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Wages as Power: Models of Institutionalised Wage Bargaining and Implications for Malaysia

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Khazanah Research Institute

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Summary

- Institutionalised Wage Bargaining (IWB) systems introduce formal structures and processes for relevant actors (workers, employers and the government) to jointly determine wages levels. The emphasis on IWBs in this paper is motivated by the understanding that Malaysia's wage problems are not merely a reflection of productivity and economic fundamentals, but also a result of power imbalances between workers and employers.
- This paper's objectives are to: (i) define features and mechanisms of institutionalised wage bargaining systems (IWBs); (ii) compare the IWB systems of selected countries and identify key determinants of success in wage and employment outcomes; (iii) recommend policy approaches to strengthen worker bargaining power in Malaysia. A combination of literature reviews, primary source analyses, stakeholder interviews, and analysis and visualisation of industrial relations and labour market data are applied to meet these objectives.
- The IWB system of each country is classified according to high, moderate, or weak levels of three features:
 - Centralisation: the degree to which bargaining outcomes are decided and respected at multi-employer levels
 - Coordination: the extent to which wage negotiations are coordinated across the actors within an economy and include broader economic considerations
 - Inclusivity: the extent to which formal mechanisms extend the terms and gains of collective bargaining to non-unionised and/or non-regular workers
- We apply this method to seven countries (Belgium, Italy, Germany, Japan, South Korea, United Kingdom and Singapore) as case studies and consider their IWB systems in the context of the labour market outcomes they produce. The country selection criteria included: (i) their status as advanced economies; (ii) their reflection of a variety of histories, approaches, geographies and strengths/weaknesses; (iii) data and literature availability.
- The summary of policy lessons from the case studies are below:
 - Belgium excels (high) across all three features and its IWB system demonstrates both a high degree of bargaining power and strong wage outcomes without compromising employment outcomes.
 - Italy and Germany exhibit contrasting degrees of flexibility within the European context, cautioning against both hyper-rigidity (Italy's high centralisation and inclusivity, but weak coordination) which compromises employment outcomes and poorly regulated flexibility (Germany's high coordination, but moderate centralisation and weak inclusivity) which compromises wage outcomes.

- Japan (high coordination, but weak centralisation and inclusivity) and South Korea (weak across all three features) are two prominent Asian economies that demonstrate how weak inclusivity can lead to the development of an insider-outsider dynamic which threatens the wellbeing of non-regular workers (women, migrants, contract workers).
- The United Kingdom (weak across all three features) and Singapore (moderate across all three features) allow us to compare the evolution of IWBs within the Commonwealth and caution against approaches that undermine the ability of unions to operate both effectively and independently.
- The following are policy proposals for a future Malaysian IWB system. These proposals attempt to balance three labour market objectives: (i) improving Malaysia's wage structure; (ii) ensuring a flexible labour market; (iii) inclusion of non-standard and migrant workers.
 - Moderate centralisation: Tripartite committees (made up of government, workers' unions and employer's unions) at the industrial level create a clear schedule of minimum wages for each occupation determined over the career of that occupation. This schedule can vary according to region, as costs and business realities differ across the country. Any derogation at the enterprise level from industrial agreements would have to be argued in the Industrial Court.
 - High coordination: The Malaysian government devises a fixed schedule of wage negotiations every two years and first targets industrial groups with the greatest pattern-setting power to influence the overall wage structure. Regional wage schedules should incorporate local economic and business realities to ensure flexibility.
 - High inclusivity: Wage agreements should cover all workers within concerned industries, including contract and migrant workers. This would prevent the development of an insider-outsider dynamic and ensure that as large a portion of the workforce as possible is covered by the agreements.
- A few enabling factors are required for the proposed system to function effectively and sustainably. Workers unions and the labour movement must be strengthened and allowed to develop the capabilities to participate in an IWB system. Employers should be appropriately organised into industrial-level unions of their own. The government will have to build the required internal knowledge, machinery and capacity to sponsor and facilitate wage negotiations. Finally, undocumented migrant labour and informal employment will have to be minimised for an IWB system to effectively alter the wage structure.

Key Definitions

Term or Acronym	Definition
OECD	Organisation for Economic Co-operation and Development
ILO	International Labour Organization
Institutionalised wage bargaining (IWB) system	Any set of formal mechanisms which facilitates interaction between workers and employers to reach collective agreements regarding wages, benefits and working conditions. We chose to use this term to emphasise our focus on formalised elements of institutional bargaining power that specifically address wage bargaining within the broader industrial relations system.
Centralisation	The degree to which bargaining outcomes are decided and respected at multi-employer levels
Coordination	The extent to which wage negotiations are coordinated across the actors within an economy and include broader economic considerations
Inclusivity	The extent to which formal mechanisms extend the terms and gains of collective bargaining to non-unionised and/or non-regular workers
Trade union density	The proportion of workers who are members of trade unions
Collective bargaining coverage	The proportion of workers covered by collective wage agreements in force
Level of collective bargaining	The predominant level at which wage negotiations take place in a country, from individual enterprises, to industry-wide, to national (cross-industry). (<i>A mechanism of centralisation</i>)
Favourability	The order or hierarchy of collective agreements made at different bargaining levels in terms of precedence, such that any additional agreements must offer more favourable terms. (<i>A mechanism of centralisation</i>)
Additional enterprise bargaining	Terms set in industry-level or national agreements are renegotiated at the enterprise level. (<i>A mechanism of centralisation</i>)

Opening clause	A clause in an industry-level agreement that allows for derogation, or the offering of less favourable terms, at the enterprise level. <i>(A mechanism of centralisation)</i>
Statutory minimum wage	A national minimum wage (or set of regional wages) as established by law or other binding legal provisions. <i>(A mechanism of coordination)</i>
Price indexation	Wage increases are automatically linked to changes in an official price index, such as the Consumer Price Index (CPI). <i>(A mechanism of coordination)</i>
Wage-setting norm	A binding norm or guideline on wage increases issued by the government, a tripartite commission, or any other central authority within a country. <i>(A mechanism of coordination)</i>
Pattern-setting	Wage negotiations begin in one (often industry-level) bargaining unit and are then repeated by other units who orientate their own negotiations towards the leading industry's settlement. <i>(A mechanism of coordination)</i>
Extension procedure	A formal provision that makes a collective agreement binding for all employees and employers within its usual field of application (e.g. entire industry), regardless of an individual firm's unionisation status. <i>(A mechanism of inclusivity)</i>
Dualism	A phenomenon within a country's industrial relations wherein labour market insiders (often local, permanent, middle-aged and male workers) are protected by legislation and union activities at the expense of outsiders (including migrant, temporary, youth or elderly and female workers). <i>(A mechanism of inclusivity)</i>
Low pay incidence	The percentage of the workforce earning less than half the median wage
Unemployment rate	The percentage of the workforce that is unemployed

Table of Contents

Summary	3
Key Definitions	5
1. Introduction	8
1.1. The wage problem	8
1.2. Policy rationale	12
2. Research Approach	14
2.1. Theoretical and empirical motivation	14
2.2. Objectives & methodology	16
2.3. Limitations	18
3. Unionism and Wage Bargaining in Malaysia	20
3.1. Current landscape of collective bargaining	20
3.2. Historical development of trade unionism in Malaysia	21
4. Institutionalised Wage Bargaining Systems	24
4.1. Definition	24
4.2. Features of institutionalised wage bargaining systems	24
5. Global Case Studies	26
5.1. Belgium	26
5.2. Italy and Germany	30
5.3. Japan and South Korea	34
5.4. United Kingdom and Singapore	37
6. Policy Implications for Malaysia	42
7. Concluding Remarks	47
Appendix 1	49
Appendix 2	52
Appendix 3	54
References	57

1. Introduction

This paper situates Malaysia's wage problem within the discourse on bargaining power and the institutions that intermediate power relations between workers and employers. An international perspective is adopted in order to contextualise Malaysia's challenges within global institutional and economic patterns and to glean policy lessons from a wide array of national systems. In particular, the focus is placed squarely on institutionalised wage bargaining systems (IWBs), the underlying motivation of which is to correct for power imbalances in the wage determination process.

Section 1 briefly reviews evidence on the inadequacy and inequality of wages in Malaysia and compares Malaysia's wage outcomes to global comparators. Section 2 presents the theoretical and empirical motivations of this paper and describes the objectives, methodology and limitations of the study. Section 3 summarises the current landscape of collective bargaining in Malaysia as well as the historical factors contributing to the present scenario. Section 4 identifies three features of IWBs and defines formal mechanisms associated with each of these features. Section 5 analyses IWBs and labour market outcomes in four European countries (Belgium, Germany, Italy and the UK) and three Asian countries (Japan, Korea and Singapore) to provide comparative insight on major challenges and opportunities for wage bargaining in Malaysia. Section 6 presents preliminary proposals for the shape and structure of an IWB system for Malaysia targeted at achieving three labour market objectives, and discusses enabling factors that would promote effectiveness and sustainability.

The authors hope that this paper, by conducting a high-level review of IWB models around the world and critically considering elements that could be tailored to the Malaysian context, contributes to the incorporation of power and institutionalist exigencies into Malaysia's labour policy discourse. The authors look forward to feedback and pursuing this line of work in greater depth.

1.1. The wage problem

Wage Inadequacy

A significant portion of Malaysia's workforce is struggling to make ends meet and to invest in a brighter future for themselves and their families. A key reason has been the inadequacy of wage levels for providing economic security and aspirational life planning. Bank Negara Malaysia (BNM) and the Employees Provident Fund (EPF) have respectively computed living wage levels¹ for singles and families in Kuala Lumpur (KL). Khazanah Research Institute (KRI), in Part II of its 2020 State of Households Report², adjusted BNM's 2016 and EPF's 2019 levels to 2018 prices in order to compute the percentage of young (aged 15-29) full time workers in Kuala Lumpur

¹ Defined as levels commensurate with "the ability to participate in society, the opportunity for personal and family development and freedom from severe financial stress". BNM (2018)

² KRI (2020b)

earning below these thresholds using data from KRI’s School-to-Work Transition Survey (SWTS)³.

Table 1: Young employed person share, by earning relative to living wage, Kuala Lumpur, 2018

	Living wage		Full-time worker, aged 15-29, single and living in KL	
	Nominal	Real (2018 prices)	Earning below	Earning above
Single, 2016 (BNM)	RM 2,700	RM 2,829	88%	12%
Single, with a car, 2019 (EPF)	2,490	2,474	77	23
Single, without a car, 2019 (EPF)	1,870	1,858	52	48
Minimum wage, 2018	1,000	1,000	4	96

Note: this table was updated from Nur Thuraya and Siti Aisyah (2020)

Source: KRI (2020)

The results from the report are reproduced in the table above. 88% of relevant SWTS respondents were found to be earning below the living wage threshold for young single full-time workers in KL and similarly large proportions are observed using EPF’s thresholds, especially after accounting for car ownership.

In addition, data from DOSM’s 2019 Household Income and Expenditure Survey (HIES) indicates that 22.6% of households in KL earned below RM 7000, while EPF’s 2019 living wage estimate for a KL family with two children was RM 6620⁴. More recent data from EPF reveals that 80% of EPF members earn below RM 4900 per month⁵. These again point towards a problem of wage inadequacy.

Wage Inequality

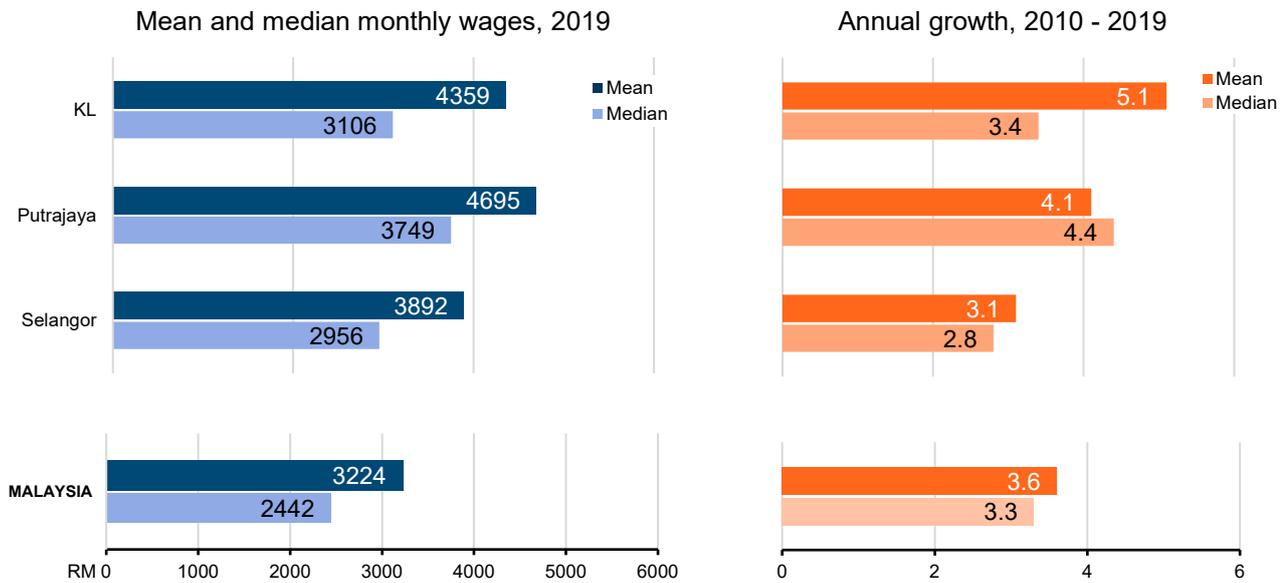
An additional concern to the one of wage levels is the dispersion, or spread, of wages. While KRI is undertaking an in-depth study on Malaysia’s wage structure which will explore this question in greater detail, available indicators suggest growing wage inequality.

³ Conducted by KRI between 2017 and 2018.

⁴ KRI (2020b)

⁵ Yeap (2022)

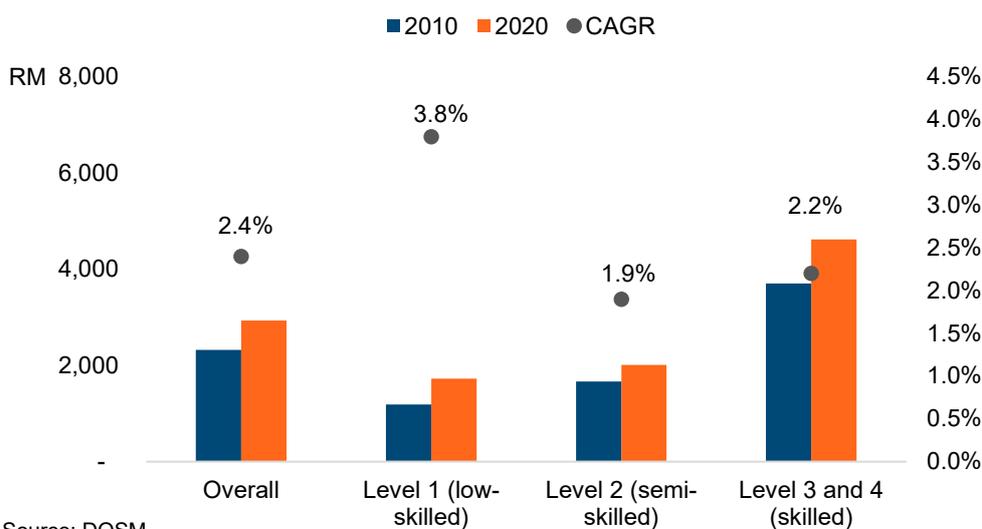
Figure 1: Mean and median monthly wages and annual growth, by state, 2019



Note: refers to citizen wages only. Data in 2019 prices.
 Source: DOSM (2020), KRI calculations.

