



## **Historical Review of Minimum Wage Policy in the Developed Countries: Implementation of National Minimum Wage Policy in Malaysia**

Eng Poh Hwa, Mohd Syaiful Rizal Abd Hamid, and Md Norhayati Tahir

### **ABSTRACT**

*Minimum wage is defined as the least pay rate which is paid by employers to employees and it can be calculated in terms of hours, days or months. The minimum wage policy had long been practiced in the developed countries such as New Zealand, Australia, United Kingdom and United States. The advantages and disadvantages of minimum wage policy are discussed and analysed in this research. The research studies the historical development and origin of minimum wage policy in developed countries, followed by the definition and general types of minimum wage. The method of study implemented in the research is systematic literature review to determine the key scientific contributions of a particular area. The research enables readers to better understand about the history and origin of minimum wage in the developed countries and implementation of minimum wage in Malaysia. Next, the research displays the minimum wage rates in the major countries in the world followed by the inflation rate and consumer price index (CPI) in Malaysia. The Malaysian government has to proceed with its implementation of minimum wage to generate an accurate conclusion over its feasibility. Therefore, the feasibility of minimum wage policy in Malaysia will be further researched.*

**Keywords:** Minimum wage, historical events of minimum wage, economics issues.

### **1. INTRODUCTION**

A minimum wage is the lowest rate in which employers need to pay to employees. It can be calculated in terms of hours, days or months. Employees are satisfied and willing to sell their labour at this pay rate (Elangkovan, 2013). The minimum wage policy had been implemented in most of the developed countries such as United States, United Kingdom, Australia and New Zealand (Nordlund, 1988). However, it is still not a common practice in most of the developing countries, for instance in Malaysia. The Minimum Wage Order 2012 was implemented since 1<sup>st</sup> January 2013 for employers who employ six workers or more. The date of enforcement is permitted to be deferred for employers who employ five workers or less, stated by the Human Resource Ministry. The Minimum Wage Order 2012 was enacted in accordance with Subsection 23 (1) of National Wage Consultation Council 2011 (Star, 2012).

The minimum wage policy originated from the European countries. It was first enacted in New Zealand, followed by Australia, United Kingdom and United States (Nordlund, 1988). In the days prior to the implementation of minimum wage policy, workers especially women and under-aged workers had to work very hard in dirty and dusty working environment for extra-long hours (Nordlund, 1988). They had to continue working even during sick days to secure their jobs. The original concept of practising the minimum wage policy was to prevent exploitation of low-income labourers by immoral employers. The policy provided workers with a collective bargaining power over their employers. Therefore, the basic human rights of workers are secured with the enactment of minimum wage policy. Workers are provided with the basic remuneration such as medical leave, maternity leave, overtime pay and annual leave. Minimum wage policy enables a worker to lead a decent life, which is sufficient for basic needs such as food, accommodation and transportation.

National Minimum Wage Policy was implemented in Malaysia since 1<sup>st</sup> January 2013 (Star, 2012). The pros and cons for implementation of minimum wage policy is a hotly debated topic since before the introduction of minimum wage policy. However, very few people have studied the historical development of the minimum wage policy. In addition, only a limited number of the population are aware about the original countries of minimum wage policy. Consequently there are some small and medium enterprise owners who have refused to adhere to the minimum wage policy (Chun, 2013).

The major purpose of this research is to study about the historical development of minimum wage policy in the developed countries. In addition, the research discusses about the historical events which are related to the minimum wage policy. Thus, the research discussed about the origins of minimum wage policy and the countries from which the policy originated.

Apart from that, the research defined what is minimum wage according to the definition of International Labour Organization (ILO)<sup>1</sup> and laws of Malaysia, followed by the general types of minimum wage and the advantages and disadvantages of minimum wage in section 2, literature review. Subsequently, the method of study used for the research is systematic literature review which is further explained in the section 3, Method of Study. Next, the research displayed the minimum wage rates in the major countries in the world and the implementation of minimum wage policy in Malaysia in the section 4, Finding and Analysis. A discussion on how government, employers and employees responded to the implementation of minimum wage policy is given in the Discussion. Lastly, the research emphasised again the pros and cons of minimum wage policy in the Conclusion section.

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<sup>1</sup>The ILO is the international organization responsible for drawing up and overseeing international labour standards. It is the only 'tripartite' United Nations agency that brings together representatives of governments, employers and workers to jointly shape policies and programmes promoting Decent Work for all (ILO, 2013).

The research enables readers to better understand about the history and the origin of minimum wage in the developed countries and in Malaysia. The research enables readers to know more about the advantages and disadvantages for implementation of minimum wage policy. In addition, the research studied about the responses from government, employers and employees regarding the implementation of minimum wage policy in Malaysia.

## **2. LITERATURE REVIEW**

### **2.1 Definition of Minimum Wage Policy in Malaysia**

According to the announcement of Prime Minister YAB Datuk Seri Najib Abdul Razak on 30th April 2012, the National Minimum Wage rates would be set to RM 900 in the Peninsular Malaysia and RM800 in Sabah, Sarawak and Federal Territory of Labuan beginning 1st January 2013 (Bernama, 2012). Minimum wages under the National Minimum Wages Consultative Act 2011 is defined as basic wages determined under Section 23 of the Act. A series of allowances is within the definition as wages under Section 2 of the Employment Act 1955 as decided by court, namely: Overtime Meal Allowance, Shift Allowance, Night Shift Meal Allowance, Petrol Allowance, Outstation Overnight Allowance, Laundry Allowance, Vehicle Wash Allowance and Acting Allowance. In addition, employers are permitted to include some allowances or fixed cash payments to calculate the minimum wage which is beneficial to employers and to ease their burden (Malaysian Employers Federation, 2012).

