

Estimating impacts of minimum wages on poverty across ethnic groups in Malaysia

Topic: Input-output analysis for policy making III

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This paper examines the effectiveness of the minimum wages as mechanism for poverty alleviation among major ethnic groups in Malaysia. For empirical analysis, the impact of the increase in minimum wages is examined simultaneously on the household income and their cost of living. First, the micro data from the household income survey is combined with data on minimum wages to determine the income effect. Second, following the implementation of the minimum wage standards, the increase in labor costs will presumably be passed on to consumers by firms in the form of higher prices. To estimate the price effect, an input-output price model is applied to translate the higher labor costs into the total production costs for each sector. Lastly, a comparison of poverty rates before and after the implementation of minimum wages is performed. For this analysis, the impacts on poverty are decomposed into the effects that are determined by the income growth and change in income distribution. Results show that this minimum wage policy potentially reduces poverty to a large extent. Poverty for ethnic Indians is reduced the most compared to that of the Malays and Chinese. This can be explained by the limitation of minimum wages to promote wages of informal workers among the Malays and Chinese. For all ethnic groups, our decomposition analysis shows that minimum wages contribute to poverty reduction mainly through the income growth rather than the distributional change.