Malaysia’s mean wage level grew faster than the median in the decade preceding the pandemic (see Figure 1 above)⁶. When including the effect of the pandemic, wage growth for semi-skilled workers, comprising about 60% of the Malaysian workforce, grew only at 1.9% per annum between 2010 and 2020, which was lower than the highest skilled and better paid workers (Figure 2 below)⁷. These trends indicate that the underlying wage distribution is becoming further skewed to the right – meaning the incomes of those at the top of the wage ladder are growing faster in ringgit terms than those at the middle and below.

Figure 2 Real mean monthly wages and annual growth, Malaysia, 2010 & 2020 (2020 price)



Source: DOSM

⁶ KRI (2020b)

⁷ DOS (2021); authors’ calculations.

KRI's analysis of DOSM's 2014 HIES data produced a Gini Coefficient for pre-tax paid and self-employment income (largely comprised of salaries and wages) that was approximately 4 percentage points higher than Malaysia's overall Gini score for pre-tax gross income⁸. The Gini Coefficient, by simplifying inequality to a single index score, masks many nuances but the higher score for paid and self-employment income indicates that the distribution of wages and salaries, without the mitigating effects of taxes and transfers, probably exacerbates inequality.

Finally, EPF reported in 2021 that the top 20% of its members (ranked by savings levels) own 77% of its assets and that the EPF wealth of the top 0.3% of members are equivalent to the bottom 65%⁹. As EPF contributions are statutory deductions based on the salaries and wages of employees, these are strong signals of significant wage inequality.

Malaysia's wage problem in global perspective

These realities are partly a consequence of Malaysia's model of economic growth which has relied heavily on minimizing the wage bill (refer to Section 3.2 for a brief discussion on the historical origins of Malaysia's policy towards organised labour). Comparisons of our macroeconomic indicators in relation to global comparators corroborate this assessment.

A Box Article in BNM's 2018 Annual Report contrasted the returns to labour in Malaysia against five advanced benchmark economies – Singapore, the United States, the United Kingdom, Germany and Australia. Their analysis found that, for every USD1000 of economic output, Malaysian workers earned USD340 compared to USD510 in benchmark economies. Malaysia's labour income share (35.2%) was also lower than that of the benchmark economies (52.7%) in spite of the more labour-intensive model of the Malaysian economy¹⁰.

⁸ KRI (2020a)

⁹ EPF (2021)

¹⁰ Murugasu et al. (2018)

Table 2 Key labour market indicators of OECD countries and Malaysia, 2018

Outcome Indicators							
Country	Gini	Labour Income Share	Labour Income Dispersion (Mean:Median Ratio)	Low Pay Incidence	Employment to Population Ratio	Youth Unemployment Rate	Unemployment Rate
OECD	33.1	55.0	1.17 (ex. Costa Rica and Colombia)	14.1 (ex. Norway and Sweden)	57.54	11.1 (ex. Israel and New Zealand)	6.2
Malaysia	39.9	43.2	1.34	28.3	62.6	10.9	3.3

Source: Gini coefficient scores from World Bank (2018) and author's calculations, except for Malaysia, which is from KRI (2019); LIS, EPOP, YUR and UR from ILOSTAT (2018); LID (mean-to-median ratio) values are based on author's calculations using median and mean wage values from OECDSTAT (2018); LPI values are from OECDSTAT (2018); Italicised values indicate author's calculations.

Table 2 above compares Malaysia's key labour market indicators to the respective OECD averages for 2018. The OECD is a useful comparator group for a couple of reasons. First, there is a high degree of data availability for OECD member countries. Second, the OECD's 38 member countries capture a broad range of country sizes, demographics, geographies, economic growth models and income levels.

A greater share of Malaysia's working age population is actively employed (employment-to-population ratio) in the labour market compared to the OECD, and the youth unemployment rate and unemployment rate are broadly comparable. But an examination of pay quality indicators indicates that Malaysia has room to improve.

Malaysia's labour income share (percentage of GDP accruing to labour) is significantly lower than the OECD's and Malaysia's low pay incidence (percentage of the workforce earning less than half the median wage) of 28.3% is significantly higher than the OECD's 14.1% (excluding Norway and Sweden due to data unavailability). These further corroborate Malaysia's wage inadequacy challenge.

Malaysia's Gini Coefficient (39.9) is nearly 7 percentage points higher than the OECD's (33.1). The labour income dispersion ratio, a ratio of the mean to median wage¹¹, is 1.34 for Malaysia and 1.17 for the OECD (excluding Costa Rica and Colombia due to data unavailability), again suggesting high levels of wage inequality in Malaysia.

1.2. Policy rationale

Chapter 10 of the 12th Malaysia Plan (2021-2025) addresses the need for a labour market that is responsive to future opportunities, while being just to workers. It rightly emphasises efforts to create a workforce that is skilled, productive and ready for the 21st century. But it also recognises

¹¹ Provides a measure of labour income inequality as the mean is more significantly affected by top wage levels than the median.

the need to create labour market institutions that allow workers to claim a fair share of the economic pie.

In particular, it calls for increasing trade union membership and to promote efforts that provide workers with greater bargaining power in wage-setting and decision-making within firms. It wisely aspires to make the compensation structure of firms a product of joint engagement between employees and employers.

*“... Efforts to increase membership in trade unions will be intensified to enable **stronger bargaining power in wage negotiations**... These measures will facilitate better involvement and engagement of employees with employers in determining the compensation structure of firms.”*

Twelfth Malaysia Plan, 2021-2025

If this goal of an equitable and fair labour market is to be realised, we must grapple with the state of collective bargaining in Malaysia today, understand its weaknesses and assess potential models of policy and programmatic development. The laudable goals outlined in the 12MP for correcting power asymmetries in our labour market need to be given tangible shape and scope to guide the efforts of government, labour unions and employer associations in creating the labour market institutions of the future.

2. Research Approach

2.1. Theoretical and empirical motivation

The challenges elaborated upon in the previous section do not exist in a discursive vacuum. Our understanding of labour market outcomes is nested within assumptions and models that affect the way we approach, debate and imagine solutions for challenges. In this section, we further develop our research motivation by expanding upon two theoretical approaches to the wage problem.

Much of the material discussed in this section is from discourse and empirical evidence from Global North contexts, but the authors feel is relevant to discussing the Malaysian predicament. There is an opportunity to generate similar empirical evidence in Malaysia and KRI has already published some work in this regard¹².

The theoretical approaches that we discuss here fall broadly into two categories: a competitive market approach and an institutionalist approach¹³. Much of the imperatives of labour policy design in Malaysia have been heavily influenced by the former, while the latter has either been deliberately suppressed or neglected. This lopsided approach has contributed to the challenges described in the previous section and renders the fairness of our future economic trajectory to our workers a source of major uncertainty in the 21st century.

Competitive Market

Put simply, the competitive market approach assumes that wages are primarily and efficiently determined by the forces of supply and demand, and reward workers according to their contribution towards economic output¹⁴. The assumptions underlying this approach are significant and impinge greatly on policy discussions. Markets are expected to work with a high degree of efficiency approaching perfection, and frictions, uncertainties and power asymmetries do not greatly alter outcomes from their “natural” equilibria. Wages at the market level increase (decrease) in response to contractions (expansions) in labour supply, or expansions (contractions) in the marginal revenue product of labour¹⁵. Workers and firms are respectively presented as homogenous or interchangeable units within specific labour markets and neither have sufficient power or organisational savvy to alter market-clearing wage levels. The labour supply curve at the individual firm level is perfectly elastic, meaning that a firm can easily expand its labour input at the going wage level as determined by the market¹⁶.

¹² KRI (2020b)

¹³ Howell and Kalleberg (2022)

¹⁴ Ibid.

¹⁵ The labour demand curve.

¹⁶ At the firm level, any reduction below the market wage will result in a total loss of labour supply, as there is no rational reason for workers to accept a lower wage. There is also no reason for a profit-maximizing firm to pay more than the market wage as identical units of labour can be procured at that rate. The firm is a perfect price (wage) taker, not a price (wage) setter.

A large body of empirical literature analysing labour market outcomes has been informed and motivated by the competitive market approach. Though market imperfections are acknowledged and admitted into consideration, the analytical centre of gravity remains the efficiency and primacy of market forces in translating the economic fundamentals of supply and demand into economic outcomes. The analysis motivated by this approach points mainly towards the effects of technological change and globalisation when explaining the decades-long trend of wage suppression and wage inequality in the United States¹⁷. The empirical evidence cited in support include wage premia enjoyed by tertiary-educated workers and the decline of mid-skilled occupations as a share of overall employment (otherwise known as ‘job polarisation’); both interpreted as consequences of technology and globalisation driving out mid-skilled routine-task jobs and encouraging occupations at the polar ends of the skills spectrum (social and technical capabilities on the one hand, as well as in-person care and service tasks on the other)¹⁸.

The policy solutions flowing from this reasoning emphasise investments in skills, knowledge and the credentials of the workforce to improve wage outcomes¹⁹. Market forces are considered decisive in shaping the labour market and it is incumbent upon workers, governments and businesses to organise their activities and efforts to best meet the market’s needs. Malaysia’s policies have been dominated by this paradigm, where a robust set of government programs exist to upskill and credentialise the workforce (e.g. Budget 2021 increased the Federal allocation for upskilling & reskilling programmes as well as accreditation programmes from RM67 million to RM70 million²⁰), and to promote firm-level investments in technology and integration into global supply chains.

Institutionalist

As might be apparent, the competitive market approach is incomplete and requires expansion to explain a greater share of observed outcomes in the labour market. The institutionalist approach begins by reframing markets as important and powerful, but imperfectly competitive²¹. There are a range of ways in which markets can be imperfect (information asymmetries, frictions, externalities etc) which result in sub-optimal outcomes and there is significant literature for each of these imperfections. Market imperfections are also by no means neatly exclusive and often feed into each other (information asymmetries, for example, can affect power asymmetries and externalities and vice versa), but it aids our analysis and policy thinking to focus on a particularly tractable one that has a long history of political and policy action – power.

Monopsony is the power wielded by influential buyers in a market. The notion was first coined and expanded upon by Joan Robinson in the 1930s and has proved useful to introduce power asymmetries in market models²². Our focus here is on the monopsony power exerted by firms in labour markets as buyers of labour supply and their ability to set prices (wages). There are,

¹⁷ Autor (2015); Deming (2017), Howell and Kalleberg (2022)

¹⁸ Ibid.

¹⁹ Howell and Kalleberg (2022)

²⁰ MOF (2020)

²¹ Howell and Kalleberg (2022)

²² Manning (2021)

broadly speaking, two main models of monopsony power in recent literature – ex post wage bargaining and ex ante wage posting²³ - which are described in greater detail in Appendix 2.

The shared conclusion of these models is that the effective wage is not an automatic and seamless resolution point at which quantity demanded is satisfied by quantity supplied²⁴. It is instead a point within a range; a minimum below which supplying labour is untenable for the worker and a maximum representing the full value of the employment relationship to the employer. The degree of closeness of the wage level to the latter is determined by worker bargaining power.

The empirical literature supporting the institutionalist approach is significant. The evidence against a perfectly competitive market is rooted in the consistent observation of equilibrium wage dispersion²⁵; wages for specific occupations, after controlling for experience/age, skills/education, demographics and location present significant variation that cannot be easily explained by market fundamentals. In addition, firms (employers) matter greatly in explaining wage differentials²⁶. Firms and workers aren't seamlessly interchangeable units, but are instead endowed with significant idiosyncrasies that introduce monopsonistic elements into the employment relationship. Studies have also been undertaken to estimate the elasticity of the labour supply curve to individual firms and while the variation in estimates is great, the weight of results indicate a large amount of monopsony power and that perfect elasticity is an erroneous assumption²⁷. Finally, macroeconomic and cross-country studies indicate significant correlation between the institutional bargaining power of workers and pay quality²⁸.

The policy solutions flowing from institutionalist reasoning emphasise the creation and strengthening of labour market institutions that correct for power imbalances between employees and employers. Labour market outcomes are contingent not only on market fundamentals, but also on institutional arrangements that determine both productivity and distributional results. Malaysia's track record in this regard is a chequered one at best and a systematic approach to reforming our labour market institutions is needed for the 21st century.

2.2. Objectives & methodology

The objectives of this working paper are as follows:

- To **define** features and mechanisms of institutionalised wage bargaining systems (IWBs)
- To **compare** the IWB systems of selected countries as case studies and identify key determinants of success in wage and employment outcomes
- To **recommend** policy approaches to strengthen worker bargaining power in Malaysia

²³ Manning (2011)

²⁴ Blanchflower et al. (1990); Lester (1952)

²⁵ Card and Krueger (1995); Lester (1952)

²⁶ Card et al. (2018); Lester (1952)

²⁷ Manning (2021)

²⁸ Howell and Kalleberg (2022)

The methods used in this research include a literature review of existing scholarship on the institutional features of wage bargaining, a literature review of scholarship on collective bargaining and wages in each of the seven case study countries and Malaysia, primary source analysis of industrial relations legislation and collective bargaining agreements or contracts, stakeholder interviews with trade union leaders and employers' associations in Malaysia, as well as analyses and visualisation of public data on industrial relations and labour market outcomes around the world.

The literature reviews were primarily conducted through the HOLLIS platform, which houses the Harvard University library catalog and includes results from external databases such as JStor. Review of scholarship on the institutional features of IWB systems began with two recent papers on institutional bargaining power.²⁹ Further literature was found through HOLLIS searches of the term "institutional wage bargaining," revealing two papers on taxonomies of wage bargaining systems ("taxonomical papers").³⁰

The features referenced in these papers were then cross-checked with the categorisation of wage-setting characteristics within the OECD-AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS). This database, which spans 56 countries/territories and 60 years, is widely cited in the literature as one of the most comprehensive data sources on the evolving nature and scope of collective bargaining, with a focus on OECD and EU countries. The terms "centralisation" and "coordination," employed in the literature above as well as within the OECD-AIAS database, thus came to form two central features in this paper's characterisation of institutionalised wage bargaining. The third feature, "inclusivity," was derived from comparative research which posited a system's level of inclusion as the most important determinant of the incidence of low pay work in a country,³¹ as well as from the feature of "collectivisation" in one of the taxonomical papers.³² Our inclusion of this feature also reflects a particular interest in accommodating the needs of a growing non-standard workforce in Malaysia³³. These features and the mechanisms which comprise them, are described in further detail in the following sections.