Nevertheless, as defined under Section 2 of the Employment Act 1955, travelling allowance is not part of the wages. However, with the permission of employees, employers may adapt the said travelling allowance to be part of the basic minimum wages. In order to reach the level of minimum wages at RM900.00/RM800.00, hotels may adapt part or all of the service charges to be part of the basic salary. The particular group of workers who are exempted from the ruling on minimum wages include Trainees, Apprentices, and Domestic Servants. The implementation of minimum wages would be in effect 6 months (12 months for micro enterprises) from the date the Order is gazetted by the Minister of Human Resources. The employers may apply to the National Wages Consultative Council (NWCC) within 6 months from the date of gazette to review the implementation date of the minimum wages if an employer is unable to implement the minimum wages within the time frame as stated above (Malaysian Employers Federation, 2012). Minimum Wage paid to foreign workers by Small and Medium Enterprises (SME) is deferred to 31<sup>st</sup> December 2013 (Star, 2013a).

## 2.2 Types of Minimum Wage

Minimum wage could be paid per hour or per month, with the latter preferred for reasons of worker welfare. There could be exploitation of workers' right when they are paid by hour rate, because paid leave and paid lunch breaks might cease. In addition, current workers could easily be replaced with new workers by the employers. As a result, workers are willing to earn less than they should earn and they have to work extra hard to secure their jobs and at the expense of their health and social lives. Thus, when workers are paid by the hour, they normally are forced to work even if they are unwell, sick or recovering from sickness. In addition, women are put in especially difficult situations when they deliver their child because they have no other options but to choose between recovering, bonding with their new-borns, and providing for the family. Therefore, paying the minimum wage by month is more secure for workers. On the other hand, employers will doubt the productivity of workers, whereby employers will question whether the monthly pay is compatible with the productivity of workers (CPPS, 2011a).

Apart from that, minimum wage is categorised as provincial minimum wage and national minimum wage. Provincial minimum wage refers to the minimum wage defined according to the living places of individuals; which is determined based on the cost of living. On the other hand, national minimum wage refers to the minimum wage fixed by the Government for all states and areas in the country. The increase in prices (inflation) is nationwide but not provincial. People from the areas with lower minimum wage rate might shift to areas with higher minimum wage rate to secure better jobs and to gain better standards of living. Therefore, provincial minimum wage might not be feasible (CPPS, 2011a).

## 2.3 The Advantages and Disadvantages of Minimum Wage

The implementation of minimum wage has always been a hotly debated topic. According to the Centre for Public Policy Studies (CPPS)<sup>2</sup>, there are a number of advantages and disadvantages in the implementation of minimum wages. Most fundamentally basic human rights must be in respected whereby the minimum wage enables payments for daily expenses including food, accommodation, transportation, medical and education. The enforcement of minimum wage enables workers and their families to lead a decent life. Moreover, when workers are paid by minimum wage, they are normally entitled to better benefits and higher wages. Therefore, they will be more willing to work and contribute to the employers and thus enhance the productivity of their work. Low wages, long working hours and inadequate working benefits are among the reasons which

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<sup>2</sup>Centre for Public Policy Studies (CPPS) was established by Asian Strategy and Leadership Institute (ASLI). CPPS is an independent and non-partisan public policy institute that aims at fostering open-minded dialogue, enlightened leadership and better governance. CPPS upholds an independent, non-partisan and non-racial stance in its research and other policy-oriented activities (CPPS, 2011b).

contribute to high turnovers at the working place. Therefore, implementation and enforcement of minimum wage may motivate workers to work harder and stay loyal to their employers. Thus, by imposing a minimum wage, workers have more bargaining power and their rights are more secure (CPPS, 2011a).

Despite the numerous advantages of minimum wage to workers, it also raises a number of disadvantages to workers. First, the implementation of minimum wage raises the labour cost as employers need to pay higher wages to workers. Therefore, employers may tend to reduce the number of employees hired and this in turn increases unemployment. If this situation persists, the unemployment rate will increase. Second, some employers might tend to hire more part-time workers rather than full-time workers to reduce working hours of each employee to reduce the labour cost. This will give serious impact to low-skilled workers, women and senior workers. Third, apart from reducing the number of workers hired, employers tend to remove maternity leaves, reduce health care coverage and cancel day care facilities to reduce operation cost and to ensure profit is maintained (CPPS, 2011a).

#### **2.4 Historical Development and Origins of Minimum Wage Policy in the Developed Countries**

Minimum Wage Policy was first enacted at New Zealand in 1894 for a particular group of workers (Nordlund, 1988). The minimum wage was a by-product of the Industrial Conciliation in New Zealand and Arbitration Act which enacted District Conciliation Boards to settle arguments between the employer associations and worker unions as well as to fix the minimum wage levels, to extend the similar conditions to other employers in the same industry who were not members of the associations (Aaronson, 2001; Neumark and David Wascher, 2008).

