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Use `soft' approach to tackle minimum wage issue

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THE recent announcement by Prime Minister Datuk Seri Dr Mahathir Mohamad regarding minimum wages highlighted some real and practical difficulties in this endeavour.

However, as we are now well-known for our innovative approach in economic policies, particularly the selective capital control mechanism that got us out of the economic crisis, I think this subject can also be explored in the same spirit.

My suggestion is for a "soft" implementation, as opposed to "hard" implementation found in many European countries, which set an exact figure for the minimum wage. This "soft" approach can come in the form of encouragement for employers to implement minimum wage rather than a law or directive.

Employers could be given a proportionate tax break or exemption. This is a practical solution.

Most importantly, this will not significantly increase the costs for employers and, therefore, business.

The short-term consequence is that the Government could face reduction in tax revenue. But this will not be visible until the next tax year. Also, the Government has many instruments at its disposal to absorb such losses.

In the meantime, increased wages for the lowest income group will mean immediate growth in the retail sector of the economy. This growth could eventually offset the revenue loss in tax.

In the long term, increased minimum wages will produce a larger class of consumers with greater spending power.

This can create a positive cycle that can spur productivity.