To ensure employers offer good wages, PenjanaKerjaya 2.0 even required employers to pay at least RM1,500 for employees and RM1,200 for apprentices¹⁹. This is higher compared to the previous PenjanaKerjaya, which required at least minimum wages (RM1,100 or RM1,200) for employees and no minimum wages condition for apprentices²⁰.

Strengthening wages policies is essential to ensure the well-being of all workers. The minimum wage was only introduced in 2013 and we have a long way to go to ensure that all workers are paid at least this amount. In a recent review of global minimum wages, the ILO reported the minimum wage is around 55% of the median wages in developed countries and 67% of the median wages in developing and emerging countries, on average²¹. At RM1,100 and RM1,200, Malaysia's minimum wages are only about 45% and 49% of our median wages, lower than the cited global averages. We could consider revising our minimum wage to a higher level. If we set our minimum wage to 55% of the median wage, taking developed countries as the benchmark, it is around RM1,343. The minimum wage should increase frequently, either with inflation or the median wage level.

While the minimum wage is meant to protect the most vulnerable and low-paid workers, the average and median wages themselves must be pushed higher. Linking productivity to income is one of the ways to boost wages, but low take-up rates of the productivity-linked wages system by employers warrants more scrutiny. Wage levels should also aim to be **living wages**, which pay workers such that they can afford to live a dignified life. Bank Negara Malaysia and the Employees Provident Fund have attempted to measure the living wages in Klang Valley, and this initiative should be replicated in other parts of the country and updated consistently to reflect local living costs and changes in consumption patterns. Such estimates will allow for accurate wage benchmarking for employers as well as workers.

In building back our economy, we have to do better. The government plays an important role to direct this recovery. Decent work with equitable pay and inclusion in social protection schemes, among others, has to be the priority of the various growth-enhancing initiatives introduced by the government. For example, investment incentives or assistance for companies could replicate PenjanaKerjaya 2.0 and include decent wage conditions. Without such policy, we risk a recovery that only increases the extent of the decent work deficit, and this will have long-term consequences on the well-being of the *rakyat*.

¹⁷ MOF (2019)

¹⁸ MOF (2020)

¹⁹ SOCSO (2020a)

²⁰ SOCSO (2020b)

²¹ ILO (2020)

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