The seven case study countries were chosen based on a few key criteria. Given that the focus of this working paper is on improving worker bargaining power in Malaysia while advancing national economic outcomes, our first criteria were a higher degree of institutional bargaining power *and* a higher GDP per capita relative to that of Malaysia. These two criteria, combined with a need for publicly available data on collective bargaining and wage-setting, led us to pick most case study countries from within the membership of the Organisation for Economic Co-operation and Development (OECD). We further narrowed our country selection by looking for cases with particularly high levels of IWB features, for cases relevant to Malaysia's economic aspirations (e.g. advanced Asian economies), and for cases exhibiting similar degrees of path-dependence (e.g. shared colonial history). Based on these criteria, we included seven comparative case study

²⁹ Ibid.; Howell (2021)

³⁰ Caju et al. (2008);Garnero (2021)

³¹ Applebaum et al. (2010)

³² Caju et al. (2008)

³³ Hawati Abdul Hamid and Nur Thuraya Sazali (2020)

countries: Belgium, Italy, Germany, Japan, South Korea, Singapore, and the United Kingdom. For a detailed explanation of country selection, see Appendix 3: Country Selection.

A table of comparative IWB data for the eight countries (seven case studies plus Malaysia) was then constructed, including key indicators of institutional bargaining power (such as union density and collective bargaining coverage) and indicators of each of the three IWB features. We also included indicators on wage and employment outcomes for each country. We chose to focus on low pay incidence and the unemployment rate as the key outcome indicators due to the emphasis in Malaysia's policy discourse on resisting wage suppression while maintaining strong macroeconomic outcomes. All indicators were compiled from publicly available databases, namely the International Labour Organization statistics database (ILOSTAT), the OECD statistics database (OECD.Stat), the OECD-AIAS database, and the World Bank Open Data catalog. For the table of comparative data, see Appendix 1. For a detailed explanation of the table's construction, see Appendix 3: IWB Table Construction.

The literature reviews for each of the case study countries were conducted by entering the country's name, followed by variants of "wage bargaining" and "wage setting," into the HOLLIS platform. Specific IWB features were further investigated through the use of keywords such as "sectoral bargaining," "minimum wage," and "extension procedures." Some results yielded comparative information about two or more case study countries in the same article. Save for the historical review of trade unionism in Malaysia, only sources published after the year 2000 (and where possible after the year 2010) were included in order to ensure the relevance and accuracy of information to the present context. Where scholarship on institutional features of wage bargaining was limited or unavailable, particularly in the cases of Malaysia and Singapore, the text of industrial relations legislation and recent collective bargaining contracts were examined.

Using a combination of the taxonomical papers, the OECD-AIAS measures and the country-specific literature reviews, we then characterised the IWB systems in each of the case study countries as demonstrating High, Moderate, or Weak levels of the three features (centralisation, coordination and inclusivity). The explanation for each of these characterisations constitutes the bulk of Section 5: Global Case Studies. In the case of Singapore and Malaysia, we relied most heavily on the literature reviews to make characterisations of each feature, as both countries were not included in the taxonomical papers or the OECD-AIAS measures. Our assessment of the current collective bargaining landscape in Malaysia was also informed by stakeholder interviews with trade union leaders and employers' organisations.

2.3. Limitations

As noted above, a lack of data availability for Malaysia and Singapore led us to hand-code the qualitative variables from the OECD-AIAS dataset — e.g. the predominant level (var Level) of collective bargaining or the existence of extension procedures (var Ext) — based on evidence from the country-specific literature reviews. In hand-coding, we attempted to adhere as closely as possible to the definitions listed in the OECD-AIAS codebook. Furthermore, we recognise that the economic, political and historical context of many OECD countries differs greatly from that of Malaysia. In performing comparative analysis, we hope to illuminate helpful takeaways from each of these countries but not to posit their equivalence with Malaysia. Finally, we are aware that labour market outcomes are determined by a range of political, social, economic and geographic factors and that an assessment of these outcomes vis-à-vis prevailing labour market institutions

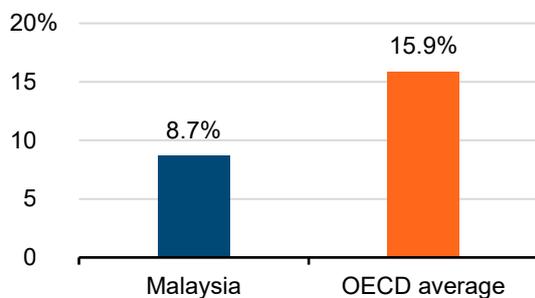
alone doesn't account for the totality of these factors. Nevertheless, the focus of this paper is on labour market institutions and our review of the literature indicates that institutions demonstrate consistent patterns of influence on important outcomes.

3. Unionism and Wage Bargaining in Malaysia

3.1. Current landscape of collective bargaining

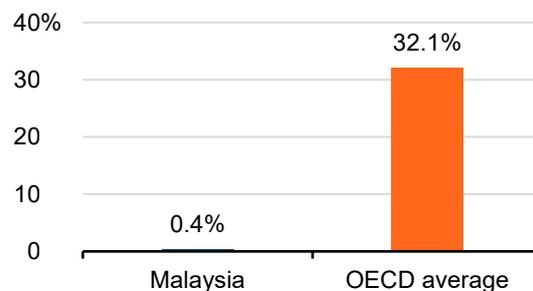
Malaysia's indicators for union density and collective bargaining coverage are strikingly low. In 2018, Malaysian **trade union density** — defined as the proportion of workers who are members of trade unions — was recorded at 8.7%, roughly half the OECD average of 15.9%. In the same year, **collective bargaining coverage** in Malaysia — defined as the proportion of workers covered by collective wage agreements in force — was estimated to be around 0.4%, much lower than the OECD average of 32.1%. Notably and contrary to prevailing trends around the world, collective bargaining coverage is lower than trade union density in Malaysia, indicating that not all trade union members are covered by agreements in force.³⁴

Figure 3 Proportion of workers who are members of trade unions, 2018



Source: ILOSTAT (2018)

Figure 4 Proportion of workers covered by collective wage agreements, 2018



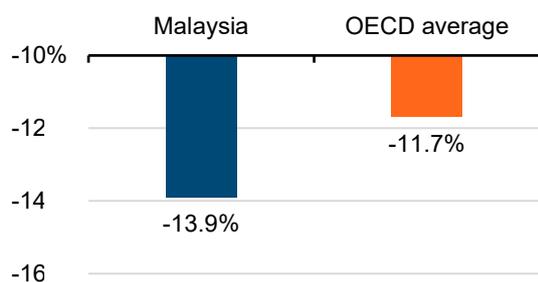
Source: ILOSTAT (2018)

Trend lines for worker representation and collective bargaining are also tending downwards. Following the global recession, Malaysian trade union density decreased by 13.9% from 2008 (10.1%) to 2018 (8.7%), a larger decrease than the OECD average of 11.7% (18.0% to 15.9%). During the same period, collective bargaining coverage in Malaysia decreased by 83.3% (2.4% to 0.4%), a significantly greater decrease than the OECD average of 9.32% (35.4% to 32.1%).³⁵

³⁴ ILOSTAT (2022)

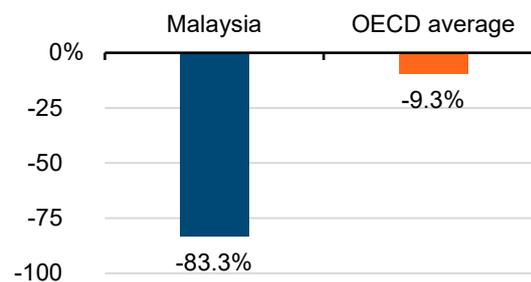
³⁵ Ibid.

Figure 5 Percentage change in trade union density, 2008 to 2018



Source: ILOSTAT

Figure 6 Percentage change in collective bargaining coverage, 2008 to 2018



Source: ILOSTAT

3.2. Historical development of trade unionism in Malaysia

The Twelfth Malaysia Plan (12MP) identifies the encouragement of “stronger bargaining power in wage negotiations” and “better involvement and engagement of employees with employers in determining the compensation structure of firms” as a key strategy in realigning the labour market for inclusive and sustainable growth.³⁶ However, the current state of Malaysian trade unions – regarded as the primary unit of organised labour and employee wage bargaining – is weak, with union density at less than 10% nationwide and steadily declining.³⁷

Most scholarly literature attributes the limited density and effectiveness of the Malaysian trade union movement to a political, economic and social environment that is unfavourable to organised labour, particularly under the current industrial relations (IR) corpus, which is comprised of three major pieces of labour legislation – the Employment Act 1955 (EA), the Trade Unions Act 1959 (TUA) and the Industrial Relations Act 1967 (IRA). Collectively, the IR corpus has been critiqued for exerting significant restrictions on the formation and growth of the organised labour movement in order to align it with the low-cost export-oriented industrialisation (EOI) strategy of the state as opposed to prioritising the protection of workers’ welfare, ultimately creating a system of industrial relations which contributes to wage suppression.³⁸ If government policy is to successfully implement an institutionalised wage bargaining system that is conducive to the aims of employees’ empowerment as indicated in 12MP, critical attention must be paid to the historical limitations of the unions that will ultimately come to represent workers’ interests at the bargaining table.

³⁶ EPU (2016)

³⁷ Ru et al. (2014)

³⁸ Kumar et al. (2013)

Historical Origins: Trade Union Policy in British Malaya³⁹

Modern restrictions on trade unionism in Malaysia can be traced back to the labour policies, economic priorities and socio-political conditions established during the period of British colonialism. The development of organised labour in Malaysia during the early 20th century was heavily influenced by patterns of labour migration from India and China and the subsequent spread of anticolonial, nationalist and left-wing ideologies among associations of the working class, such that by the start of World War II, several major strikes had occurred among Chinese and Indian workers in tin mines and rubber plantations.⁴⁰

The desire of the British to reduce the threat of worker strikes – which posed potentially significant revenue disruptions during wartime – coupled with the growing influence of the Malaysian Communist Party (MCP) in major pan-racial and pan-industry labour unions like the Pan-Malayan General Labour Union (later Pan-Malayan Federation of Trade Unions), led the Government to impose increasing restrictions on the organised labour movement beginning in the 1940s. Such regulation included the implementation of the Trade Union Ordinance 1940 (TUO), which made union registration compulsory and effectively granted the Government control over the entire labour movement; the introduction of John Alfred Brazier as the Trade Union Advisor (TUAM) in 1945, whose appointed trade union officers were trained abroad to replace existing “radical” leaders and ultimately became dependent on Brazier’s protection, weakening the burgeoning labour movement as a whole; a 1946 amendment to the TUO which prohibited the use of union funds for political activities, leaving labour leaders with limited ability to advocate for policies on behalf of their constituents; and three 1948 amendments to the TUO which collectively prohibited office-holding by union leaders deemed too “radical” in their methods and restricted the formation of multi-industry union associations.

As a result, trade union membership in Malaya decreased by 64% from December 1947 to December 1948 following the introduction of the 1948 amendments to the TUO. In particular, the MCP-affiliated PMFTU – which, by October 1947, accounted for nearly half of all union membership in peninsular Malaysia – was repeatedly denied registration under the terms of the TUO and directives of the TUAM, ultimately leading to its forced dissolution in 1948 along with most other Communist-led and multi-industry unions. The “replacement” association of unions, the Malaysian Trade Union Council (est. 1949), was sponsored by the British Government itself and effectively devoid of actual worker advocacy. The de facto suppression of the labour movement during the subsequent Malayan Emergency,⁴¹ combined with the fear that advocacy for worker’s rights would be perceived as Communist (as the Government had characterised most major union activity since World War I) and the fragmentation of unions along lines of race and industry, meant that the labour movement remained weak even after the end of British colonial rule in 1957.

³⁹ Dates, names and figures in this section from Gamba (1962) unless otherwise indicated.

⁴⁰ Ramasamy (1992)

⁴¹ Fong (1992)

Lasting Legacies: Colonial Trade Union Policy and Industrial Relations Today

Many of the limitations on trade unions that were established as part of British colonial legislation continue to be imposed via the IR corpus of modern Malaysia. Just as the colonial model of industrial relations ensured Government control over the labour movement in order to minimise the potential for disruptive strikes in key extractive industries, current IR policies appear to be structured to grant greater power to employers over employees in the interest of protecting foreign direct investment and other neoliberal economic policies. For example, prior to the latest round of proposed amendments to the TUA, the Act prohibited multi-industry or general labour unions and granted total discretion over the registration of unions to the Director General for Industrial Relations, two policies which form an unbroken link to colonial-era restrictions on the labour movement. The IRA similarly grants significant power to the government to curtail union activities and the right to legally strike is severely limited with significant penalties for those who participate in or support “illegal” strikes. While anti-union activity is expressly prohibited under these laws, regulatory bodies tend to enforce restrictions on union leadership (e.g. by closely monitoring recruitment practices for any sign of coercion, which is prohibited in all forms) more often than they do on employers, echoing colonial crackdowns on union leadership for trumped-up charges of “intimidation” as a tactic for weeding out progressive leadership.⁴²

Aside from serving as the source of modern neoliberal economic priorities and restrictive legislation, British colonial rule also created a socio-political environment prohibitive to the development of Malaysian trade unionism which persists today. Workers continue to fear being perceived as “too radical” by the state and their employers for participating in union activities, a label which was reinforced by British anti-Communist rhetoric during the Emergency (1948-1960) and the pacification of trade union leadership through the practices and directives of TUAM Brazier. These have contributed to the widespread perception of unions as being ineffective which continues to deter union membership today.⁴³ Additionally, most contemporary unions are restricted to in-house activities and are too small to hold real power in the workplace, a status which stems from the concerted British effort to disband larger unions and prevent the development of a general labour movement.⁴⁴ Without a national tradition of unionism, the fragmented and highly-regulated entities that comprise the Malaysian organised labour movement today lack a well-developed socio-political infrastructure to guide their development even if explicit legislative restrictions on unions were to be removed in the near future.

The establishment of an institutionalised wage bargaining system may help to alleviate some of the power imbalance which favours employers over employees in the determination of wages, but even the most comprehensive system will fail to adequately guarantee workers’ welfare if the unions at the bargaining table are maintained in a systematic state of weakness. Future research on wage bargaining structures will thus require simultaneous analysis on the best ways to create an active and effective labour movement for Malaysia.

⁴² Kumar et al. (2013); Ramasamy (2008)

⁴³ Raduan Che Rose et al. (2010); Kumar et al. (2013)

⁴⁴ Ramasamy (2008)

4. Institutionalised Wage Bargaining Systems

4.1. Definition

This paper defines an **institutionalised wage bargaining (IWB) system** as any set of formal mechanisms which facilitates interaction between workers and employers in order to reach collective agreements regarding wages, benefits and working conditions. To enable comparative analysis of IWBs in a diverse set of countries, wage bargaining mechanisms are categorised as belonging to one of three main IWB features: centralisation, coordination and inclusivity. These features are explained in detail in the following sub-section.

