Arguments for Minimum Wage: 
A Guidebook for Trade Unions

November 2009

Prepared by Cambodia Institute of Development Study (CIDS)  
With Support from the Friedrich-Ebert-Stiftung (FES)
Table of Contents

Acknowledgments ......................................................................................................................................................3
About this Guidebook ...........................................................................................................................................4
How to Use the Guidebook ........................................................................................................................................4
Argument 1: Minimum Wage Destroys the Workplace ...........................................................................................5
Argument 2: Minimum Wage Makes Firms Uncompetitive ..................................................................................6
Argument 3: Low Wage Because of Low Productivity ..........................................................................................7
Argument 4: Industry is in an Economic Downturn .............................................................................................7
Argument 5: Minimum Wage Hinders Job Creation ............................................................................................8
Argument 6: Minimum Wage Leads to the Export of Jobs ..................................................................................10
Argument 7: Minimum Wage Worsens Job Opportunity for Unskilled and Long-Term Jobless People ..........11
Argument 8: Minimum Wage Increases Informal Employment ..........................................................................12
Argument 9: The State Should Take Care of Subsistence Income .....................................................................13
Argument 10: Wage Should Be Subjected to Negotiation ...................................................................................14
Acknowledgments

I would like to sincerely thank the Friedrich-Ebert-Stiftung (FES) for funding this project, which is an invaluable tool for trade unionists in Cambodia and their mission to promote decent work and eliminate the working poor. I would also like to thank all the trade union leaders who provided insightful inputs and comments on this guidebook, and for their unwavering commitment in the project. Last but not least, I would like to thank all the staff at the Cambodia Institute of Development Study (CIDS) for all their assistance and efforts in completing this output.

Kang Chandararot
Director
CIDS
About this Guidebook

In Cambodia, it is common that employers come to the wage negotiating table more informed, experienced and prepared than trade unions. This places trade unions at a great disadvantage. To increase the effectiveness of trade unions as social dialogue partners, the Friedrich Ebert Stiftung (FES) and the Cambodia Institute of Development Study (CIDS) developed this guidebook. The purpose of this guidebook is to provide trade unionists with a useful and practicable reference tool for negotiating minimum wage. The guidebook is prepared in a simple, reader-friendly style. Each page is laid out as following:

- Starts by presenting a common argument against minimum wage
- Highlights possible rebuttal by proponents of minimum wage
- Followed by a brief explanation and some key data for evidence

While the guidebook presents some of the universal arguments against minimum wage, the rebuttals have been adapted to reflect the context in Cambodia based on recent survey findings on minimum wage by CIDS, observations of trends in the sector from official data sources, and extensive discussions with leaders of trade unions. By this way, we hope this guidebook will be valuable for trade unionists in Cambodia.

How to Use the Guidebook

This guidebook on minimum wage is laid out in a way to allow trade unionists to clearly understand the arguments against a minimum wage or minimum wage increase, and how to refute these claims using indisputable facts. Each page contains a table with two columns. On the left side of the table, we present a common argument raised by opponents of the minimum wage and briefly explain the reasoning behind it. On the right side, we provide proponent’s rebuttal to negate opponent’s claim and build a stronger case for increasing the minimum wage.
## Argument 1: Minimum Wage Destroys the Workplace

Image courtesy of Microsoft Office Clip Art and Media

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM:</th>
<th>PROPOONENT’S REBUTTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage destroys the workplace.</td>
<td>Gains from minimum wage outweigh the cost.</td>
</tr>
</tbody>
</table>

Opponents say that minimum wage will destroy the workplace by increasing the cost of production. Stiff competition in the product market means that producers cannot increase the price of output in accordance to higher production costs. In the meantime, buyers are lowering prices at the moment. Consequently, producers must lay-off workers to maintain a profit.

In the current context in Cambodia, workers go on strike to demonstrate their frustration and dissatisfaction with earning an income that does not cover their basic subsistence. In 2008, estimated cost of production lost due to strikes was US$8.377 million, which does not include additional costs to producers such as cancellation of order, factory credibility & reputation, overtime work to make up production lost, etc.¹ With this amount of money, producers could have raised the minimum wage by $2 per month, which would have eased the financial stress of workers, providing a better workplace environment for workers, improved health, and improved work discipline.