The minimum wage policy was first enacted to control expansion of sweat shops in the manufacturing industries that employed large numbers of women and young workers. Today there is minimum wage legislation in more than 90% of all countries (Polotan, 2010). The first minimum wage order of the Arbitration Court in 1919 (New Zealand), set only a minimum rate for men. Meanwhile, equal pay legislation was enacted by the American state of Montana. Thus, an important clause that 'men and women should receive equal remuneration for work of equal value' was included in the Article 41 of the original constitution of the International Labour Office (ILO). Labour Party first adopted the Equal Pay as one of the 1927 policies in New Zealand in 1927. The first minimum wage for women was 47% of the male rate according to the Industrial Conciliation and Arbitration Amendment Act of New Zealand in 1936 (CEVEP, 2004). New Zealand government was one of the early countries which made numerous efforts to ensure men and female workers were treated fair and equal. It indicated that New Zealand government was concerned about the equal rights between the

different genders. The minimum wage policy was first enacted in New Zealand to protect particular groups of workers (Nordlund, 1988). Subsequently, in order to prevent employers from hiring children or apprentices at no pay, New Zealand set a nationwide minimum wage in 1899 (Neumark and David Wascher, 2008). New Zealand was also the first country which implemented minimum wage policy, the earliest country as compared to other developed countries like United States and United Kingdom. This indicated that the New Zealand government was conscious about the importance for implementation of minimum wage policy since the early era. Married women in New Zealand were allowed to participate in the workforce in 1944. 228,000 women were in paid employment with another 8,000 serving in the armed forces (Corner, 1944). The pay rates for men and women were different under the Minimum Wage Act 1945 in New Zealand. This Act did not protect the role of male wage earners. In the new wage increases in 1953, the minimum wage for women was set at lower limits as compared to men under the Arbitration Court in New Zealand. The New Zealand government standardised the minimum pay rate of both women and men at \$1.62 an hour in 1978 (CEVEP, 2004).

The Factories Act was amended for the creation of a wages board in Victoria, Australia in 1894. The wages board did not set a universal minimum wage; however it set basic wages for 6 industries that were considered to pay low wages (Waltman, 2000). In 1896, a set of wages boards was enacted by the state of Victoria to decide on the suitable minimum wage rate for that trade which would then be implemented for all workers in that trade in the Victoria (Neumark and David Wascher, 2008). After enacted as a four years experiment in Victoria, Australia, the wages board was renewed in 1900 (Waltman, 2000). The wages board was then enacted in South Australia in 1900. The original New Zealand model in which minimum wage was a compulsory arbitration between the employers' associations and the labour unions was copied by New South Wales in 1901 and Western Australia in 1902. The wages board was then enacted in Queensland in 1908 (Neumark and David Wascher, 2008).

Minimum wage rates (Trades Board Act of 1909) were enacted for a limited number of workers in England (Nordlund, 1988). The Victorian wages board's model in England was first implemented to only four industries in 1909: chain making, lace finishing, paper and cardboard box making, and tailoring which had low pays, excessive working hours or dirty working places (Aaronson and Daniel, 2007; Neumark and David Wascher, 2008). Trade boards were established for four additional industries (sugar confectionary and food preserving, shirt-making, hollow ware, linen and cotton embroidery) in 1913. Both sexes differed by industry, sex, age, and experience were covered by minimum wage laws in England (Neumar and David Wascher, 2008). The 1909 Trade Board Act was altered in 1918 to give the ministry of labour the authority to establish a trade board due to the lack of effective regulation of wages throughout the trade (Beaumont, 2001).

A legal minimum wage law for women was endorsed by the board of directors of American Association for Labor Legislation and the women-led National Consumers' League in United States in 1909 (Prasch, 1999; Waltman, 2000; Leonard, 2005). The wages board was enacted in Tasmania in 1910 (Neumark and David Wascher, 2008). The United States first established the minimum wage laws in Massachusetts in 1912 (Neumark and David Wascher, 2008; Nordlund, 1988). Minimum wage laws were enacted in the eight states of United States (California, Wisconsin, Minnesota, Utah, Colorado, Nebraska, Oregon, and Washington) in 1913. Minimum wage laws were approved in the Arkansas and Kansas in 1915 (Nordlund, 1988). The minimum working age and maximum hour's laws for children in U.S. were established by the Congress in 1916 and 1919 (Bureau of Labor Statistics, 1982). A flat rate minimum wage law was enacted in Arizona in 1917. A minimum wage law was enacted for the District of Columbia by the U.S. Congress in 1918. Minimum wage law was approved for the states Texas and North Dakota, and Puerto Rico in 1919 (Nordlund, 1988). Many aspects of the U.S. minimum wage laws as noted in 1923 were similar to the outlines of minimum wage laws in Australia and England. The laws mostly implemented only to women and children according to the courts (Neumark and David Wascher, 2008). The state minimum wage laws were abolished in 1923 using the Adkins decision as the foundation of rulings by supreme courts in three states, Arizona, Arkansas, and Kansas (Court, 1937). A legal alteration was proposed by the Congress in U.S. to allow the Federal Government to regulate child labour in 1924. A fair wage instead of living wage was established by New York in 1933 (Nordlund, 1997). President Roosevelt urged employers to agree to a workweek between 35 to 40 hours and a min wage of \$12 to \$15 a week by signing the National Industrial Recovery Act (NIRA) in 1933 (Grossman 1978). Other states in U.S. also established the fair wage in 1935 (Nordlund, 1997). NIRA was declared as illegal by the Supreme Court in 1935. It caused many employers not to practise the wage and hours practices that they had agreed to under the NIRA. U.S. supreme court declared that the New York law as illegal in 1936 (Neumark and David Wascher, 2008). The NIRA was declared unconstitutional in May, 1935 (Nordlund, 1988).

