

The 300 baht minimum wage

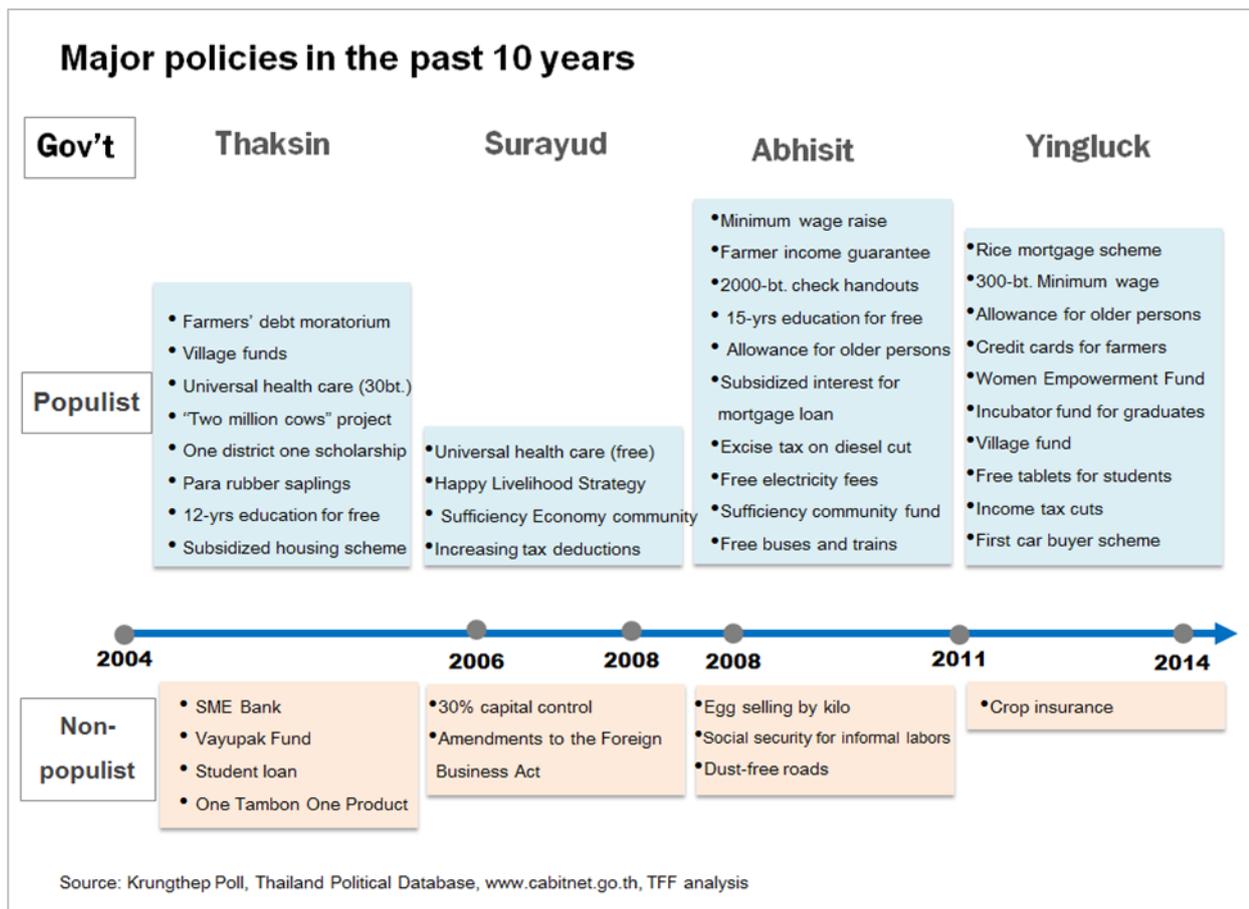
What has happened, what needs to happen



The past 10 years have not been a stellar time for economic policy making in Thailand.¹ The country has seen 6 different governments over the past 10 years. But regardless of who was in power, the overwhelming majority of the policies enacted have been essentially populist in nature, running the gamut from the reasonably sensible (e.g., heavily subsidized health and education) to the unreasonable (free buses, trains, and

electricity, tablets for kids) and the senseless (handouts of the 2,000 baht “checks to help the nation,” subsidies for first car buyers, and the fiscally onerous rice mortgage scheme). Non-populist policies have been few, and several have had unwelcome effects (e.g., capital controls in the form of the 30% unremunerated reserve requirement, revisions to the Foreign Business Act). Policies to improve the country’s productivity have been essentially absent. (See Figure below).

¹ This paper is an abridged version based on a longer paper available in Thai at www.thailandfuturefoundation.org



Furthermore, the country's competitiveness has been eroded by the sharp increase in the minimum wage implemented two years ago.

The new 300 baht minimum wage was a more than 70% increase in the statutory minimum wage.² At the time, it was expected that the policy would result in significantly higher wages, inflation, unemployment, firm relocation and closures,

but lower non-wage benefits, regulatory compliance, and competitiveness. **What has actually happened two years after the (initial) hike in the minimum wage?³**

² Previously, statutory daily minimum wages varied by province, ranging from 171 to 215 baht, with an average of 176 baht. Under the new policy, minimum wages were raised to 300 baht uniformly across the country. The policy was announced in August 2011. The minimum wage was raised in 7 pilot provinces in April 2012 and rolled out to the remaining provinces in January 2013.