---

¹ Estimated by CIDS based on data from the Ministry of Commerce and GMAC
## Argument 2: Minimum Wage Makes Firms Uncompetitive

![Image](Image courtesy of Microsoft Office Clip Art and Media)

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM:</th>
<th>PROPOSER’S REBUTTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage makes firms uncompetitive.</td>
<td>Low wage is the result of wage dumping because of competition.</td>
</tr>
</tbody>
</table>

Opponents to the minimum wage argue that a minimum wage will raise production cost and make firms in the country less competitive with its foreign rivals. Garment producers in Cambodia say that expenses here are already relatively higher than rivals because raw materials must be imported, transport costs are high, lack of skilled workers, bureaucracy, informal fees, and weak infrastructure and public utilities.

A recent survey\(^2\) by CIDS shows that even though the minimum wage in Cambodia is relatively higher than in other countries in terms of purchasing power parity dollars (PPPS), the profit margin in Cambodia’s garment industry (31%) is relatively higher than in rival countries such as India (11.8%), Indonesia (10%), Vietnam (6.5%), Nepal (4.4%) and China (the lowest at just 3.2%).\(^3\) Thus, a moderate increase in the minimum wage will likely not make Cambodia less competitive to rival countries or less attractive to investors.

Furthermore, low wage is the result of wage dumping because of competition. Being competitive is desirable as long as it is not at the expense of workers’ basic subsistence and welfare. Producers should try to find better strategies to stay competitive, not place the burden on workers.

---


\(^3\) Calculation is based on most readily available data for each country: Cambodia (2008), Indonesia (2008), Vietnam (2008), Nepal (2002), and China (2008).
**Argument 3: Low Wage Because of Low Productivity**

![Photograph by the author](image)

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM:</th>
<th>PROPOSER’S REBUTTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages are low because productivity is low.</td>
<td>Low wage in Cambodia is not due to low productivity but because of increasing number of new labor market entrants into the sector.</td>
</tr>
</tbody>
</table>

Producers claim that wages must be in line with the productivity of workers. The wage is low now because productivity is low. They state that wages will increase when productivity increases.

In Cambodia, producers keep wages low because of the high availability of labor, which increases in number every year. Most workers are migrants from the subsistence agriculture sector, and are usually ready to take wage employment at any wage rate in order to earn cash.

Official data reveals that there is a big and increasing gap between productivity (measured in value added per worker) and wages. In 2009, each garment worker generated $283 per month for the factory, but received only $55 in wages on average in real terms (or just 19% of their productivity). This figure fell from 24% during the period 2004-06. In other words, Cambodia’s garment workers have not been rewarded for their productivity gains.

Comparatively, China’s ratio is 34% and Indonesia is 25% in 2008, meaning that workers there get a larger share of their performance than workers in Cambodia.⁴

**Argument 4: Industry is in an Economic Downturn**

OPPONENT'S CLAIM:  
Industry is in an economic downturn.

PROPONENT'S REBUTTAL:  
Enterprises must pay wage that covers workers’ subsistence regardless of whether the industry or economy is in a recession or boom.

Producers argue that there is a global economic crisis, which has affected the demand for their products and decreased orders. Thus, they cannot afford to pay a higher minimum wage.

A minimum responsibility of enterprises is that they must pay a wage that enables workers to cover their basic subsistence. This condition must be satisfied whether the industry or the economy is in a recession or boom period.

According to a recent study by CIDS\textsuperscript{5}, the current minimum wage of $50 per month is not sufficient to cover the minimum basic needs of a worker and dependants.

Furthermore, a living wage survey by CIDS\textsuperscript{6} shows that workers have been financing their basic needs by working overtime. Without overtime, their effective wage cannot cover their living costs. This practice means that the living standard of garment workers is highly dependent on the economic situation. During economic downturns, the cut back in overtime makes it impossible for workers to finance their basic needs.

---

**Argument 5: Minimum Wage Hinders Job Creation**


<table>
<thead>
<tr>
<th><strong>OPPONENT’S CLAIM:</strong></th>
<th><strong>PROPONENT’S REBUTTAL:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage hinders job creation.</td>
<td>Low wage weakens domestic demand and thus, prevents job creation in other sectors.</td>
</tr>
</tbody>
</table>

Opponents say that a minimum wage will raise the cost of labor. At a higher cost, enterprises will not hire additional workers and may even lay-off workers.

Low wages limit the purchasing power of workers. This means that workers buy less goods and services in the economy. Consequently, the low domestic demand hinders job creation in other sectors.