4.2. Features of institutionalised wage bargaining systems

Table 3 Effect of mechanisms on features of collective bargaining

Feature	Mechanism	Effect on Feature
Centralisation	Levels of collective bargaining	Increase
Centralisation	Favourability	Increase
Centralisation	Additional enterprise bargaining	Decrease
Centralisation	Opening clauses	Decrease
Coordination	Statutory minimum wage	Increase
Coordination	Price indexation	Increase
Coordination	Wage-setting norms	Increase
Coordination	Pattern-setting	Increase
Inclusivity	Extension procedures	Increase
Inclusivity	Dualism	Decrease

Source: author's characterisations.

Centralisation

Centralisation is defined as the degree to which bargaining outcomes are decided and respected at multi-employer levels.⁴⁵ Mechanisms of centralisation,⁴⁶ which determine the degree of unity within bargaining units, include the following:

- **Levels of collective bargaining.** This mechanism refers to the predominant level at which wage negotiations take place in a country, from individual enterprises, to industry-wide, to national (cross-industry). Centralisation increases as the level of collective bargaining climbs from enterprise to national.
- **Favourability** refers to the order of collective agreements made at different bargaining levels in terms of precedence, such that any additional agreements must offer more

⁴⁵ Derived from Howell and Kalleberg (2022), p. 1

⁴⁶ All of the below comprise the variable *Central*, a summary index of the degree of centralisation of collective bargaining, in the OECD and AIAS database. Definitions are derived from the Codebook and Glossary entries in OECD and AIAS (2021).

favourable terms. Centralisation increases as higher-level agreements (e.g. industry-wide) take precedence over those made at lower levels (e.g. individual enterprise).

- **Additional enterprise bargaining** occurs when terms set in industry-level or national agreements are renegotiated at the enterprise level. A higher incidence of additional enterprise bargaining reduces centralisation within an IWB.
- **Opening clauses** in industry-level agreements allow for derogation, or the offering of less favourable terms, at the enterprise level. A higher incidence and application of opening clauses reduces centralisation.

Coordination

Coordination is defined as the extent to which wage negotiations are coordinated across the actors within an economy and include broader economic considerations.⁴⁷ Mechanisms of coordination,⁴⁸ which link outcomes across all actors in the economic system, include the following:

- **Statutory minimum wage.** The existence and enforcement of a national minimum wage (or set of regional wages) as established by law or other binding legal provisions increases coordination within an IWB.
- **Price indexation** occurs when wage increases are automatically linked to changes in an official price index, such as the Consumer Price Index (CPI). Coordination increases with the existence of formal price indexation.
- **Wage-setting norms** are binding norms or guidelines on wage increases issued by the government, a tripartite commission, or any other central authority within a country. Coordination increases as wage-setting norms become stricter.
- **Pattern-setting** occurs when wage negotiations begin in one (often industry-level) bargaining unit and are then repeated by other units who orientate their own negotiations towards the leading industry's settlement. The existence of pattern-setting increases coordination within an IWB.

Inclusivity

Inclusivity is defined as the extent to which formal mechanisms extend the terms and gains of collective bargaining to non-unionised and/or non-regular workers.⁴⁹ Elements of inclusivity include the following:

- **Extension procedures.**⁵⁰ These formal provisions make a collective agreement binding for all employees and employers within its usual field of application (e.g. entire industry),

⁴⁷ Derived from Howell (2021), p. 9

⁴⁸ All of the below are elements articulated in the "Wage Coordination" set of "Core variables" in the OECD and AIAS database. Definitions are derived from the Codebook and Glossary entries in OECD and AIAS (2021)

⁴⁹ Derived from Applebaum et al. (2010), p. 7

⁵⁰ Definition is derived from the Codebook and Glossary entries for variable *Ext* in OECD and AIAS (2021)

regardless of an individual firm’s unionisation status. The existence of extension procedures, whether by law, constitution, or decree, increases inclusivity within an IWB.

- **Dualism**⁵¹ refers to a phenomenon within a country’s industrial relations wherein labour market insiders (often local, permanent, middle-aged and male workers) are protected by legislation and union activities at the expense of outsiders (including migrant, temporary, youth or elderly and female workers). Increasing dualism reduces inclusivity within an IWB.

It is possible for an IWB system to display high, moderate, or weak levels of each feature in various combinations. The following section examines bargaining power, wage and employment outcomes across a set of countries that display different combinations of the three features defined above.

5. Global Case Studies

Table 4 Comparative characterisations of global case study countries

	Union Density	Collective Bargaining Coverage	Centralisation	Coordination	Inclusivity	Low Pay Incidence	Unemployment Rate
Belgium	50	96	High	High	High	9.2	6.0
Italy	32.6	99	High	Weak	High	3.7	10.6
Germany	16.5	54.3	Moderate	High	Weak	17.8	3.4
Japan	17	16.9	Weak	High	Weak	12.1	2.5
South Korea	12.5	14.5	Weak	Weak	Weak	19	3.8
UK	23.2	26	Weak	Weak	Weak	19	4.0
Singapore	21.9	18.1	Moderate	Moderate	Moderate	30	3.1
Malaysia	8.7	0.4	Weak	Weak	Weak	28.3	3.3

Source: ILOSTAT (2018) and author’s characterisations. See Appendix tables 1b-d and Appendix 3 for an explanation.

This section compares bargaining power, IWB features, and wage and employment outcomes in Malaysia with those in seven European and Asian countries: Belgium, Germany, Italy, Japan, Singapore, South Korea and the United Kingdom. Descriptions of IWB features and outcomes in each country, summarised briefly in the table above, are given in the following sub-sections.

5.1. Belgium

Belgium demonstrates a strong IWB system across all three features, with correspondingly high levels of bargaining power and low levels of wage inequality while also maintaining low unemployment.

⁵¹ Definition is derived from Applebaum et al. (2010), Carver (2021). Pulignano et al. (2015) employ the term “dualisation” to refer to the same phenomenon; we elected to use dualism for simplicity and to reflect an understanding of this as a structural feature of an IWB system as opposed to a passing trend.

Centralisation

The IWB system in Belgium is **highly centralised**. Wage bargaining predominantly occurs at the industry and national levels, with some industry agreements that deviate from national agreements and enterprise agreements that deviate from industry-level ones. By law, lower-level agreements must offer more favourable terms than higher-level precedents; however, derogation — the possibility to deviate from higher level collective agreements and set less favourable terms for workers — is permitted under a few defined conditions. Additional enterprise bargaining occurs primarily in large firms and opening clauses in industry-level agreements permit only the renegotiation of non-wage issues at the enterprise level.⁵²

Industry-level bargaining in Belgium occurs within Joint Committees, permanent bodies comprised of both employers' associations and trade unions. These Joint Committees are responsible for setting industry-wide minimum wages and are primarily divided by representation of blue and white-collar workers.⁵³ In blue-collar work, terms negotiated at the industry level are typically maintained, with enterprise-level renegotiation more common in white-collar work.⁵⁴

Overall, roughly 75% of workers in Belgium are paid wages that were determined solely through industry-level agreements, with the other 25% experiencing some degree of wage renegotiation at the enterprise level.⁵⁵ Wage increases decided at the industry level are, on average, fully passed on to actual wages and local specifications (e.g. productivity and cost of living differentials) are also taken into account to some extent.⁵⁶

While industry-level agreements — and in particular, industry minimum wages — are largely respected, higher decentralisation in Joint Committees and increased incidence of additional enterprise bargaining allows for greater reflection of regional productivity and other specificities in wages,⁵⁷ as well as greater responsiveness of wages to firm-level profits.⁵⁸ Additional enterprise bargaining in Belgium may be considered primarily a tool for rent-sharing when competition in the product market is low. The addition of enterprise-level agreements increases both wage costs and labour productivity, with a wage premium of 4-5% and a productivity premium of 2%. Although this may appear to be detrimental to productivity, this effect mainly holds when competition in the firms' product market is weaker and rent-sharing is higher, meaning that firms can meet these additional wage costs from above-normal profits. In industries where competition is fiercer, the wage premium associated with enterprise-level bargaining primarily originates from higher productivity levels. In this way, both workers and employers benefit from additional enterprise bargaining in the Belgian context.⁵⁹

⁵² OECD and AIAS (2021)

⁵³ ctd. in Rusinek and Tojerow (2014)

⁵⁴ ctd. in Rusinek and Rycx (2013)

⁵⁵ ctd. in Rusinek and Tojerow (2014)

⁵⁶ Novella and Sissoko (2012)

⁵⁷ Rusinek and Tojerow (2014)

⁵⁸ Rusinek and Rycx (2013)

⁵⁹ Garnero (2021), Garnero et al. (2020)

Coordination

The IWB system in Belgium is **highly coordinated**. A statutory minimum wage rate covers most workers and government-sponsored bargaining results in nationwide binding norms regarding maximum and minimum wage rate increases.⁶⁰ Additionally, an automatic price indexation mechanism links gross wages to changes in consumer prices, creating a practical floor for wage increases. This is complemented by a “wage norm” or “wage margin” which sets an overall maximum margin for wage increases every other year for a two-year period based on the weighted average of expected increases in neighbouring Germany, Netherlands and France.⁶¹

Relatively strict coordination in Belgium, including a high minimum wage floor and a set norm for wage increases, has not reduced the competitive ability of firms and has still allowed for some degree of flexibility within boundaries.⁶² Furthermore, strong coordination of wage targets is associated with better employment outcomes and lower wage inequalities in Belgium and neighbouring countries such as Germany.⁶³

Inclusivity

The IWB system in Belgium is **highly inclusive**. Extension of collective bargaining agreements is virtually automatic.⁶⁴ Collective agreements are automatically binding upon signatory organisations by law, including future employer parties and non-unionised workers, and industry-level agreements apply compulsorily to all enterprises and workers in the industry according to Royal Decree.⁶⁵ Additionally, temporary agency workers are legally covered by industry-level collective bargaining.⁶⁶ As a result, Belgium performs well on assessments of inclusivity for temporary agency workers along what has been described as the “Northern path” to inclusivity, which features high collective bargaining coverage, high union authority and high union density.⁶⁷

Mandatory extension of industry-level agreements to all workers within the industry, including temporary agency workers, helped to prevent the development of an insider-outsider dynamic (“dualisation”) in the labour market following the 2009 recession. Extension procedures have also protected wages for temporary agency and migrant workers, especially as compared to the peer economy of Germany,⁶⁸ and has kept the incidence of low-paying work low in Belgium.⁶⁹

⁶⁰ OECD and AIAS (2021)

⁶¹ ctd. in Rusinek and Tojerow (2014)

⁶² Garnero et al. (2020)

⁶³ Garnero (2021)

⁶⁴ OECD and AIAS (2021)

⁶⁵ ctd. in Rusinek and Tojerow (2014)

⁶⁶ Pulignano et al. (2015)

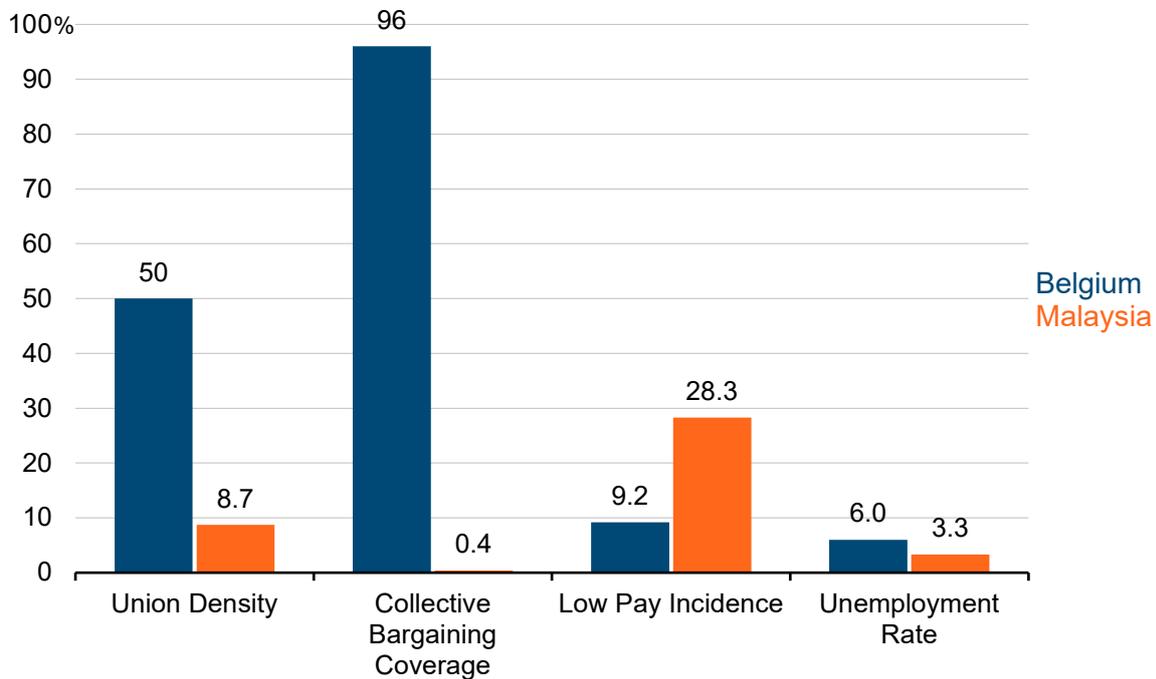
⁶⁷ Benassi and Vlandas (2016)

⁶⁸ Pulignano et al. (2015)

⁶⁹ Bosch (2015)

Analysis

Figure 7 Bargaining power, inequality and employment indicators in Belgium and Malaysia



Source: ILOSTAT (2018)

Due to institutional support for the labour movement, bargaining power in Belgium is much higher than in Malaysia. Union density is nearly five times greater in Belgium than Malaysia (50% vs. 8.7%) and collective bargaining coverage is substantially greater as well (96% vs. 0.4%). Additionally, unlike in Malaysia, collective bargaining coverage in Belgium is higher than union density due to extension procedures which allow the terms of collective agreements to apply beyond union members, resulting in near-total coverage of the workforce.

As a result, wage suppression is lower in Belgium than in Malaysia. The incidence of low pay in Belgium is less than half that in Malaysia (9.2% vs. 28.3%). At the same time, unemployment in both countries is relatively low (6.0% in Belgium vs. 3.3% in Malaysia).

Bargaining at a level higher than individual enterprises is a key part of these successful outcomes, while clear minimum wages and maximum wage rate increases allow for flexibility within parameters that secure decent work and extend to protect non-regular workers. Due to strict favourability clauses, the addition of enterprise-level bargaining improves upon industry-level agreements rather than introducing derogation, increasing both wages and productivity while also creating a mechanism for sensitivity to regional specificities. Furthermore, strong coordination of wage targets increases the ability of the entire system to adjust to macroeconomic shocks, including major recessions, and the high density of both employers' and employees' organisations means that negotiated agreements are widely followed. For these reasons, the Belgian IWB system may be considered one of the strongest in the world.

5.2. Italy and Germany

Italy and Germany demonstrate how varying levels of IWB features may be combined to produce different wage and employment outcomes, resulting in either hyper-rigidity or the abuse of flexibility within a system.