³ The analysis is mainly based on data drawn from Labor Force Survey 2003-2013, conducted by the National Statistical Office in Thailand. Note that we are simply recapitulating what has actually happened since the imposition of the new minimum wage and not claiming that all of what happened can be attributed to the wage hike. Other factors have obviously had an impact on what actually transpired. In several cases where it is possible to construct a reasonable explanatory model with the data (e.g., wage and price inflation), attempts have been made to control for such other factors to try to isolate the impact of the minimum wage. The data clearly indicate a "structural break" from the imposition of the policy.



What has happened

1 Average wages in the private sector have increased by almost 40%.

Average wages were 456 baht per day in 2013, up almost 40% from 328 baht in 2010. While not all of the increase can be attributed to the minimum wage hike, much of it can. In the 7 years prior to the new minimum wage policy, nominal wages increased by only 3.3% per annum, barely keeping pace with inflation, which averaged about 3.0%.

2 Contrary to expectations, inflation has not increased markedly.

While the official headline figures probably understate actual inflation, headline consumer price inflation in 2012 was only 2.2%, lower than the ~3% recorded previously. This is in marked contrast to many expectations. The Ministry of Commerce, for example, estimated back in 2011 that the new minimum wage would increase inflation by 4% to 7%. (See Figure 1)

3 Neither has unemployment.

Back in 2011, one institute forecast a possible increase of 1.2 million unemployed from the policy. What actually happened was the number of unemployed has dropped by about 40,000 and the official unemployment rate remains low at 0.8%.

4 Non-wage benefits have been reduced.

As expected, employers have cut non-wage benefits (e.g., subsidized food, clothing, and lodging) by about 20%, but these benefits represent a (very) small portion of total compensation and have been largely offset by an increase in non-wage compensation (e.g., tips, overtime, and bonuses).

5 Compliance has dropped somewhat: close to 30% of workers still earn below the new 300 baht statutory minimum.

This is up from the 22% recorded in 2010 prior to the minimum wage hike.

6 Firms have not really relocated across provinces.

Contrary to expectations, firms have not really relocated away from outlying provinces which previously had lower statutory minimum wages as a result of the new uniform nationwide minimum wage. The pattern of employment by province has hardly changed. Even in the 20 provinces with the largest increases in the statutory minimum wage, employment decreased by only 0.5%.



7 But annual firm closures have more than doubled. In the years prior to the new wage policy, firm closures tracked at around 7,000+ per year. They have increased steadily since then, reaching over 17,000 in 2013. While the floods at the end of 2010 probably accounted for some of the increased closures observed in 2011, much of the subsequent increase has probably been due to higher wages.⁴ (See Figure 2)

8 Workers earning the lowest wages have not been the biggest beneficiaries of the minimum wage hike. As noted previously, average private sector daily wages increased by almost 40% to 456 baht. But wages for many who earn significantly below the average increased by less. Retail and restaurant employees and security guards, for example, earn about 20-30% below the national average, but their wages increased by only about 25%, below the average increase of 40%. Agricultural wage workers on average earn only 260 baht, up by a third but still below the new minimum wage. (See Figure 3)

9 Wages have outpaced productivity growth, causing our competitiveness to have declined relative to where we were 10 years ago. Over the past 10 years, labor productivity in Thailand grew at a relatively lackluster 2% per year on average. But prior to the minimum wage hike, real wages (excluding inflation) grew by even less, helping to maintain our competitiveness.

Since the hike, however, real wages have significantly outpaced productivity growth. Cumulative growth in real wages have outpaced productivity by about 5 percentage points over the past 10 years, resulting in a decline in our competitiveness. (See Figure 4)

What needs to happen

The increase in the minimum wage has helped raise incomes and living standards. Past wage increases barely kept pace with inflation.⁵ But while the sharp increase in the minimum wage may not have had the deleterious impact that people had feared (higher inflation, unemployment, non-compliance, and relocation), it has been a case of “too much, too soon” as reflected by the high number of firm closures and the decline in our competitiveness. At least two other things need to happen.

First and foremost, get our productivity growth up. The things we need to do on this front are well known, e.g., getting investment going (both in the public and private sector); educational reform to produce the kind of skills needed by the marketplace; better R&D to help us move up the value chain. But as the review of economic policies of the past 10 years clearly demonstrates, these are not the things we are doing. What we have done instead are populist measures in the form of numerous freebies and handouts.

⁴ If the increase were due largely to the floods in 2010, we should have seen a spike in closures in 2011 followed by a drop in 2012 and 2013, not a steady increase.

⁵ Inflation faced by lower income households has also actually outpaced average headline inflation by about 0.5%.