A moderate increase in the minimum wage is no risk on jobs. In contrast, because workers tend to spend all of their income, a moderate increase in the minimum wage can have high and positive spillovers into the general economy by stimulating domestic demand, and henceforth, creating new job opportunities in other sectors.
## Argument 6: Minimum Wage Leads to the Export of Jobs

Source: Photograph of garment factory by author, other images courtesy of Microsoft Office Clip Art and Media

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM: Minimum wage leads to the export of jobs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROPONENT’S REBUTTAL: Low wage industries are not flexible to move from one country to another because they are bound by other factors in the specific locations.</td>
</tr>
</tbody>
</table>

Opponents say that minimum wage will result in the export of jobs because factories will relocate to places with lower labor cost.

- Relatively higher profit margin than in rival countries such as India, Vietnam and China
- Land availability
- Raw materials can be easily imported from China due to close proximity of the two countries
- Tax holiday for garment factories
- Private sector’s access to dialogue with government through Government-Private Sector Forum

Due to these supportive factors, it is unlikely that a moderate increase in the minimum wage will cause factories to move out of the country.
Argument 7: Minimum Wage Worsens Job Opportunity for Unskilled and Long-Term Jobless People

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM:</th>
<th>PROPONENT’S REBUTTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage worsens job opportunity for unskilled and long-term jobless people.</td>
<td>Minimum wage does not increase job opportunities for unskilled and long-term jobless people; thus, minimum wage also does not worsen their job opportunities.</td>
</tr>
</tbody>
</table>

Opponents claim that if the minimum wage is increased, whereby raising the cost of labor, enterprises will hire only skilled workers. This will worsen job opportunities for unskilled and long-term jobless people.

Without a minimum wage, low wage in the sector will keep wages in other sectors low also. So, qualified people end up earning low wages; while low qualified people do not have better job opportunities. With a minimum wage, qualified people will earn higher wages, while the situation of low qualified people remains unchanged, neither worse nor better with or without the minimum wage. In other words, increasing the minimum wage will have no impact on unskilled and long-term jobless people.
**Argument 8: Minimum Wage Increases Informal Employment**

**OPPONENT’S CLAIM:**
Minimum wage increases informal employment.

**PROPONENT’S REBUTTAL:**
Minimum wage will reduce the need to work in the informal sector.

<table>
<thead>
<tr>
<th>OPPONENT’S CLAIM:</th>
<th>PROPONENT’S REBUTTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage increases informal employment.</td>
<td>Minimum wage will reduce the need to work in the informal sector.</td>
</tr>
</tbody>
</table>

Commonly, opponents argue that an increase in the minimum wage will raise production costs, forcing enterprises to lay-off workers. With limited job opportunities in the formal sector due to a higher minimum wage, these laid-off workers will have to resort to jobs in the informal sector.

Low wage leads many people to engage in informal economic activity and side jobs to finance their subsistence. Increasing the minimum wage to a level that covers the basic needs of workers and his/her family will reduce the need to work in the informal sector to secure subsistence. On the contrary, a higher income will lead workers to spend more, helping to stimulate domestic demand and creating job opportunities in the formal sector.
Argument 9: The State Should Take Care of Subsistence Income

Opponents say that enterprises must operate on a business principle, not a social principle. That is, there first priority is to be profitable, not social welfare.

As correctly stated by President Franklin Roosevelt in 1933, “Those enterprises which exist based on low wage that is under the subsistence level of workers should not have the right to operate business.”

If a firm cannot earn enough to provide at least subsistence for workers, it is not competitive and should not operate or receive support from government. As a country trying to develop, Cambodia cannot afford to support uncompetitive firms.
## Argument 10: Wage Should Be Subjected to Negotiation

Opponents of the minimum wage argue that wage should be subjected to negotiation between employer and employee, not set by law.

### Opponent's Claim:
Wage should be subjected to negotiation.

### PropONENT'S REBUTTAL:
Wage must be able to ensure the subsistence of workers.

However, the first condition is that wage must at least be able to provide workers with a basic subsistence. If the reference wage in negotiation is not enough for a worker to cover his/her basic needs, it is not a fair starting point. Therefore, it is necessary to set a minimum wage by law.

In Cambodia, workers are highly dependent on overtime to finance their basic needs. Without overtime, their effective wage is $67 per month on average, compared to their basic expenditures of at least $72.

To have a decent living, workers need a living wage – a wage that enables workers to cover the basic needs of themselves and their dependents within regulated working hours (not including overtime) from one income source, and should allow for some savings. A recent survey by CIDS finds that a living wage of $93 per month would help secure the basic needs of workers and their dependents and enable them to live a more decent life.

---
