WHY THE PROGRESSIVE WAGE MODEL?

There is a concern to address the wage stagnation among middle-wage earners, particularly semi-skilled workers. There is no specific wage regulation and guideline for uplifting middle-income workers in general and semi-skilled workers in specific. The implementation of a progressive wage model (PWM) holds immense potential for uplifting the wages of semi-skilled workers.

The missing link in the wage setting for middle-income workers

Figure 1 shows the level and growth of wages for the categories of skilled, semi-skilled and low-skilled workers. It is provided to give an overview of the unfair wage structure in the economy. Low-skilled and skilled wage growth is comparable but semi-skilled wage growth is lower. The wage level between semi-skilled and low also does not show a widening gap but even closer.

This situation requires intervention because the size of semi-skilled workers dominates 63% of the total workforce compared to only around 13% of low-skilled workers. The absence of rules and guidelines for setting the wages of semi-skilled workers is one of the contributors to this situation. As for low-skilled workers, they are covered by the Minimum Wage Order.

Figure 2 shows the distribution of wages between these three skill categories. It clearly shows the position of static wage rates for the semi-skilled worker category. This situation remains for the period of 2015 and 2021.

Figure 1: Wage structures by skill categories

Figure 2: Distribution of wages by skill categories
Crafting a well-structured wage policy

Increasing wages is undoubtedly essential for improving living standards, reducing income inequality, and fostering economic growth. However, it is crucial to acknowledge that implementing wage increases without a carefully planned and balanced wage policy can lead to unintended negative outcomes. A poorly structured wage policy may potentially result in unintended consequences, such as inflationary pressures, reduced business competitiveness, and potential job losses. Thus, it is vital to approach wage adjustments with a well-thought-out strategy to ensure positive and sustainable impacts on both workers and the overall economy.

PWM is a gradual and targeted approach

The progressive wage model does not contribute to inflation and job losses due to its gradual and targeted approach to raising wages for low-income workers. By linking wage increases to productivity improvements, businesses are incentivized to invest in efficiency and training, offsetting labor cost hikes. Moreover, sector-specific implementation considers unique industry challenges, minimizing adverse effects. The model’s emphasis on reducing income inequality fosters social stability and increased purchasing power, stimulating economic growth. As a result, the progressive wage model promotes a positive impact on the workforce, fostering higher job satisfaction and lower turnover rates, ultimately contributing to overall economic well-being without significant inflationary pressures or job losses.

Benefits of Progressive Wage Model
- Reducing income inequality
- Stimulating economic growth
- Increase purchasing power
- Reducing income inequality

Impacts
- Positive impact on workforce
- Higher job satisfaction
- Lower turnover rate