Roosevelt renewed his efforts to implement a federal minimum wage after his reelection in 1936. The minimum wage laws of Washington were upheld by the court by a 5-4 vote. The laws were then upheld by Justice Owen Roberts (Alunan, Susan, Lisel Blash, Brian Murphy, Michael J. Potepan and Hadley Roff, 1999). Massachusetts established the first child labour and compulsory school attendance laws in 1836 and 1852 respectively (U.S. Department of Labor, 1967). The Congress proposed for a labour standards bill in 1937 which included a federal minimum wage of 40 cents per hour and a board with five persons which could increase the minimum wage rates in certain industries after review (Arango, 2004). Income differential between the rates set by the state's Minimum Wage Commission and what the employer actually paid was required by the Washington State Supreme Court in Parrish in 1939 (Court, 1937). In 1937,

minimum wage laws were in force in twenty-two of the forty-eight states, the District of Columbia, and Puerto Rico nine months after the favourable decision in Parrish (Cheyney, 1938).

The National Minimum Wage was enacted within the federal legislation known as the Fair Labor Standards Act on June 28, 1938. It established a minimum wage of \$0.25 at the time (approx. \$3.22 in 2005) (History, 2012d). The Fair Labor Standards Act (FLSA) was signed into law by President Roosevelt on June 25, 1938. However, it was only declared effective 120 days after the presidential signature. Therefore, the effective date for FLSA was October 24, 1938. The initial statutory hourly minimum wage was 25 cents (Nordlund, 1988). The administrative structure was developed soon after the establishment of the FLSA in 1938. There were five initial branches: Wage and Hour Standards, Cooperation and Inspection, Administrative, Legal, and Information. The Wage and Hours Standards Branch was replaced by three separate branches: Research and Statistics, Industry Committees, and Hearings after one year. The original Wage and Hour Division functioned through 15 regional offices and 15 branch offices within the regional structure. Compensation of at least one and one-half times the regular hourly wage rate applied to all hours in excess of 44 on October 24, 1938 (Nordlund, 1988). Only sixteen states had 16 years old as the minimum age for factory employment at 1938. The minimum age was 15 in three states, 14 in twenty-four states, while eight states still permitted exceptions to be made in the case of children under 14 (Du Pre Lumpkin, 1939). The minimum wage was increased to thirty-cents per hour on October 24, 1939. The overtime provisions applied to all hours in excess of 42 on October 24, 1939. The overtime provisions applied to all hours in excess of 40 on October 24, 1940 (Nordlund, 1988). Child labour provisions were codified in the Act in 1940. The FLSA prohibited the shipment in interstate commerce of any goods produced in any establishment in or about which any 'oppressive child labour' has been employed (U. S. Department of Labor, 1941). Four years later (August 21, 1942), the Wage and Hour Division absorbed the functions of the Division of Public Contracts to become the Wage and Hour and Public Contracts Division. The minimum wage was increased to forty-cents per hour October 24, 1945 (Nordlund, 1988).

Employees involved in overtime and minimum wage violations were found to be due over \$2.5 billion in back wages between 1946 and 1987. The Wage and Hour and Public Contracts Division absorbed the Child Labor and Youth Employment Branch and renamed it the Child Labor Branch. Between 1951 and 1987, over 6.6 million employees were found to be due back pay attributed to minimum wage violations. Similarly, about 8.5 million employees were found to be due back pay for overtime violations. The local government reorganised the Office of Assistant Administrator for Wage Determinations, Regulations and Exemptions, and Research and Statistics into two offices: the Office of Wage Determinations and the Office of Regulations and Research which was monitored by an Assistant Administrator. The FLSA has been amended six times since



1938 for two purposes: to raise the minimum wage rate and to limit or expand coverage. The FLSA provides minimum wage, overtime, and child labour protection to millions of American workers. The configuration of the Wage and Hour Division of 1988 was primarily determined through a restructuring in 1973. The Wage and Hour Division was one of three programs comprising the Employment Standards Administration in the U.S. Department of Labor (Nordlund, 1988).

28 percent of the boys in 14 to 15 years old were in the labour force in 1948. As reported in the U.S. Minimum Wage Study Commission in 1981, a 10% increase in the statutory minimum wage could reduce teenage employment by as much as 1 to 3 percent. 17 percent of 14 to 15 years old were in the labour force by 1985 (Bureau of Labor Statistics, 1982:561). The number of Wage Councils had increased to 66 covering 3.5 million workers in sectors like retail distribution, catering and hotels, clothing, laundries and road haulage in 1953. A further 0.4 million of workers came under the separate Agricultural Wages Boards. The coverage and scope of the Wages Councils in Britain was reduced in the 1970s and 1980s. The first TUC joint the National Minimum Wage in 1985 led by Rodney Bickerstaff from the National Union of Public Employees and supported by Chris Pond from the Low Pay Unit pressure group. The Labour Party joint the National Minimum Wage in 1986 and led by Rodney Bickerstaff from the National Union of Public Employees and supported by Chris Pond from the Low Pay Unit pressure group. When the Wages Councils in Britain were abolished in 1993 they covered some 2.5 million workers. The election of the Labour government was done in May 1997. After that, the enactment of Low Pay Commission (LPC) was in July 1997. Its first report (LPC, 1998) formed the basis for the National Minimum Wage which was introduced in 1999. The chairman of LPC is George Bain, the Vice Chancellor of Queens University. A National Minimum Wage (NMW) of £3.60 an hour for those aged 22+ is to be paid from April 1999 with a lower rate for those aged 18-21 (Metcalf, 1999). All areas of statutory wage regulation (except agriculture) were consolidated under the wages council system in Britain in 1959. There were many changes made to the Trades Board Act of 1909, including a widening of the jurisdiction of the wages council to cover all terms and conditions of employment and not just wages and holidays (Andrew Hillier, 1982).