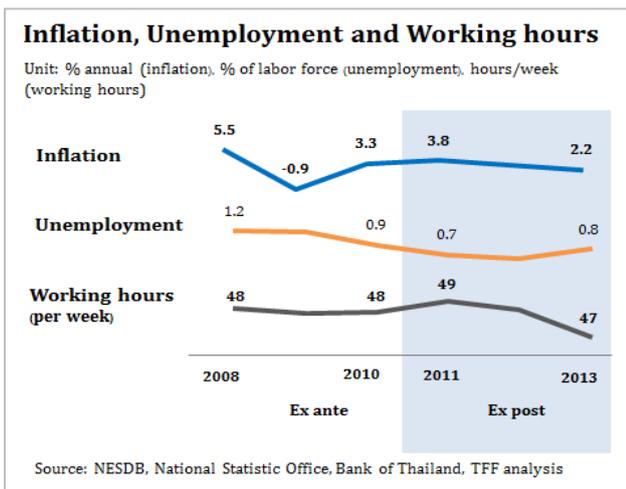


Second, targeted social protection for the most vulnerable. As has been documented elsewhere, the bulk of the benefits of many of the various populist schemes and handouts (e.g., rice mortgage, first car) have not benefited the poorest or most vulnerable. As we saw, neither have the poorest been the biggest beneficiaries of the increase in the minimum wage.

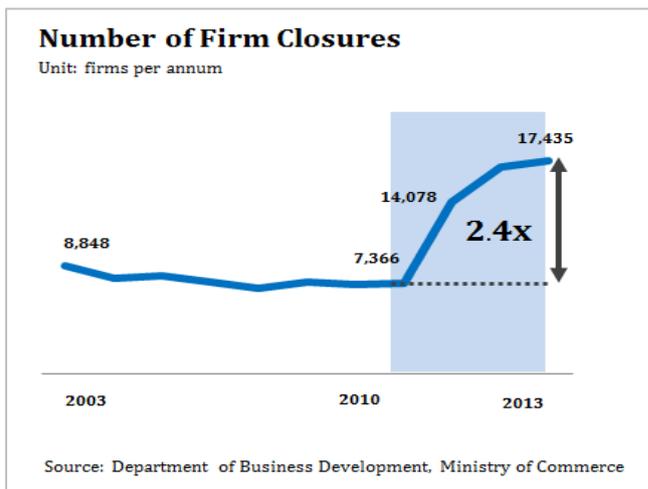
Productivity growth is the only way to increase real wages and living standards sustainably. We cannot just legislate or regulate our way to higher living standards. If it were that easy, every country would simply mandate higher minimum wages and poverty would not exist in the world. Far better to direct our resources and attention away from poorly targeted populist schemes and towards improving productivity.

The 300 baht minimum wage: What has happened, what needs to happen

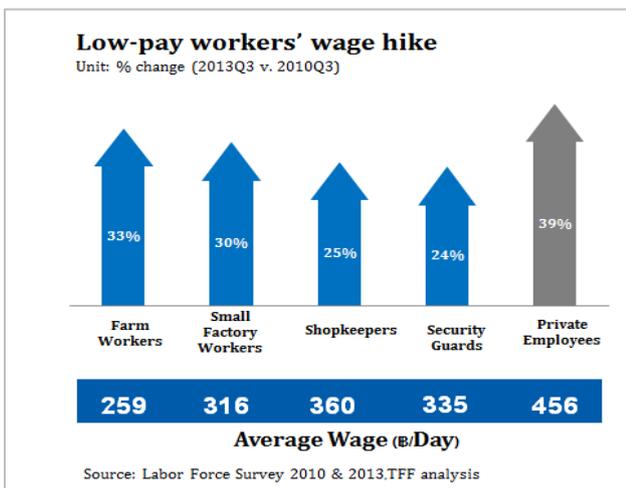
1 Inflation and unemployment have not increased markedly



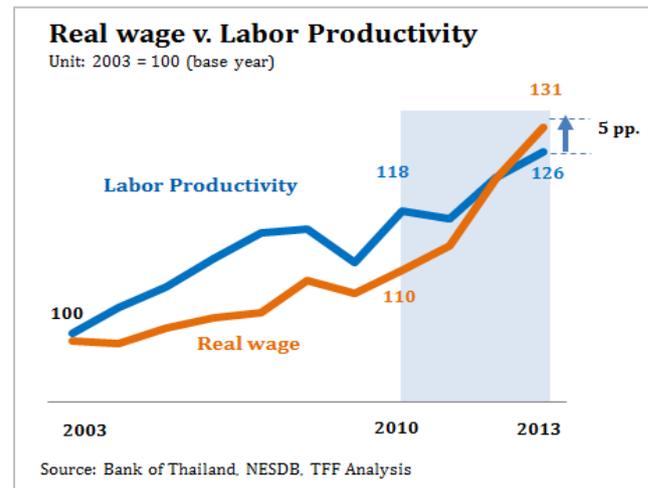
2 But annual firm closures have more than doubled



3 Workers earning the lowest wages have not been the biggest beneficiaries of the minimum wage hike



4 Wages have outpaced productivity growth, worsening competitiveness



Report Contributors

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Thailand Future is a non-profit foundation set up to conduct research and engage leaders from the business, policy and academic communities in informed discussion about issues of importance for the country with a view towards formulating them into implementable recommendations.

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