Centralisation

The IWB system in Italy is **highly centralised**. Wage bargaining predominantly takes place at the national and industry levels and additional bargaining at the enterprise level is rare.⁷⁰ In 2016, contractual earnings determined by national-level wage agreements accounted for over 88% of the national accounts total gross earnings.⁷¹ By law, lower-level agreements must respect the terms set at higher levels, although derogation is possible under specific conditions.⁷² Recent legal pushes to introduce enterprise-level flexibility, including the Jobs Act of 2015, have been countered by the re-assertion of collective bargaining power through national agreements.⁷³

By comparison, the IWB system in Germany is **moderately centralised**. Wage bargaining predominantly takes place at the industry level and additional enterprise bargaining is rare, with derogation from higher-level agreements permitted only under defined conditions.⁷⁴ However, opening clauses — which permit the renegotiation of contractual wages at the enterprise level in cases of crisis or economic hardship — are used extensively (employed by roughly 21% of all enterprises in Germany), even when the hardship stipulations do not apply. Indeed, in one 2018 survey, nearly 13% of establishments practiced derogation from industry-level agreements without providing a financial justification. As a result, opening clauses and opt-out clauses — which allow enterprises to postpone or cancel parts of the industry-level agreement for hardship reasons or due to their status as small or medium-sized enterprises (SMEs) — are increasingly being used as general instrument to increase the competitiveness of individual enterprises. These clauses often break with the legal favourability principle which typically mandates respect of higher-level agreements. Accordingly, the IWB system in Germany has been described as a system of “organised decentralisation”⁷⁵ with a tendency towards “institutional erosion.”⁷⁶

However, strong works councils — which are mandatory in establishments with at least five full-time employees — have helped to prevent the complete collapse of multi-employer bargaining, as was observed in the United Kingdom.⁷⁷ Indeed, the role of works councils in Germany should not be dismissed, as its IWB system is often characterised as a “dual” setup wherein wages are negotiated at the industry level and production issues or personnel affairs are negotiated through works councils at the enterprise level. Furthermore, the presence of works councils greatly

⁷⁰ OECD and AIAS (2021)

⁷¹ D’Amuri and Nizzi (2017)

⁷² OECD and AIAS (2021)

⁷³ Recchia (2017)

⁷⁴ OECD and AIAS (2021)

⁷⁵ Ibsen & Keune (2018)

⁷⁶ Addison et al. (2017)

⁷⁷ Bosch (2015)

shrinks the wage reduction associated with the application of opening clauses (from -8.2% to -1.6%).⁷⁸

Coordination

The Italian IWB system is **weakly coordinated**. There is no statutory minimum wage covering all or most workers in Italy. Furthermore, it is up to the discretion of a judge as to whether a given wage meets the sufficiency parameters outlined in Article 36 in the Constitution.⁷⁹ Coordination on wages occurs largely through non-binding procedural negotiation guidelines issued by the national union and employers' associations,⁸⁰ including the establishment of *livelli di inquadramento* (job titles defined by nationwide industry-level collective bargaining, for which specific minimum wages apply).⁸¹ Per the 2009 national framework agreement, a harmonised index of consumer prices (HICP) is used as a benchmark to decide industry-level wage increases over three-year horizons,⁸² and enterprise-level increases are linked to productivity and worker performance. However, fixed-wage increases at the enterprise level are applied roughly one-fifth of the time in breach of the national directive to increase wages according to productivity, lowering effective coordination.⁸³ Thus, in Italy, voluntarism — a reliance on voluntary, minimally-regulated participation in union activities — prevails, as opposed to binding or state-led coordination.⁸⁴ The hyper-rigidity of the Italian IWB system, combined with minimal formal guidance on adjustment to macroeconomic conditions, thus lowers coordination among actors in the system.

Conversely, the IWB system in Germany is **highly coordinated**. A statutory minimum wage, which was introduced in 2015 due to the growing spread of low-paying work, covers most workers in the country. Non-binding norms regarding wage increases are issued through a process of extensive and regularised pattern-setting, in which agreements set by high-authority metalworking unions in key regions set norms towards which other units orientate their settlements.⁸⁵ Additionally, a tripartite wage commission comprised of representatives from workers' unions, employers' associations and the government recommends increases in the minimum wage every two years.⁸⁶ However, declining bargaining coverage in most industries other than metalworking has eroded the institutional foundation for strong cross-industry coordination and differences in wages across industries have widened along lines of bargaining coverage, where wages in low-coverage industries like services are much lower than those in high-coverage sectors like manufacturing.⁸⁷

⁷⁸ Ellguth et al. (2017)

⁷⁹ D'Amuri and Nizzi (2017)

⁸⁰ OECD and AIAS (2021)

⁸¹ Devicienti et al. (2019)

⁸² D'Amuri and Nizzi (2017)

⁸³ Tomassetti (2017)

⁸⁴ ctd. in López-Andreu (2019)

⁸⁵ ctd. in Ibsen and Keune (2018); OECD and AIAS (2021)

⁸⁶ Bosch (2015)

⁸⁷ ctd. in Ibsen and Keune (2018)

Inclusivity

The IWB system in Italy is **highly inclusive**. Extension of collective agreements is virtually automatic and more or less general per the Constitution,⁸⁸ and occupation-specific minimum wages for *livelli di inquadramento* (job titles defined through collective agreements) extend to all workers regardless of union membership.⁸⁹ Additionally, three union confederations created unions for non-regular workers at the end of the 1990s in order to promote the principle of equal pay,⁹⁰ and recent nationwide agreements extend union rights to “self-employed” workers that are coordinated by an employer.⁹¹ As a result, Italy performs well on assessments of inclusivity for temporary agency workers along what has been described as the “Southern path” to inclusivity, wherein central unions set homogeneous standards which do not serve particularistic membership interests, the law provides a general framework for inclusivity and union bargaining strategies are driven by working-class orientation and the ideal of working-class unity.⁹²

Conversely, the German IWB system is **weakly inclusive**. Extension procedures are uncommon in Germany,⁹³ and temporary agency workers are not legally covered by industry-level collective bargaining. As a result, temporary agency workers often turn to fringe unions for representation. By the end of the 2000s roughly one-third of temporary agency workers were covered by separate fringe agreements, with their negotiated wages about 30% lower than those determined in comparable industry-level agreements for standard workers.⁹⁴ Accordingly, Germany is considered exclusionary towards temporary agency workers,⁹⁵ with an attitude towards migrant labour that has been described as “welfare chauvinism.” Even though policies of German unions have become significantly more inclusive of migrant workers since the 2009 economic crisis, the tendency towards dualism (which refers to a dynamic of security for labour market insiders and precarity for outsiders) has increased nonetheless due to weaker enforcement of the minimum wage and sectoral agreements, and less comprehensive welfare programs in comparison to more-inclusive states such as Belgium and Italy.⁹⁶

⁸⁸ OECD and AIAS (2021)

⁸⁹ Devicienti et al. (2019)

⁹⁰ Benassi (2016)

⁹¹ ctd. in Recchia (2017)

⁹² Benassi and Vlandas (2016)

⁹³ OECD and AIAS (2021)

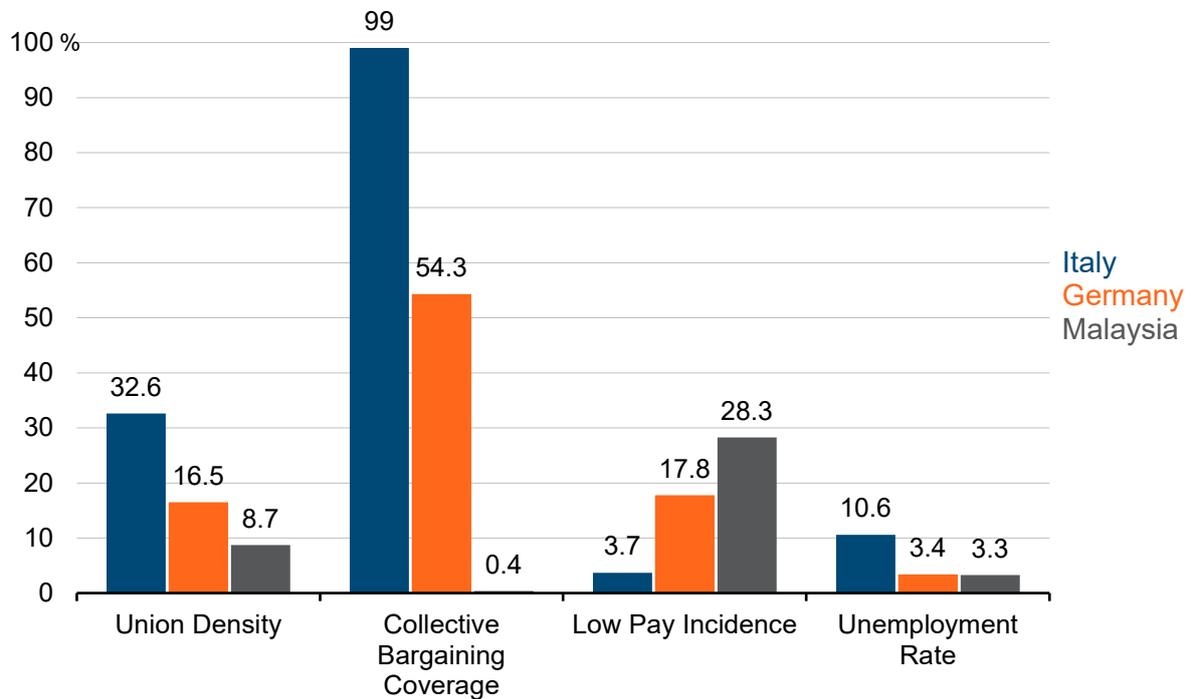
⁹⁴ ctd. in Pulignano et al. (2015)

⁹⁵ Benassi and Vlandas (2016)

⁹⁶ Pulignano et al. (2015)

Analysis

Figure 8 Bargaining power, inequality and employment indicators in Italy, Germany and Malaysia



Source: ILOSTAT (2018)

Bargaining power is higher in both Italy and Germany than in Malaysia. In particular, Italy features near-total coverage of the workforce by collective bargaining agreements (99%) as extension procedures expand the coverage of these agreements beyond the 32.6% of workers that belong to unions. Union density (16.5%) and collective bargaining coverage (54.3%) are lower in Germany, but still higher than the OECD average values and notably higher than in Malaysia.

The low pay incidence in Germany, although lower than in Malaysia, is over 14 percentage points higher than in Italy. The abuse of opening and opt-out clauses in a system of hyper-flexible “organised decentralisation,” combined with a lack of inclusion for temporary agency workers and an insider-outsider divide in the labour movement, contributes to a higher incidence of low pay in Germany. Conversely, a strong labour movement ideology and strict wage norms determined through industry-level bargaining prevent the proliferation of low-paying work in Italy, even among non-regular workers.

However, while the low pay incidence in Italy is notably low, the unemployment rate is over 10%, nearly three times the unemployment rate in Germany (3.4%) and Malaysia (3.3%). This value nearly triples for youth ages 15-24 (32.3% unemployment rate).⁹⁷ Wage-setting institutions in Italy impose strong wage rigidities, such that in recent years, nominal wage growth has outpaced

⁹⁷ ILOSTAT (2022)

productivity and reduced competitiveness. Inflexible industry-level bargaining paired with low coordination has also made the Italian IWB system ill-equipped to adjust to macroeconomic shocks and internalise negative wage externalities.⁹⁸ Lower-productivity regions, such as Southern Italy, experience higher unemployment rates than lower-productivity regions in countries with greater wage flexibility, such as Germany, resulting in a high overall unemployment rate that disproportionately impacts young workers.⁹⁹

In demonstrating contrasting degrees of centralisation, coordination and inclusivity, the IWB systems in Italy and Germany thus caution against too much rigidity or flexibility within wage-setting institutions, as the former may lead to unemployment whereas the latter contributes to the proliferation of low pay work.

5.3. Japan and South Korea

Japan and South Korea, two leading Asian economies, demonstrate that prioritising internal stability within an IWB system may come at the expense of protection for non-regular workers.

Centralisation

The IWB system in Japan is **weakly centralised**. Bargaining predominantly takes place at the enterprise level,¹⁰⁰ and over 90% of trade unions in Japan are enterprise-based.¹⁰¹ Unionism is also particularly weak among small enterprises in Japan, with union membership accounting for only 0.5% of workers in enterprises employing less than 30 workers.¹⁰² The inability of enterprise-level unions to defend against cost-cutting strategies by management meant that nearly all dimensions of the wage norm were violated after the 1980s, leading to increased wage dispersion within Japan.¹⁰³

The IWB system in South Korea demonstrates a similar degree of **weak centralisation**. As in Japan, bargaining predominantly occurs at the enterprise level and unionisation is much more common in large firms than in SMEs.¹⁰⁴ Involvement in employers' associations is also low.¹⁰⁵ Because of weak unionism, the annual wage growth rate under a regime of enterprise-level bargaining was negative in 1998 following the Asian Financial Crisis,¹⁰⁶ and reductions in the incidence of low-pay work as a result of collective bargaining in last decade of the 20th century were almost entirely wiped out following a decline in South Korean trade union density and collective bargaining coverage during the first decade of the 21st century.¹⁰⁷

⁹⁸ ctd. in Kangur (2018)

⁹⁹ Boeri et al. (2021)

¹⁰⁰ OECD and AIAS (2021)

¹⁰¹ ctd. in Ishii (2018)

¹⁰² ctd. in Katz (2018)

¹⁰³ Herr (2015)

¹⁰⁴ Klaveren *ibid.*

¹⁰⁵ Hwang and Lee (2012)

¹⁰⁶ ctd. in Jeong (2001)

¹⁰⁷ Hwang and Lee (2012)

However, there are some cases of success in industry-level wage bargaining in South Korea. In the 1990s, industry-wide unions succeeded in the auto transport, textile, seafaring and port work industries due to employers' voluntary choice to build strong employers' associations, conditions which promoted occupational solidarity and workplace homogeneity, and government encouragement of bargaining as a way to promote industrial peace in key industries during their embryonic phases.¹⁰⁸ The case of South Korea thus helps to highlight factors which allow for industry-level bargaining to succeed in a landscape dominated by enterprise-level unionism.