The minimum wage laws only implemented to a limited range of industries according to Kahn Freund. They were 43 wages council covering a total of some 3 million workers in 1975 (11.5% of the country's workforce at that time) according to the figure (Department of Employment Gazette, 1977:489). The minimum wage only achieved approximately 70.5 per cents of a poverty level income and it is the lowest value since 1940's. Therefore, the statutory minimum wage was increased again by the Congress in 1989. Commission's methodology in 1989 suggested that trade-off would reduce teenage employment by only about 0.5% and have no measurable impact on the employment of older individuals due

to the decline in teenage population and the value of minimum wage. The scheduled \$4.25 hourly rate in 1991 was estimated to achieve for full time, year round work and about four-fifth of a poverty line income for a family of three (Gallo, 1990).

### 3. METHOD OF STUDY

The method of study implemented in this research is systematic literature review. To improve the shortcomings of traditional literature review, Transfield et al. (2003) introduced the systematic literature review which is usually used in the medical science field. The traditional narrative review uses a rigorous, replicable, scientific and transparent process with the purpose of identifying, selecting, appraising, analysing and synthesising, in a systematic and comprehensive way, research evidence on a specific research topic (Cook et al., 1997; Transfield et al., 2003; Moynihan, 2004). However, the systematic review does not use statistical and econometric procedures for synthesising findings and analysing data (Transfield et al., 2003). The major purpose of using systematic review in a research is to determine the key scientific contributions of a particular area. The results are discussed and presented in descriptive way. There are a number of advantages in applying a systematic review, for instance, it helps to control bias such as systematic errors, reduce chance effects, enhances the legitimacy and authority in ensuing evidence. Thus, it provides more reliable results on making the decisions and conclusions.

The basic steps for a systematic review include:

- 1) Formulate an explicit research question
  - 2) Set inclusion and exclusion criteria
  - 3) Find relevant studies
  - 4) Select the studies according to the inclusion and exclusion criteria
  - 5) Assess the quality of retained studies
  - 6) Summarise and synthesise study results
  - 7) Interpret the reviewed results
- (Alderson et al. and Moynihan, 2004; Transfield et al., 2003)

- 1) Formulate explicit research questions

What is the historical framework of minimum wage policy? Which countries originated minimum wage policy? How is the implementation of minimum wage policy in Malaysia? What are the pros and cons of minimum wage policy? What are the responses by government, employers and employees pertaining to the implementation of minimum wage policy?

## 2) Set inclusion and exclusion criteria

### *The inclusion criteria*

Any publication forms of articles (Journal articles, books, Encyclopedia articles, Newspaper Articles, Report, Thesis, Web page and Working paper) which are relevant to the history, origin, implementation of minimum wage policy in Malaysia, pros and cons of minimum wage policy and responses by government, employers and employees on the implementation of minimum wage policy in Malaysia are included in literature review.

### *The exclusion criteria*

Any publication forms of articles as stated above which are not relevant to the purpose and title of the research are excluded from the literature review.

## 3) Find relevant studies

The researcher applied a three stages strategy to search and identify the articles included in the systematic review. First, the researcher performed a computerized search by using multiple keywords in three databases, namely Business Source Complete of EBSCOHOST, Economics field of Ebrary and Emerald Management Extra Plus. These three databases provide access to scientific journals in Business and Management, Economics, Human resources (Minimum Wage) and etc. The researcher narrows the computerized search by using keywords such as history of minimum wage and origin of minimum wage. Using the approaches mentioned above, the researcher successfully identifies 421 potential articles for the systematic review.

## 4) Select the studies according to the inclusion and exclusion criteria

There is a double screening performed on the identified articles. A first sorting of the articles based on the purpose and title of the research enabled the researchers to exclude 205 papers which did not meet the inclusion criteria. Therefore, there are 216 potential articles for second sorting and analysis. The second screening excludes 11 which did not meet the inclusion criteria. Finally, there are a total of 205 articles which matches the inclusion criteria. In addition, software named Mendeley is used to manage and organise the articles searched to facilitate the work of referencing for the articles.

## 5) Assess the quality of retained studies

The 205 articles selected in the final stage are studied and analysed again to determine the quality of the articles. However, no article is filtered out because it is relevant to the purpose and title of the research.

### 6) Summarise and synthesise study results

Some important parts of the finalised 205 articles are rewritten using Ms Excel and Ms Word. Subsequently, the notes are summarised to identify the key events of minimum wage policy. When this is done, the researcher proceeds to identify the key history events which are related to minimum wage policy.

### 7) Interpret the reviewed results

The result from the previous stage is a table about the key events of minimum wage policy and another table about the key history events which are related to minimum wage policy. A journal about the minimum wage policy is produced based on the information in these two tables.

