The Current Debate over Minimum Wage Hike

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The new government's anticipated policy of increasing the daily minimum wage to 300 Baht nationwide is generating a heated debate. Active participants in this discourse include not only policymakers and academics, but also the general public including workers, firms, and investors, with much of the scrutiny focused on the justification and potential economic consequences of the policy.

First, there is the question whether an increase is justified? Economically speaking, at least two factors must be considered here, namely productivity (is the work worth what workers are paid?) and inflation (is the pay raise needed to compensate for rising costs of living?). Here are the facts. Since the year 2000, the average growth of labor productivity has been 2.2 percent per year while the average real minimum wage has declined by 0.3 percent per year. History thus implies that the daily nominal minimum wage has not kept up with labor productivity and inflation. While productivity of minimum wage workers may be lower than average, it seems fair to say that there are economic grounds for a minimum wage hike. However, it is necessary to seek the best way to adjust the daily minimum wage where firms' ability to adapt and the impact on the economy are carefully taken into account.

Currently, the average daily minimum wage across the whole country is 176 baht. A hike to 300 baht represents a sudden rise of 70 percent. Given that the number of laborers who are paid daily minimum wage accounts for only 3.4 percent of the total labor force (1.3 million of 38.5 million), one may be inclined to dismiss the impact. However, what indeed matters is the extent to which an increase in the minimal wage would affect the country's overall wage structure.

Given that labor cost accounts for about 14 percent of total cost of firms, if other wages adjust following the change in the minimum wage, the impact on firms can be more severe than initially anticipated. The effect will likely be more pronounced for Small and Medium Enterprises (SMEs) whose share of labor cost is relatively higher. This matters given the large role of SMEs in the Thai economy, particularly in terms of employment. If left with no alternatives, in order to reduce production cost and maintain profit margins, firms may unavoidably need to cut workers, leading to higher unemployment.

Another potential consequence that cannot be overlooked is the impact on inflation. Firms can pass their cost onto prices of goods and services – a process easier done during a period of economic expansion. Not only will inflation immediately accelerate, inflation expectations may also shift up, fuelling future inflation. Workers may demand higher salaries in anticipation of higher future prices. Meanwhile, producers will raise their prices of goods and services if they expect higher production cost due to increasing wages in the period ahead.

Higher inflation will not only diminish the country's economic stability, but also its export competitiveness compared to other countries. Moreover, foreign direct investments may slow down because of an increase in production cost. This will also be a concern in the context of the opening the Asian Economic Community (AEC) in 2015, as the country becomes less attractive compared to others in the region for investors, while regional labor may flow into Thailand based on higher wages.

All in all, it is very important to find an appropriate minimum wage in line with labor productivity and higher cost of living in order to enhance workers' quality of life. For policymakers, the challenge is to balance the advantages of raising the minimum wage with their potential economic costs. In the long term, the country also needs to improve the skills of the labor force to move to higher-paid work while maintaining competitiveness.

***The views expressed in this column are the writer's own.**

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