Coordination

The Japanese IWB system is **highly coordinated**. Statutory regional minimum wages cover most employees in the country. Japan also demonstrates strong intercompany and interindustry pattern bargaining. The *Shunto* system of springtime wage negotiations, in which bargaining rounds are formally set up by the government, begins with negotiations in the metalworking industry which then influence agreements made by metalworking enterprise unions as well as unions belonging to other industries. Other key players in the *Shunto* system of coordination include large enterprise unions in export-oriented industries and peak-level federations like the national federation of private sector unions (RENGO), which serves as a source of guidance for affiliated unions.¹⁰⁹ The *Shunto* system has also introduced some positive wage spillover effects by allowing workers in unorganised SMEs to share the gains of rapid economic growth in key industries.¹¹⁰ Furthermore, there is strong coordination among Japanese employers' associations, which is strengthened by close networks between enterprises and the large private industrial and financial conglomerates known today as *keiretsu* groups.¹¹¹

Conversely, the IWB system in South Korea is **weakly coordinated**. A statutory minimum wage covering most employees in the country serves as the extent of government wage-setting coordination.¹¹² In contrast to the *keiretsu* groups in Japan, employers in South Korean *chaebol* industrial conglomerates resisted the imposition of government coordination mechanisms that would designate them as pattern-setters, as they preferred to maintain industrial peace within their own workplaces and not aggravate militant *chaebol* unions.¹¹³

Inclusivity

The Japanese IWB system is **weakly inclusive**. There are no legal provisions for the extension of bargaining coverage,¹¹⁴ and non-regular employees — which accounted for roughly 40% of the total workforce in 2015¹¹⁵ — are often excluded by statute from union membership. Given this lack of inclusion, the growth of non-regular employment in recent years has negatively impacted

¹⁰⁸ Jeong (2001)

¹⁰⁹ Herr (2015)

¹¹⁰ ctd. in Song (2012)

¹¹¹ Herr (2015)

¹¹² OECD and AIAS (2021)

¹¹³ Song (2012)

¹¹⁴ OECD and AIAS (2021)

¹¹⁵ ctd. in Ishii (2018)

union density,¹¹⁶ and the competitive strategy of subcontracting to temporary agency workers has likewise eroded bargaining power in Japan.¹¹⁷ The labour movement in Japan also exhibits a tendency towards insider protection and outsider precarity known as dualism. For example, following the 1997 Asian Financial Crisis, large firms, core regular workers (e.g. male breadwinners) and the government jointly crafted labour market reforms which protected labour market insiders and deregulated temporary employment in the 2003 revision to the Worker Dispatch Law. Because of dualistic strategies that promoted both subcontracting and deregulation of temporary agency work, the number of temporary agency workers in Japan quadrupled from 2003 to 2008. Between October 2008 and June 2009, 60% of laid-off workers were temporary agency workers from the manufacturing sector alone. Thus, employment protection for insiders was maintained through labour market reforms that compromised employment security for outsiders, who became exposed to a much higher risk of unemployment & low wages.¹¹⁸

Similarly, the IWB system in South Korea is **weakly inclusive**. There are no legal provisions for the extension of bargaining coverage,¹¹⁹ and large *chaebol* unions have historically opposed labour market reforms that would induce insider layoffs and expand social protections for outsiders. In the face of fierce insider protection by *chaebol* unions, employers have increasingly turned to precarious subcontracting schemes.¹²⁰ As a result, non-regular and low-wage workers have failed to benefit from wage increases despite a growth in national productivity; these workers also tend to be concentrated in SMEs.¹²¹ In turn, this has reduced relative labour productivity for SMEs and increased wage dispersion in South Korea.¹²²

¹¹⁶ Herr (2015)

¹¹⁷ ctd. in Song (2012)

¹¹⁸ Ibid.

¹¹⁹ OECD and AIAS (2021)

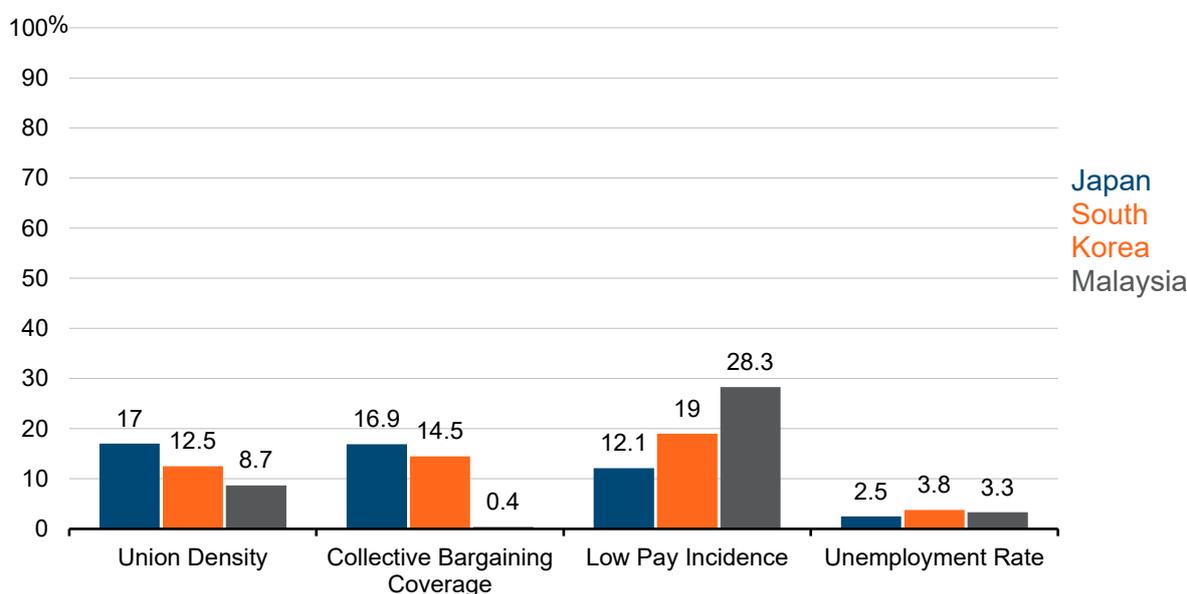
¹²⁰ Song (2012)

¹²¹ Klaveren (2015)

¹²² Song (2012)

Analysis

Figure 9 Bargaining power, inequality and employment indicators in Japan, South Korea and Malaysia



Source: ILOSTAT

Bargaining power is slightly higher in both Japan and South Korea than in Malaysia and the unemployment rate in all three countries is low due to economic strategies which prioritise industrial production. However, while Japan and South Korea's low pay incidence is lower than Malaysia's, it is still higher than countries such as Belgium and Italy and comparable to Germany's elevated level. The precarity of non-regular workers under a dualist system of industrial relations is revealed by the difference between men's and women's shares of low-paying work. Women's share of low-paying work is over three times higher than that of men in Japan and two and a half times higher than men's in Korea.¹²³ Low inclusivity within an IWB system, combined with minimum wages too low to meaningfully defray low-paying work¹²⁴, and enterprise-level unions too small to resist employers' cost-cutting strategies, may in turn contribute to increasing levels of low-pay work within a country.

5.4. United Kingdom and Singapore

The IWB systems in the United Kingdom (UK) and Singapore demonstrate how industrial relations policies within the Commonwealth have evolved since the colonial era, resulting in either a deliberate policy of weakening unions and wage-setting institutions, or near-total government control of the labour movement.

¹²³ Calculations using values from ILOSTAT (2022).

¹²⁴ For Japan, see Herr (2015); for South Korea, see Hwang and Lee (2012).

Centralisation

The IWB system in the United Kingdom is **weakly centralised**. Bargaining predominantly takes place at the enterprise level.¹²⁵ Following the enactment of legislation in the 1980s and early 1990s that limited trade unions' scope of action, trade union density decreased along with an increase in wage inequality. The encouragement of in-house unions meant that multi-employer organisations increasingly became “pay-and-conditions information agencies” rather than bargaining units. In contemporary times, less than 2% of private sector workers have wages set through multi-employer agreements.¹²⁶

While the current status of centralisation in the Malaysian IWB system mirrors that of the United Kingdom, Singapore exhibits **moderate centralisation**. Bargaining takes place at both the enterprise and industry level and most unions are affiliated with the National Trade Union Confederation (NTUC), a prominent labour organisation whose Secretaries-General often become part of the government executive team on labour.¹²⁷ Government involvement thus aids centralisation in Singapore, whereas government action has eroded centralisation in the United Kingdom and Malaysia.

Coordination

The IWB system in the United Kingdom is **weakly coordinated**. Although a statutory minimum wage rate covers most employees, it has been routinely criticised for failing to provide satisfactory living standards.¹²⁸ Additionally, in industries with low bargaining power (e.g. retail), the minimum wage has exerted a downward pull on wages.¹²⁹ Nonetheless, there is some degree of coordination through pattern bargaining by major companies.¹³⁰

By contrast, the Singaporean IWB system is **moderately coordinated**. Although there is no statutory minimum wage, the Progressive Wage Model (PWM) sets a basic minimum wage by sector that increases as one climbs up the skills ladder.¹³¹ In 2014, following enforcement of the Progressive Wage Model, the incidence of low-paying work in Singapore began to decline.¹³² Additionally, the tripartite National Wages Council (NWC) — which involves the NTUC, the Singapore National Employers Federation and the government — coordinates wages by setting a rate of wage increase that is compatible with macroeconomic targets. Wage norms set by the NWC have also historically complemented Singapore's exchange-rate policy, which is controlled by the Monetary Authority of Singapore.¹³³ Such recommendations are non-binding, but nearly all parties in the private and public sectors, from enterprise-level unions to the Industrial Arbitration

¹²⁵ OECD and AIAS (2021)

¹²⁶ Waddington (2019)

¹²⁷ Kee and Hoon (2005)

¹²⁸ Waddington (2019)

¹²⁹ Bosch (2015)

¹³⁰ OECD and AIAS (2021)

¹³¹ ctd. in Ng et al. (2018)

¹³² Ibid.

¹³³ ctd. in Wu et al. (2004)

Court, typically operate according to NWC guidelines.¹³⁴ As a result, wage drift — the difference between negotiated wages and actual wage increases — is relatively small in Singapore due to strong coordination, which stands in sharp contrast to large wage drifts in European countries.¹³⁵

Inclusivity

The IWB system in the United Kingdom is **weakly inclusive**. There are no legal provisions for the extension of bargaining coverage,¹³⁶ and collective agreements in the UK are not legally enforceable unless the terms are incorporated into individual employment contracts.¹³⁷ The United Kingdom is also considered exclusionary towards temporary agency workers.¹³⁸ Because of a lack of protection for non-regular workers, immigrants make up an increasingly disproportionate amount of the low-wage workforce, accounting for only 4-6% of the national labour force but over 20% of the low-wage workforce in the early 2000s.¹³⁹

Conversely, the IWB system in Singapore is **moderately inclusive**. As an integral part of the NWC, unions often speak for workers when balancing priorities of real wage growth against unemployment, and the resulting collective bargaining agreements often extend to non-union workers as well, although not by explicit legal provisions.¹⁴⁰ Additionally, the General Branch Union set up under the NTUC allows workers at firms without unions, unemployed persons and students to access union facilities and other benefits. These benefits create a broadly positive perception of unionism and encourage non-unionised workers to eventually join unions, mitigating the free rider problem.¹⁴¹

¹³⁴ Chew (2014)

¹³⁵ ctd. in Wu et al. (2004)

¹³⁶ OECD and AIAS (2021)

¹³⁷ ctd. in Arnholtz et al. (2018)

¹³⁸ Benassi and Vlandas (2016)

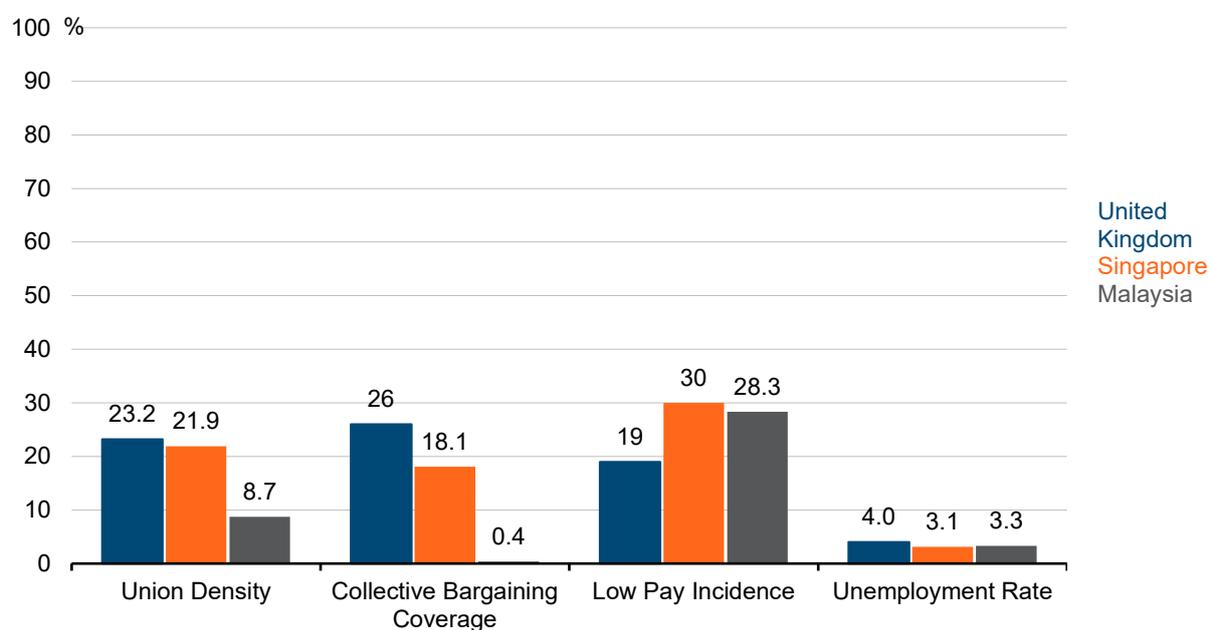
¹³⁹ ctd. in Applebaum et al. (2010)

¹⁴⁰ Wu et al. (2004)

¹⁴¹ Chew (2014)

Analysis

Figure 10 Bargaining power, inequality and employment indicators in the United Kingdom, Singapore and Malaysia



Source: ILOSTAT

Malaysia shares many of the weaknesses in centralisation, coordination and inclusivity that are present in the IWB system of the United Kingdom, particularly following parallel courses of government deregulation in the 1980s. At face value, Singapore appears to have taken a different course, with a union density that is more than double that of Malaysia and a collective bargaining coverage rate comparable to that of the United Kingdom. However, Singapore has prioritised employment over wages and there is a lack of sufficiently generous and binding wage norms. Accordingly, migrant workers are exposed to precarious conditions,¹⁴² and Singapore's low pay incidence is higher than that of Malaysia (30.0% versus 28.3%), despite having higher union density and collective bargaining coverage. Furthermore, while the model of macro-focused unionism in partnership with the ruling political party has allowed for successful wage negotiations, the long-term sustainability of the labour movement in Singapore is subject to the maintenance of the present political dispensation. Indeed, the reliance of the Singaporean labour movement on government support and the country's refusal to ratify key labour conventions has elicited the concern of the International Labour Organisation (ILO).¹⁴³

¹⁴² Ng et al. (2018)

¹⁴³ ILO (2008)

In demonstrating contrasting government approaches to curtailing or controlling the influence of unions, the IWB systems in the United Kingdom and Singapore thus caution against strategies that threaten the long-term sustainability of worker bargaining power within a country.

SYNTHESIS & SUMMARY

- **Belgium** excels in all measures of centralisation, coordination and inclusivity; its IWB system features both a high degree of bargaining power and strong wage outcomes without compromising employment outcomes.
- **Italy** and **Germany** exhibit contrasting degrees of flexibility within the European context, cautioning against both hyper-rigidity (which compromises employment outcomes) and poorly-regulated flexibility (which compromises wage outcomes).
- **Japan** and **Korea**, two prominent Asian economies, demonstrate that inclusivity mechanisms are necessary to prevent the development of an insider-outsider dynamic which threatens the wellbeing of non-regular workers.
- The **United Kingdom** and **Singapore** allow us to compare the evolution of IWBs within the Commonwealth and caution against approaches that undermine the ability of unions to operate both effectively and independently.