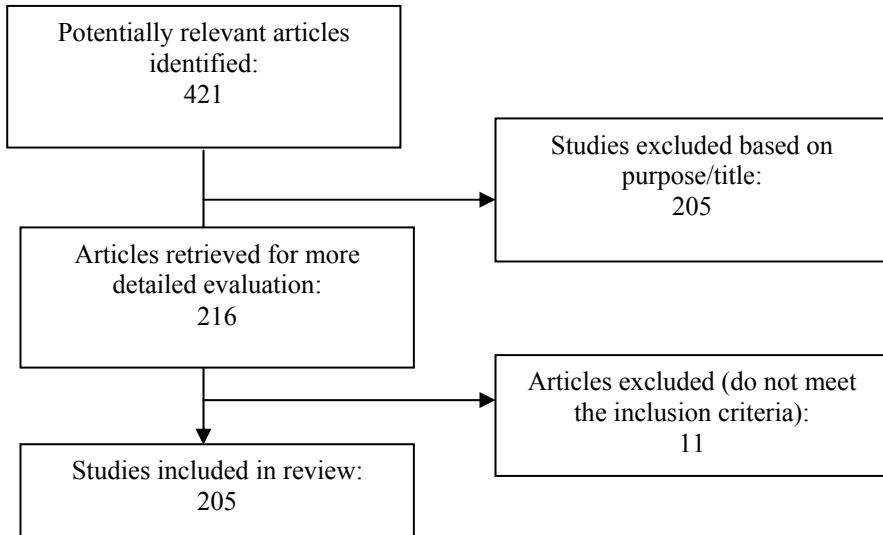


Figure 1: Systematic Literature Review Flow Diagram (Becheikh, Landry and Amara, 2006)

## 4. FINDING AND ANALYSIS

### 4.1 The Minimum Wage Rates in the Major Countries of the World

The minimum wage rate (measured in US Dollar) of European countries and other countries according to Organisation for Economic Cooperation and Development (OECD)<sup>3</sup> are listed as follows. The European country which hit the highest minimum wage rate by year 2013 is United Kingdom: \$22.00. The European country with the second highest minimum wage rate by year 2013 is Australia: \$20.00. The two European countries with the third highest minimum wage rate by year 2013 are Luxembourg and Netherlands: \$19.00. Malaysia had a very low minimum wage rate in 2013 compared to the rest of the world, which is \$4.00. This could be due to Malaysia having just implemented the minimum wage policy since the year 2013. The minimum wage rate for the countries in Table 1 and Table 2 in year 2013 is a measure of currency based on the value of the United States dollar in 2009 (Minimum-Wage.org, 2013).

The rest of the European countries with lower minimum wage rates are shown in the following table:

Table 1: The minimum wage rates in the European countries

Country	Year (measured by US Dollar)			
	2000	2005	2011	2013
Australia	\$8.38	\$11.45	\$15.75	\$20.00
Luxembourg	\$8.31	\$12.22	\$14.21	\$19.00
Ireland	\$6.74	\$10.16	\$12.03	\$18.00
France	\$7.04	\$10.70	\$12.55	\$17.00
Netherlands	\$7.30	\$9.99	\$11.38	\$19.00
New Zealand	\$4.57	\$7.90	\$10.22	\$16.00
Canada	\$5.64	\$6.75	\$9.76	\$16.00
United Kingdom	\$7.05	\$10.66	\$9.57	\$22.00
United States	\$6.73	\$5.93	\$7.25	\$15.00
Greece	\$3.40	\$4.86	\$5.79	\$11.00
Spain	\$3.06	\$4.25	\$5.13	\$11.00
Portugal	\$2.23	\$3.02	\$3.88	\$9.00
Hungary	\$0.94	\$2.23	\$2.24	\$6.00
Poland	\$1.23	\$1.81	\$2.69	\$8.00

Source: (Minimum-Wage.org, 2013; OECD, 2013b)

<sup>3</sup>The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. OECD uses its wealth of information on a broad range of topics to help governments to foster prosperity and fight poverty through economic growth and financial stability. OECD ensures the environmental implications of economic and social development are taken into account (OECD, 2013a).

Apart from that, the minimum wage rates for other countries are shown in the following table:

Table 2: The minimum wage rates in the other countries

Country	Year (measured by US Dollar)			
	2000	2005	2011	2013
Japan	\$5.89	\$6.00	\$9.16	\$11.00
South Korea	\$2.12	\$3.45	\$3.90	\$10.00
Israel	-	-	\$6.40	\$12.00
Slovenia	\$3.06	\$4.19	\$5.97	\$9.00
Turkey	\$5.44	\$3.39	\$2.81	\$7.00
Czech Republic	\$0.86	\$2.19	\$2.72	\$6.00
Slovak Republic	\$0.77	\$1.47	\$2.53	\$6.00
Estonia	-	-	\$2.22	\$5.00
<b>Malaysia</b>	-	-	-	<b>\$4.00</b>
Mexico	\$0.76	\$0.67	\$0.58	\$1.00

Source: (Minimum-Wage.org, 2013; OECD, 2013b)

Apart from the countries shown in the table above, the countries implementing the Minimum Wage Policy include: Afghanistan, Albania, Algeria, Andorra, Angola, Antigua and Barbuda, Argentina, Armenia, Austria, Azerbaijan, The Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Democratic Republic of the Congo, Republic of the Congo, Costa Rica, Côte d'Ivoire, Croatia, Cuba, Cyprus, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Federated States of Micronesia, Fiji, Finland, Gabon, The Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Iran, Iraq, Israel, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, North Korea, Kosovo, Kuwait, Kyrgyzstan, Laos, Latvia, Lebanon, Lesotho, Liberia, Libya, Liechtenstein, Lithuania, Republic of Macedonia, Madagascar, Malawi, Maldives, Mali, Malta, Marshall Islands, Mauritania, Mauritius, Moldova, Monaco, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nauru, Nepal, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, São Tomé and Príncipe, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, Singapore, Slovakia, Slovenia, Solomon Islands, Somalia, South Africa, Spain, Sri Lanka, Sudan, Suriname, Swaziland, Sweden, Switzerland, Syria, Taiwan, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Trinidad and Tobago,

Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vanuatu, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe (Wikipedia).

