Gaining high income status with UniRazak

UNIVERSITI Tun Abdul Razak’s Razak School of Government lecturer Shari-pah Ab Raman said achieving a high-income status meant seeing the labour force tripling its income.

The success of the New Economic Model depends on whether the public sector and policymakers carry out their actions.

She said Malaysia’s economy had experienced a tremendous transfer in its economic structure and labour force, from an agricultural economy base to manufacturing and finance.

To achieve a higher-income economy, the emphasis was on higher productivity, bringing about a shift from labour-intensive to capital-intensive and eventually towards knowledge-based industries and enterprises.

A study by Rusmawati Said and Asmaddy Haris found that technological change was the dominant factor that explained the changes in relative demand for labour compared with trade.

Furthermore, technological change was also responsible for the increase in relative labour demand for middle levels of education or semi-skilled workers and decline in relative labour demand for higher level education and low-level education (skilled and unskilled workers).

These analyses concluded that the skill structure of Malaysia’s labour market from 1984 to 1997 was semi-skilled biased.

Based on last year’s estimation, the employment structure was: agriculture (10.1 per cent), industry (42.3 per cent) and services (47.6 per cent).

It was found that the changes in the occupation distribution in Malaysia were not consistent with the path towards the attainment of a high-income nation.

This type of employment structure would lead to low demand for knowledge workers: low demand and low pay for knowledge workers led to migration of these workers to other countries.

For policymakers, the pace and progression of reforms and transformation were critical as they influenced their decision making.

One consideration was the adjustment cost, where product and prices adjusted immediately and resources could be reallocated without cost, which meant removal of simultaneous distortions.

In the real world, however, resources could not be reallocated instantaneously without incurring cost.

Most markets adjust to policy changes and price signals at different speeds. With rational expectations and an absence of distortion, speedy reforms are necessary for a more social desirable adjustment path for the economy.

A loss is acceptable if the marginal social cost is less than the marginal social benefits.

The attainment of this goal also requires that private expectations of future policy do not deviate from the announcements from public authority.

The more credible the authority, the more efficient the reallocation of resources.

Since a decade ago, Malaysia has seen an influx of low-skill labour immigrants. Consequently, it caused depressed wages, concealing productivity improvements and confining Malaysia to low value-added manufacturing.

The government should consider hiring qualified and professional personnel. The cost could be high in the short run but the country would reap the benefits in the long run.

The policy of preserving competitiveness should be chosen. High wages need not mean high labour costs if the increased wages are backed by productivity gains. By the same token, low wages may not translate into low labour costs if productivity suffers.

In the Malaysian context, the social cost of employing immigrant labour exceeds the private cost to employers.

The government should ensure proper enforcement, and employers should understand that hiring cheap immigrant labour is not only costly to them but also to the nation as it will affect the attainment of the New Economic Model.

The fact is that achievement and implementation of the New Economic Model, the eight strategic reforms initiatives, Economic Transformation Programme and its entry-point projects require the proper use of this knowledge to formulate public policy.

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