6. Policy Implications for Malaysia

The review of a cross-section of country cases and related labour market outcomes in the previous section allows us to consider which objectives we should seek to optimise in the Malaysian context and which mechanisms could be tailored to meet those objectives. In the first instance, any IWB system should aim to **improve Malaysia's wage structure and increase well-paying employment**. The wage problems outlined in the introduction serve as the primary impetus for reviewing and assessing IWB models, and any future economic growth trajectory needs to ensure adequate returns to labour in order to be broad-based and inclusive.

Second, we need to **maintain the flexibility of our labour market and its ability to adjust and respond to shocks and emerging opportunities**. An excessively rigid system would stifle the innovative potential of our economy and compromise our critical position in global supply chains. And third, the nature of work has evolved greatly in the last couple of decades and will continue to shift with the advancement of technology and evolving production patterns. Any IWB system in Malaysia will need to **adequately cover parts of the workforce that don't fall into traditional notions of standard employment**¹⁴⁴.

With these three objectives in mind, we set out some preliminary proposals for an IWB system in Malaysia, organised according to the three features (Centralisation, Coordination and Inclusivity) used to categorise and analyse mechanisms employed in the seven case countries. These recommendations have been developed after significant study, deliberation and consultation and we hope to refine these further with additional feedback from the readers of this paper and the wider policy community. The appropriate nodal government agency to realise these proposals, based on existing institutional and statutory arrangements, would be Malaysia's Ministry of Human Resources (MOHR).

Centralisation

We propose that the government sponsor and facilitate wage bargaining at the industrial level, with agreements decided for each industry-region¹⁴⁵. Each industry will set region-specific minimum wage levels for each occupation, scaled according to experience and skills, that would be legally binding on all firms and enterprises belonging to a particular industry.

The emphasis is on ensuring that each occupation within a particular industry has a clear schedule of minimum wage levels determined over the career of that occupation. This schedule can vary according to region, as costs and business realities vary across the country. It should also be public information and made freely accessible.

¹⁴⁴ Hawati Abdul Hamid and Nur Thuraya Sazali (2020)

¹⁴⁵ Some industrial relations entities are already organized according to regions. For example, the Electronic Industries Employees' Unions (EIEU) Coalition is organized into North, South, East and West Regions for Peninsular Malaysia. The National Union of Bank Employees (NUBE) is similarly organized into clusters of states for Peninsular Malaysia.

This would require the formation of tripartite committees for each relevant industrial group, made up of the government, workers' unions and employers' unions, that would set occupation-wise minimum wage schedules according to region. Wage bargaining seasons can be conducted every two years to coincide with the mandated meeting schedule of the National Wage Consultative Council (NWCC) and a two-yearly schedule is commonly adopted across national contexts.

Agreements reached by each industry's committee should take precedence over enterprise-level agreements and there should be minimisation of opening clauses that allow firms to negatively deviate from industry agreements. Improvements on terms should be encouraged, but derogations from industry agreements at the enterprise level should be processed, argued and approved or rejected in Industrial Court. These recommendations are in line with the spirit of Sections 14 and 17 of the Industrial Relations Act (IRA), which stipulate that collective agreements should not offer worse terms than existing employment laws and that negative deviations from collective agreements should be argued in the Industrial Court.

We propose that norms surrounding maximum wages, or maximum wage increments between bargaining rounds, not be an immediate priority for wage bargaining and that the initial emphasis should be placed on determining wage floors. As Malaysia's IWB system matures and gains the stability and effectiveness that is noteworthy in Belgium's, the determination of wage bands can be gradually included in the process.

These proposals, should they be successfully implemented, would place Malaysia at a **moderately centralised** level of Institutionalised Wage Bargaining.

Coordination

It is critical that the Malaysian government positions itself as a fair and impartial arbiter, facilitator and enforcer of wage agreements. There may be lessons from Japan's *Shunto* system, where the government acts as the primary driver for annual springtime wage negotiations. The Malaysian government could similarly devise a fixed schedule for industry-wise negotiations once every two years and thereby ensure that the government machinery is adequately resourced and prepared, and both employers and workers unions are primed for negotiation rounds.

The Malaysian Standard Industrial Classification (2008)¹⁴⁶ attempts to categorise the productive activities of our economy into industrial groups. The list contains 21 industrial sections, comprised of 88 divisions, under which are 238 groups. It would be unrealistic to expect wage negotiations to cover every industrial group from the very beginning due to limited government capacity and the lack of stable procedures and norms for such negotiations in Malaysia. We should expect the first few rounds to be a learning process, where the system is refined, improved and gradually expanded to cover more industrial groups.

In order to maximise the impact of the initial rounds on Malaysia's overall wage structure, it may be advisable to first target industrial groups with the greatest pattern-setting power. Just as

¹⁴⁶ DOS (2008)

Germany's metalworking agreements and Japan's *keiretsu* agreements set patterns for affiliated industries and smaller enterprises along the value chain, a similar targeting of industrial groups with potentially significant knock-on effects on pay patterns in Malaysia could help focus government efforts in the initial stages. For example, Industrial Section C (Manufacturing) is very diverse, ranging from food products to furniture to fabricated metal, and wage negotiation efforts could benefit from targeting manufacturing groups with the greatest number of employees across the value chain and in affiliated groups. The groups within Industrial Section E (Water Supply, Sewage, Waste Management and Remediation Activities), on the other hand, seem to be more internally cohesive and there may be an opportunity to develop a common schedule of occupations and minimum wages that covers most of this industrial section.

The wage schedules developed across industries and regions should incorporate considerations on productivity, differences in the cost of doing business, the financial performance of firms, investment plans, staff skills, training requirements and other related considerations. An unresponsiveness to varying business realities could result in high unemployment which disproportionately affects poorer regions and stunt the dynamism and flexibility of an economy to respond to economic opportunities and shocks, such as is observed in the Italian system. Wage setting for firms with significant product market power could be closely linked to firm financial performance ("rent-splitting"), while wages in more competitive product markets could be more sensitive to performance and productivity metrics; the Belgian system is an instructive example in this regard. Such an approach to wage bargaining would be in line with the spirit of Section 30(4) of the Industrial Relations Act 1967, which states that the Industrial Court should consider the public interest, and financial and economic consequences in its rulings.

The proposals above would position Malaysia's IWB system as **highly coordinated**.

Inclusivity

The case countries in the preceding section discuss national contexts in which the collective bargaining coverage (CBC) rate exceeds unionisation levels. In other words, more workers are covered by collective agreements than are members of unions. The final target of any effective IWB system should be to include as large a portion of the workforce as possible under collective agreements (highest possible CBC rate), regardless of unionisation status. Inclusivity measures are essential towards achieving this target in a country like Malaysia, where union density is extremely low.

Malaysia, in keeping with global economic trends, has experienced an increase in self-employment levels¹⁴⁷. This is due, in part, to rising gig work and the increased prevalence of contract work with the World Bank estimating that the share of self-employed workers in Malaysia was at 25.3% in 2019¹⁴⁸. The provisions of the Employment Act have historically excluded contract workers, and social security coverage has only recently begun to target the self-

¹⁴⁷ KRI (2020b)

¹⁴⁸ Ibid.

employed and those traditionally considered as “outside the labour force”, such as home makers¹⁴⁹.

Critical sectors of Malaysia’s economy are also highly dependent on migrant workers. As of 2020, approximately 43% of low-skilled work and 14% of semi-skilled work was being undertaken by migrants¹⁵⁰. The official number of migrant workers in the country (at least 2 million in 2020) is also widely held to be an underestimate, as many are undocumented¹⁵¹ and suffer from poor working conditions and unsanitary accommodation¹⁵².

These realities in Malaysia’s labour market make inclusivity measures critical towards ensuring the success of an IWB system. The German and Japanese models exhibit a dualisation trend that Malaysia should avoid; agreements that cover “insiders” such as permanent employees are not extended to include contract workers (often made up of immigrants, women, or other marginalised groups), thereby compromising their CBC rate and causing inequity.

We propose that wage agreements should include all contract and migrant workers. Minimum hourly wage rates can be developed for contract workers whose hours don’t equate full-time equivalents. Malaysia’s banking sector is a leader in this regard, as collective agreements between employers and employees include payment terms for part-time workers¹⁵³. Gig workers who work for food delivery or ride hailing platforms should have minimum pay levels determined based on estimates of delivery loads and work hours; this is consistent with an upcoming plan by the government to presume gig workers as employees and to extend to them the provisions of the Employment Act.¹⁵⁴ Tripartite committees at the industrial level should include SMEs involved in the production value chain to ensure that workers in smaller enterprises are adequately covered.

Malaysia’s IWB system should aim to be **highly inclusive** and include all classes and categories of workers within the industries for which wage agreements are concluded. Resisting dualisation and preventing the development of an insider-outsider dynamic are important towards ensuring that wage agreements aren’t undermined by the selective employment of migrants and contract workers at lower levels of pay.

Discussion

These proposals for Malaysia to develop a **moderately centralised, highly coordinated and highly inclusive** IWB system would align well with the three aforementioned objectives of an improved wage structure, flexible labour market and inclusion of non-standard workers.

The move towards moderate centralisation, with tripartite committees setting wage schedules at the industry-region level, would introduce a clear structure and process for wage setting at

¹⁴⁹ Parlimen Malaysia (2022c)

¹⁵⁰ Tan et al. (2020)

¹⁵¹ Tan and Jarud Romadan Khalidi (2022)

¹⁵² Ibid.

¹⁵³ Peetz and Todd (2001)

¹⁵⁴ Parlimen Malaysia (2022a)

predetermined intervals. This would be a significant improvement over the present scenario, where wage setting, with the exception of specific sectors such as banking¹⁵⁵, is highly fragmented, ad-hoc and riven with information and power asymmetries. The vast majority of the workforce has little visibility or power in determining the logic that sets their pay levels, resulting in a scenario where salaries are often determined based on an individual's prior pay instead of a shared knowledge of the right pay band for the job. The creation of structured interactions between workers and employers' unions, with government as impartial sponsor and facilitator, would go some way towards addressing the power dimensions of wage-setting elaborated upon in section 2.1. Importantly, publicly accessible wage schedules would at least empower each worker with information on minimum thresholds for use in contract negotiations.

High coordination would balance the centralised structure and process of tripartite committees, with the flexibility demands of a growing middle-income economy. The South Korean case in the 1990s is particularly telling in this regard. This was a critical decade of growth and expansion for South Korea's star industries and it was characterised by significant coordination and solidarity between employers and workers, under the aegis of robust government support. Singapore includes macroeconomic forecasts in its Progressive Wage Model, while the Belgian system considers the nature of product markets in which firms operate. IWB systems are fundamentally about power, but it is nevertheless ideal for a growing economy to cultivate a sense of solidarity between workers and employers in driving growth and to avoid a purely adversarial relationship. Solidarity in economic and industrial outcomes is best achieved by effectively including workers and their unions in the wage-setting process.

High inclusivity would maximise the impact of wage agreements on Malaysia's wage structure and minimise the use of contract and migrant workers to undermine those agreements. Particular attention should be paid to the growing trend of self-employment, gig work and part time work in the negotiation of wage agreements and to ensure that these groups are adequately covered. In combination, these mechanisms would contribute towards a Malaysian growth story that better rewards labour.

The proposals above, while a positive step change from the current situation, will not only require a phased and multi-year plan of implementation, but also due consideration for creating the enabling factors that would render such a system effective and sustainable. We consider here four enabling requirements, three of which are related to the members of tripartite committees (unions, employers and government), and one on the potential effect of informal labour on our proposals. These are by no means exhaustive, and we look forward to a more complete enumeration of enabling factors through discussions and feedback.

First, the decades-long policy emphasis on a fragmented landscape of in-house unions needs significant reform. Malaysia's dismally low union density needs to be improved and the process of union registration and recognition needs reform to ease labour organising. Unions should also be allowed and encouraged to develop the resources and capabilities required for being informed and effective stakeholders in an IWB system. Recent proposed amendments to the Trade Union

¹⁵⁵ Peetz and Todd (2001)

Act 1959¹⁵⁶ are a step in the right direction, as they clarify union recognition procedures, particularly with regard to the powers of the Director General, and allow for unions to organise across industries. The latter provision could allow for union alliances and collaborations that empower weaker unions with the know-how and capabilities of more mature or larger unions. That said, much more will need to be done in the coming years to raise labour organisations to their appropriate level of representation and capability.

Second, employers will need to be appropriately organised into unions or associations of their own to participate in an IWB system. A significant portion of Malaysian firms and employers are not organised under the Trade Union Act¹⁵⁷. The government will need to encourage, and where necessary require, employers to coalesce and appropriately register themselves to participate in wage negotiations. The inclusion of micro and small enterprises in these employers' unions will be crucial in industries where they play an important role in the overall employment share and in the value chain; the restaurant industry is an example.

Third, the government will have to build the required internal knowledge, machinery and capacity to sponsor and facilitate wage negotiations at the industrial level. As mentioned above, a deliberately phased approach that progressively covers industrial groups and allows for a gradual development of government capacity and learning, would be appropriate. In addition, the government could amend its procurement eligibility criteria to require potential vendors to participate in the IWB system and to enforce wage agreements.

Finally, a high degree of informality in the labour market will weaken the effect of any institutional arrangement. Minimum wages, for example, have far less of an impact in countries with large informal sectors¹⁵⁸. Employment relationships that are informal or undocumented usually evade formal regulations and requirements by remaining undetected. In Malaysia's case, a large pool of undocumented migrant labour could blunt the effect of wage agreements on the wage structure, as informal wages could easily undercut formal wage rates determined at centralised levels. Minimizing the magnitude of undocumented migrant labour will be important to the success of a Malaysian IWB system.

7. Concluding Remarks

Approximately 61% of all household income is accrued in the form of salaries and wages¹⁵⁹. Our citizens and households rely primarily on their wages and salaries to live meaningful and dignified lives. As such, the mechanisms that define and determine wage levels should occupy an important position in our policy discourse and be prioritised for policy action.

There are many challenges in Malaysia's labour market and the proposals here are not meant to address all of them. There is still a need for cohesive industrial policies to drive firm-level advancements and productivity improvements, with the ultimate goal of creating the high-quality

¹⁵⁶ Parlimen Malaysia (2022b)

¹⁵⁷ MEF (2021)

¹⁵⁸ ILO (2020)

¹⁵⁹ DOS (2020)

jobs of the future. Poor labour standards, discrimination and harassment need to be addressed through a robust set of laws, enforcement mechanisms, as well as grievance and redressal measures. These IWB proposals do not minimize the importance of these other challenges and needs.

We look forward to feedback.