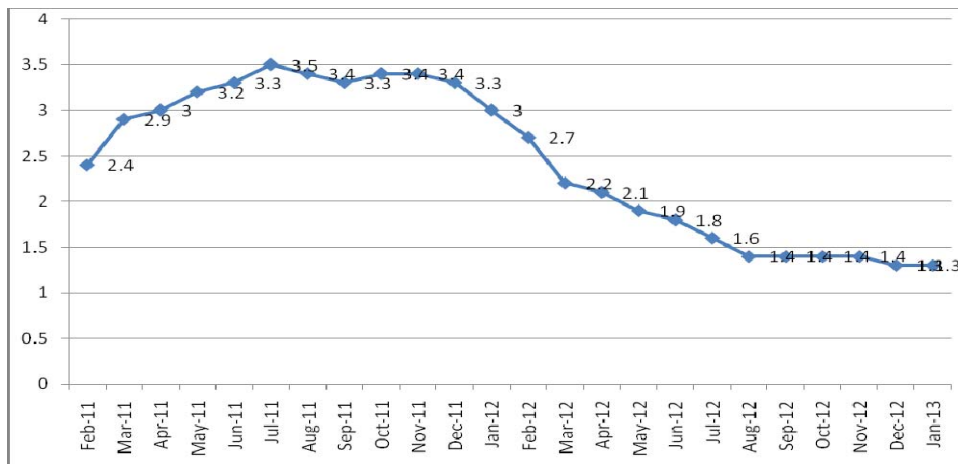
#### **4.2 Implementation of Minimum Wage Policy in Malaysia**

According to Prime Minister Datuk Seri Najib Tun Abdul Razak, a minimum wage policy complements the National Transformation Policy with the long term goal to drive Malaysia towards becoming a high-income nation. In fact, Human Capital Development under the Economic Transformation Programme had introduced the National Minimum Wage Policy as part of the Strategic Reform Initiatives (SRI) (Team, 2013). The Strategic Reform Initiatives (SRIs) highlights on the issues of over-reliance on low-cost unskilled foreign labours to guarantee more job opportunities to the local workers. Apart from that, National Minimum Wage Policy guarantees an equitable level of income particularly in relation to the national poverty line income (PLI). These aims fulfil the objectives of Economic Transformation Programme, which is to upgrade the standard of living of Malaysians and turns Malaysia into high income earning nation.

In fact, a large portion of business owners in Malaysia rely on low labour cost to maximise their profits. A high-income economy should not rely on low-cost labour to speed up progress of development. As a matter of fact, business owners in Malaysia should be creative and innovative; to think of alternative way to earn a profit such as by upgrading the technology implementation in the businesses. According to former Malaysian Human Resources Minister, Datuk Seri Dr S. Subramaniam, part of the transformation process for local workers is to phase out foreign workers in Malaysia (N. S. Times, 2012).

According to the Malaysia Equity Research Team, labour cost constitutes 9 percentages of total production costs for the whole economy of Malaysia. There are 26 percentages of workers in Malaysia estimated to be advantageous from the National Minimum Wage Policy. It comprises of 2.4 percentages of total production cost according to estimation of Malaysia Equity Research Team (Team, 2013). The wage growth of Malaysia which was 2.6% per annum was slower than productivity growth of Malaysia which was 6.7% per annum (World Bank, 2011). Therefore, implementing National Minimum Wage Policy will not trigger extreme inflation rate pressures. According to Bank Negara, the inflation rate of Malaysia can be sustained to an average 2% to 3% for 2013. Due to the strong local demand (8.1%), expansion of private investment (15.6%), low unemployment rate (3.1%) and better global outlook, the Malaysian economy is forecasted to grow at 5% to 6% in 2013 (Shan, 2013).

The most essential categories in the consumer price index (CPI) of Malaysia are food and non-alcoholic beverages (30% of total weight), followed by housing, water, electricity, gas and other fuels (23% of total weight) (Economics, 2013). The inflation rate since early 2011 to January 2013 is shown in the Figure 2:



Source: ([www.tradingeconomics.com](http://www.tradingeconomics.com) and Department of Statistics Malaysia, 2013)

Figure 2: Malaysia Inflation Rate (Annual Change on Consumer Price Index)

The inflation rate was high at the early and middle year of 2012 as shown in the Figure 2. The high inflation rate indicated the high living cost. In fact, the high living cost were pressuring households in general. There was a 1.3% rise in the consumer price index (CPI) since October 2012 due to the higher food prices in Kuala Lumpur (Chin, 2012).

The rise of CPI index for food had increased the living cost of Malaysian residents. This indirectly increased the financial burden and eroded purchasing power of people living in Malaysia. Therefore, a minimum wage policy which could lead a rise in nominal wage of Malaysian residents is believed to be able to adjust wages and salaries to match the rise of living cost. This is one of main concerns which induced the Malaysian government to enforce a minimum wage policy in Malaysia.

## 5. DISCUSSIONS

**Employers:** A group of 100 people, named the Minimum Wages Implementation Steering Committee protested against the implementation of minimum wage for foreign workers in front of the Human Resources Ministry at Putrajaya. Firstly, they demanded the Government to maintain the current wage level of foreign workers. Second, they demanded the ministry to reassess the minimum wage requests in order to replicate the standard of the living in different regions of



Malaysia. Thus, it enables the Finance and International Trade and Industry ministries to evaluate the effects of minimum wage on Malaysians. They believed that minimum wage may cause hyperinflation in Malaysia because large amount of money will flow out from Malaysia when foreign workers send income back to their home countries. Therefore, they strongly object the implementation of minimum wage for foreign workers but not against minimum wage for Malaysians (Star, 2013b).

Due to the dissatisfactions against the National Minimum Wage Policy, there are many employers refused to adhere to the law. 4500 companies had applied to defer the National Minimum Wage Policy due to financial constraints and 600 companies were permitted to delay the implementation of National Minimum Wage Policy for three to six months from the deadline (Chun, 2013).

There were a number of companies at Batu Pahat, Johor studying to reduce bonus, overtime and allowances (housing, utilities and transportation) to offset increase of production or service costs subsequent to implementation of the minimum wage policy. Some companies planned to reduce costs by employing less staff and required the existing staff to work on more duties and tasks (Tan, 2012).

**Employees:** Oriental Daily News and China Press reported that there were 4,000 foreign workers at Seremban and Muar who went on a strike before they protested and demonstrated to press for a minimum wage of RM900 per month. The foreign workers were from Bangladesh, Nepal, Vietnam, Sri Lanka and Indonesia. They demanded the management of companies to treat its foreign and local employees equally and fairly. According to a Nepalese worker, only local workers were given the minimum wage of RM900 per month. Most of the foreign workers were receiving basic wages of between RM240 and RM500 a month (Hoh, 2013). In addition, foreign workers of some furniture factories in Johor had gone on strike as they were afraid that their employers would stop providing them housing and other allowances. Some local workers who are earning RM 1,100 demanded for pay increase because they feel it is unfair for foreign workers to receive extra RM300 pay increase on top of housing allowance (Tan, 2012). At Bangi Malaysia, there are 50,000 foreign workers at petrol stations nationwide are expected to be terminated from jobs in year 2013 since the implementation of minimum wage in January 2013 due to the raise of labour cost (Star, 2013c). In response to the numerous feedbacks from employers and foreign workers, Government had taken the necessary action as stated below.

**Government:** The Cabinet at Putrajaya had agreed to restore a 1992 ruling to put the burden of levy on foreign workers instead of their employers. Finance Minister II Datuk Seri Ahmad Husni Hanadzlah stressed that the enforcement of levy on foreign workers will not trouble them because the levy paid is only between RM34.16 and RM154.16 per month. The former Human Resources

Minister Subramaniam stressed that the government is determined to convert the economy to be less dependent on low-cost labours (Lee Yen Mun, 2013). In conjunction with the numerous negative feedbacks about the implementation of minimum wage policy on foreign workers, Government had decided to defer the implementation of minimum wage policy on foreign workers working in Small and Medium Enterprises (SME) until 31<sup>st</sup> Dec 2013 (Star, 2013a).

## 6. CONCLUSION

Minimum wage policy is a global wide practice. However, the pros and cons of this policy have always been debated by the public. The supporters of this policy stated that it is able to raise the standard of living for people, reduces poverty, increase the purchasing power of consumers and indirectly it will boost the aggregate demand of the nation. The efficiency wage models of labour markets Rebitzer and James B. (1995) claimed that a higher minimum wage will stimulate the economy by raising the purchasing power of the household. In addition, Filene (1923) believed that raising the minimum wage indirectly could boost the aggregate demand of a nation by raising the purchasing power of consumers. Moreover, Sidney (1912) stated that a minimum wage would encourage those workers to double up their efforts and abilities and would prompt employers to reduce other inefficiencies in their business practices. Wages have been lagging behind productivity growth, rising 2.6% per annum versus a productivity growth of 6.7% per annum over the past decade (Elangkovan, 2013). This statement obviously shows that the wages growth in Malaysia is far too slow compared to the productivity growth. The workers deserve equitable compensation for what they had contributed to their employers. Therefore, the supporters of minimum wages strongly support the National Minimum Wage Policy.

On the other hand, there were arguments about the cons of minimum wage policy from many economists. Firstly, Clark (1913: 290) claimed that minimum wage raising the wages of workers may reduce the demand for labour and thus reduce the number of workers employed. Leonard (2003) claimed that Clark believed the only effective ways to raise the incomes of low-skilled workers in the long run is to raise the productivity of workers. Thus, Clark claimed that minimum wages is applicable when workers are exploited in non-competitive labour markets. In addition, Lees Smith (1907) and Taussig (1916) emphasised that minimum wage would reduce the employment of lower-skilled workers according to the economy theory. In summary, the opponents claimed that implementation of minimum wages raise unemployment, especially among the low-skilled labours with very low productivity. In addition, minimum wages may cause inflationary effect. Minimum wages raise production costs by increasing the labour costs. Subsequently, the increased production costs may raise the general price level of consumer products and may cause inflation in the country.

The implementation of minimum wage policy in Malaysia is still at the initial stage. Despite the many pros and cons of the minimum wage policy, the Malaysian government has to proceed with its implementation in order to generate an accurate conclusion over its feasibility. Therefore, the feasibility of minimum wage policy in Malaysia will be further researched.

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