Appendix 1

Appendix Table 1a: Institutional bargaining power indicators by country, 2018

Country	Institutional Bargaining Power Indicators							
	IBPI	UD (2018)	UD (2008)	UD (% change)	CBC (2018)	CBC (2008)	CBC (% change)	EOD
Belgium	28.58	50	53.4	-6.4	96	96	0.0	83.8
Italy	18.19	32.6	33.9	-3.8	99	99	0.0	78.3
Germany	18.4	16.5	19	-13.2	54.3	60.5	-10.2	67.9
Japan	12.27	17	18.2	-6.6	16.9	17.6	-4.0	-99
South Korea	11.09	12.5	12.8	-2.3	14.5	12.7	14.2	15.1
UK	10.2	23.2	27.1	-14.4	26	33.6	-22.6	53.8
Singapore	-99	21.9	17.5	25.1	18.1	18.1	0.0	-99
Malaysia	-99	8.7	10.1	-13.9	0.4	2.4	-83.3	-99

Sources: Union density (UD) and collective bargaining coverage (CBC) are from ILOSTAT. Employer organisation density (EOD), is from OECD-AIAS dataset (2018) and institutional bargaining power index score (IBPI) is from Howell (2021). A value of -99 indicates a lack of data for that country. Italicised values indicate author's calculations.

Appendix Table 1b: Centralisation indicators by country, 2018

Country	Centralisation						Char
	Level	FAV	WSSA	OCG	rAEB	Central	
Belgium	4	1	1	1	2	3.25	High
Italy	3	1	1	1	1	2.5	High
Germany	3	1	0	2	1	2.5	Moderate
Japan	1	-99	-99	-99	-99	1	Weak
South Korea	1	-99	-99	-99	-99	1	Weak
UK	1	2	-99	-99	-99	1	Weak
Singapore	3	2	1	1	1	2.5	Moderate
Malaysia	1	-99	-99	-99	-99	1	Weak

Source: Level of collective bargaining (Level), favourability (FAV), wage-setting in sectoral agreements (WSSA), opening clauses (OCG), reach of additional enterprise bargaining (rAEB) and summary measure of centralisation (Central) from OECD-AIAS dataset (2018), except for those of Singapore and Malaysia, which were coded by the author based on results from the literature reviews. A value of -99 indicates non-applicability (i.e. no or few sectoral-level agreements from which derogations or additional enterprise bargaining can occur). Italicised values indicate author's calculations or hand-coding. Per the OECD-AIAS codebook (2021), the calculation for the variable Central is as follows: $Central = Level - (rAEB*2+WSSA+OCG)/8$. The author's characterisations (Char) of each country come from a combination of the OECD-AIAS measures, the literature review on taxonomies of wage bargaining systems and the literature review for each case study country.

Appendix Table 1c: Coordination indicators by country, 2018

	Coordination				
Country	Coord	Type	Index	MW	Char
Belgium	5	5	1	1	High
Italy	3	3	0	0	Weak
Germany	4	2	0	1	High
Singapore	4	4	0	0	Moderate
UK	2	2	0	1	Weak
Japan	4	2	0	1	High
South Korea	2	1	0	1	Weak
Malaysia	2	1	0	1	Weak

Source: Coordination of wage bargaining (Coord), type of coordination (Type), price indexation (Index) and existence of minimum wage (MW) from OECD-AIAS dataset (2018), except for those of Singapore and Malaysia, which were coded by the author based on results from the literature reviews. Italicised values indicate author's hand-coding. The author's characterisations (Char) of each country come from a combination of the OECD-AIAS measures, the literature review on taxonomies of wage bargaining systems and the literature review for each case study country.

Appendix Table 1d: Inclusivity indicators by country, 2018

	Inclusivity		
Country	Collective Bargaining Coverage minus Union Density	Ext	Char
Belgium	46	3	High
Italy	66.4	3	High
Germany	37.8	1	Weak
Singapore	-3.8	0	Moderate
UK	2.8	0	Weak
Japan	-0.1	0	Weak
South Korea	2	0	Weak
Malaysia	-8.3	0	Weak

Source: Extension of bargaining coverage (Ext) values from OECD-AIAS dataset (2018), except for those of Singapore and Malaysia, which were coded by the author based on results from the literature reviews. CBC-UB by author's calculations using values from the Institutional Bargaining Power Indicators table. Italicised values indicate author's calculations or hand-coding. The author's characterisations (Char) of each country come from a combination of the OECD-AIAS measures, the literature review on taxonomies of wage bargaining systems and the literature review for each case study country.

Appendix Table 1e: Inequality and employment outcome indicators by country, 2018

Country	Outcome Indicators							
	Gini	Labour Income Share	Labour Income Dispersion	Low Pay Incidence	Wages to Productivity Ratio	Employment to Population Ratio	Youth Unemployment Rate	Unemployment Rate
Belgium	27.2	61.9	1.07	9.2	0.38	51	15.8	6
Italy	35.2	61.8	1.13	3.7	0.32	44.6	32.2	10.6
Germany	31.7	63.2	1.13	17.8	0.63	59.2	6.2	3.4
Singapore	37.5	49.6	1.31	30	0.31	68.1	7.7	3.1
UK	35.6	57.4	1.24	19	0.41	60.6	11.3	4
Japan	29.9	56	1.15	12.1	0.41	60	3.7	2.5
South Korea	31.4	58.5	1.16	19	0.55	60.9	10.2	3.8
Malaysia	39.9	43.2	1.34	28.3	0.38	62.6	10.9	3.3

Source: Gini coefficient scores from World Bank (2018), except for Malaysia, which is from KRI (2019); LIS, LPI, EPOP, YUR and UR from ILOSTAT (2018); LID values are based on author's calculations using median and mean income values from OECD Stat (2018); WPR values are based on author's calculations using ILOSTAT (2018) values of average monthly earnings (2017 \$ PPP) * 12 / output per worker (GDP constant 2017 international \$ at PPP). Italicised values indicate author's calculations or hand-coding.

Appendix 2

Ex post wage bargaining posits that the wage level (w) for a unit of labour is set between the lowest level acceptable to a worker (b) – also known as the reservation wage - and the rents-per-worker that a firm extracts from the employment relationship (Q/N)¹⁶⁰.

$$w = b + \alpha \left(\frac{Q}{n} \right)$$

The degree to which a worker is able receive the full value of the employment relationship is determined by their bargaining power (α). Ex post wage bargaining models are popular in macroeconomic applications related to labour market outcomes¹⁶¹.

Ex ante wage posting extends the neoclassical microeconomic model at the firm level to include wage-setting power by the firm.

Figure 11 Model of Monopsony in the Labour Market

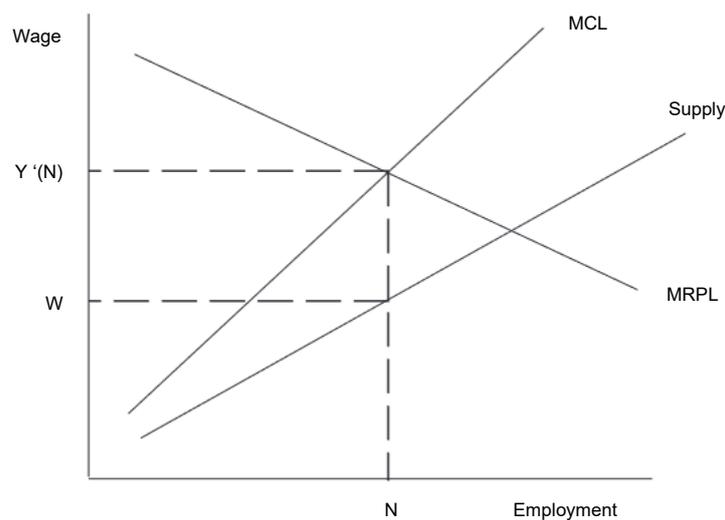


Figure 11 above depicts the textbook monopsony model for a firm in the labour market. The most notable feature is an upward-sloping supply curve, in contrast to the perfectly elastic curve of the perfectly competitive model – the firm now has the power to set the wage level in determining its labour supply and not simply function as a perfect price (wage) taker. There is now also a marginal cost of labour (MCL) curve which sits above the supply curve; the existence of this curve reflects the fact that when a firm must pay a new worker a higher wage level to attain their labour, the wages of all pre-existing workers must also be raised, so the marginal cost of adding a unit of labour is higher than the wage requirement of that marginal unit.

¹⁶⁰ Card et al. (2018); Blanchflower et al. (1990)

¹⁶¹ Manning (2011)

A profit maximising firm will then choose labour input (N) at the point where the marginal revenue product of labour (MRPL) and MCL curves meet. It will then markdown the wage level to the supply curve ($W < Y(N)$) since the supply curve reflects the reservation wage demands of workers at various labour input levels. The equilibrium that is reached is sub-optimal, since it leads to vacancies and the firm extracts more productivity than is paid to workers ($MRPL > W$). The wage level (W) and the intensity of the markdown ($MRPL - W$) depend on the elasticity of the supply curve; greater elasticity translates to higher wages and a lower markdown (more worker bargaining power) and vice versa (less worker bargaining power).

The wage equation for the wage posting model is below. The derivation of this equation can be found in Manning (2011)¹⁶² and there are some differences in interpretation from the wage bargaining equation.

$$w = \frac{\varepsilon}{1 + \varepsilon} p + \left(\frac{1}{1 + \varepsilon} \right) b$$

Nevertheless, the primary message resonates with that of the wage bargaining model, with α being a cognate of $\frac{\varepsilon}{1 + \varepsilon}$. These models have been expanded to include other factors, such as dynamic hiring and firing¹⁶³ but the core considerations around wage determination remain largely the same.

¹⁶² Ibid.

¹⁶³ Manning (2021), Manning (2011)

Appendix 3

Country Selection

In the selection process, we began with a comparison of OECD country scores on the institutional bargaining power (IBP) index.¹⁶⁴ This index combines eight indicators which measure the strength of wage-setting institutions, and employment and income protection institutions; country scores for each indicator are calculated by taking the ratio of the value of each country's indicator relative to that of the most protective country and a country's overall score is the sum of its indicator scores. As our focus was on the strength of institutional wage bargaining, rather than employment and income protections, we also decomposed the indicators that comprised the "wage-setting institutions" category of the IBP index. In particular, we assessed data on union density (the proportion of all workers who are union members) and collective bargaining coverage (the proportion of workers whose pay is determined by collectively-bargained contracts) among OECD countries in our initial assessments of IWB power.

As another one of the aims of this working paper was to identify key determinants of success in wage and employment outcomes, we did not restrict ourselves to studying the countries with the overall highest levels of institutional wage bargaining power. Instead, we also selected countries with both aspirational levels of institutional bargaining power and particularly high levels of individual IWB features (centralisation, coordination and inclusivity) in order to compare wage and employment outcomes associated with each feature. Countries with high levels of centralisation were primarily identified through the centralisation of collective bargaining (Central) variable in the OECD-AIAS dataset, a summary index which combines indicators of centralisation on a scale of 1-5. Countries with high levels of coordination were primarily identified through the coordination of wage-setting (Coord) variable in the OECD-AIAS dataset, which assesses coordination mechanisms among wage-setting actors on a scale of 1-5. Countries with high levels of inclusivity were primarily identified through the calculation of collective bargaining coverage (CBC) minus union density (UD) variables in the OECD-AIAS dataset, as a high level of coverage with a low level of union density indicates the formal extension of collective bargaining terms to non-unionised members of the workforce.¹⁶⁵

These criteria informed our initial country selections. Denmark and Belgium had the highest IBP index scores (28.99 and 28.58) in the most recent year of calculation (2017-19); ultimately, however, we opted to use Belgium as the "all-around" IWB model due to its higher levels of centralisation (Central = 3.25, versus 2.25 for Denmark), coordination (Coord = 5, versus 4 in Denmark) and inclusivity (CBC - UD = 46% of workers covered without union membership, versus 12.7 in Denmark) in the measures outlined above. There were no countries with high levels of centralisation without correspondingly high levels of coordination or inclusivity, so we did not include a country as a case study for this individual feature. Germany and Italy both exhibited similar IBP scores (18.40 and 18.19) and moderate levels of centralisation (Central = 2.5); however, Germany had a higher level of coordination (Coord = 4, versus Coord = 3 for Italy), whereas Italy had a higher level of inclusivity (CBC - UD = 66.4%, with a CBC of 99%, versus

¹⁶⁴ Howell (2021)

¹⁶⁵ Applebaum et al. (2010)

37.8% in Germany). Germany and Italy were thus included to compare the wage and employment outcomes associated with high coordination and high inclusivity, respectively.

As another one of the aims of the working paper was to recommend policy approaches that would be relevant given Malaysia's positioning in Asia, we also opted to include aspirational Asian economies. We thus added Japan and South Korea to our list of case study countries; other potential options, such as Taiwan, were excluded due to lack of data. Additionally, we aimed to account for the path-dependent trajectory of industrial relations in Malaysia by including two countries with a shared colonial history. We thus added the United Kingdom and Singapore to our case study list, leading to a total of seven case study countries in addition to Malaysia.

Our selection of case study countries, intended to compare a diverse array of IWB systems, also aligned with categorisations made by one of the taxonomical papers.¹⁶⁶ This paper identified five main groups of countries based on combinations of levels of centralisation and coordination: rather centralised and weakly coordinated, predominantly centralised and coordinated, organised decentralised and coordinated, largely decentralised, and fully decentralised. Of our selected case study countries, Italy falls under *rather centralised and weakly coordinated*; Belgium falls under *predominantly centralised and coordinated*; Germany falls under *organised decentralised and coordinated*; Japan falls under *largely decentralised*; and South Korea and the United Kingdom fall under *fully decentralised*. While our exact taxonomy of IWB features differed from this paper,¹⁶⁷ it still served as a useful external check to ensure that the differences identified through our own review of databases aligned with characterisations of cross-country differences made elsewhere in the literature.

IWB Data Table Construction

Indicators of institutional bargaining power — IBP index, union density (UD) and collective bargaining coverage (CBC) — were collected from Howell (2021) and the OECD-AIAS database (See Appendix Table 1a). Indicators of centralisation — the OECD-AIAS summary index for centralisation (Central) and its decomposed variables:¹⁶⁸ predominant level at which collective bargaining takes place (Level), wage setting in sectoral agreements (WSSA), reach or incidence of additional enterprise bargaining (rAEB) and opening clauses in sectoral agreements (OCG), as well as the variable for favourability (FAV) — were also included for each country, where available (See Appendix Table 1b). Indicators of coordination by country — the variables for strictness and extent of coordination (Coord), type of coordination (Type) and the binary variables of price indexation (Index) and minimum wage — were compiled from the OECD-AIAS database (See Appendix Table 1c). Indicators of inclusivity by country were either calculated (as in the case of CBC-UD) or compiled (as in the case of variable Ext — extension of collective agreements to non-organised employers) from the OECD-AIAS database (See Appendix Table 1d).

¹⁶⁶ Garnero (2021)

¹⁶⁷ This paper includes extension procedures, which we define as a mechanism of inclusivity, under “centralisation”.

¹⁶⁸ The calculation for the variable Central is as follows: $Central = Level - (rAEB*2+WSSA+OCG)/8$. From OECD and AIAS (2021)

Lastly, we chose to include indicators on wage and employment outcomes for each of the countries (see Appendix Table 1e). The Gini index and labour income dispersion are measures of within-country inequality; the low-pay incidence, labour income share and wages-to-productivity ratio are measures of wage suppression; and the employment to population ratio, the youth unemployment rate and the unemployment rate are measures of employment success.

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