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The Need for a Regional Minimum Wage in Malaysia



SERC SDN BHD

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List of Abbreviations

ASEAN	Association of Southeast Asian Nations
DOSM	Department of Statistics Malaysia
EPF	Employees Provident Fund
GDP	Gross Domestic Product
ILO	International Labour Organization
MSMEs	Micro, Small, and Medium Enterprises
MWO	Minimum Wage Order
NWC	National Wages Council
NWCC	National Wages Consultative Council
NWPC	National Wage and Productivity Commission
OECD	Organisation for Economic Co-operation and Development
PAKW	Basic Expenditure of Decent Living
PLI	Poverty Line Income
RM	Ringgit Malaysia
RSE	Relative Standard Error
STAR	Subcommittee on Technical Affairs and Review, Thailand
US	United States

Executive Summary

Malaysia's minimum wage policy was first introduced in 2013. Throughout the period 2013-2025, the minimum wage has been revised five times (2016, 2019, 2020, 2022, 2025) from RM900 per month in 2013 to RM1,700 per month in 2025, marking an increase of 88.9%.

The minimum wage policy initially differed between Peninsular Malaysia and Sabah and Sarawak, a practice that lasted until 2018. While the minimum wage was uniformly set at RM1,100 per month between January 2019 and January 2020, the Government introduced a transitional adjustment, raising minimum wage to RM1,200 per month in city and municipal council areas, while other areas remained at RM1,100 per month since February 2020. Started May 2022, this was replaced by a uniform national minimum wage again at RM1,500 per month and subsequently raised to RM1,700 per month with effect from February 2025, with microenterprises who hired less than five employees can comply at a later phase. While these reforms were intended to promote equity and standardisation, persistent gaps in compliance continue to undermine their effectiveness.

There are calls now for establishing a minimum wage rate based on states and local conditions, accounting for differences in socio-economic conditions and demographic. Regional minimum wages can be a better option than a single national minimum wage policy because they can account for regional differences in cost of living, socioeconomic factors, and labour market conditions.

The following arguments validate for the implementation of a regional minimum wage:

- a) **Better reflection of localised economic realities.** Different states have different economic and business conditions, with varying level of income levels, labour market conditions, and business costs. Hence, a regional minimum wage can better accommodate differences in minimum wage.
- b) **More equitable distribution of income.** By adjusting the minimum wage based on varying cost of living across different states/regions while considering local economic and business conditions. This can help ensuring that workers in high-cost areas can afford necessities while not unduly burdening businesses in lower-cost areas.
- c) **Stimulating local economies.** Higher minimum wage for workers living in high cost of living areas can help to improve their purchasing power, supporting domestic spending and spur economic activity.
- d) **Reducing labour market distortions.** A uniform minimum wage might force some businesses operating in slower economic growth amid high business costs areas to reduce employment due to higher labour costs. A regional minimum wage would better align wages with local economic conditions.

This paper reviews the current minimum wage determination, and its appropriateness, explores the option of implementing regional minimum wage, and its challenges.

Chapter 1: Malaysia's Minimum Wage: Structure and Implementation

1.1 The Minimum Wage in Malaysia

The minimum wage policy initially differed between Peninsular Malaysia and Sabah and Sarawak, a practice that lasted until 2018. While the minimum wage was uniformed at RM1,100 per month between January 2019 and January 2020, the Government introduced a transitional adjustment, raising minimum wage to RM1,200 per month in city and municipal council areas, while other areas remained at RM1,100 per month since February 2020. Started May 2022, this was replaced by a uniform national minimum wage again at RM1,500 per month, with micro-enterprises who hired less than five employees can comply at a later phase.

With effect from 1 February 2025¹, national minimum wage rate has increased by RM200 or 13.3% to RM1,700 per month from RM1,500 per month, which was in effect since May 2022.

While this revised higher minimum wage would benefit 4.37 million workers in providing some relieves against rising cost of living; businesses, especially micro, small and medium enterprises (MSMEs) are concerned about the cascading effects of minimum wage as it could burden their employment and operating costs. This is in addition to the employers' mandatory contribution of 2% to the Employee Provident Fund (EPF) for non-citizen workers in October 2025, and the proposed implementation of a tiered-levy in 2026.

1.2 Appropriateness of Uniform National Minimum Wage

While a reasonable increase in minimum wage is often considered necessary to address rising costs of living and inflation, some businesses have raised concerns that a uniform national minimum wage may not be appropriate and is not a “one-size fits all” solution for all states given the economic disparity between less developed and developed states. MSMEs in less developed states and rural areas cannot afford to cope with higher minimum wages given relative weak demand conditions.

There are significant differences in cost of living and business operating environment across states and localities due to variations in operating cost, labour availability, level of economic development, demographic, competition levels, regulatory environment, and overall economic climate and business conditions of each state. Essentially, the economic and social landscape of different areas significantly impact business operations and living expenses.

For illustration purposes, cost of living and living expenses in less developed states such as Perlis, Kelantan, Sabah, Terengganu are lower compared to the developed states (Klang Valley, Selangor, Johor and Penang). Mean monthly expenditure for household in Perlis was RM1,026 and Kelantan (RM1,018) while that in Kuala Lumpur was RM1,755 and Selangor (RM1,630)². The Ministry of Finance, in its feature article published in Economic Outlook 2026, suggested that developed states could offer higher minimum wages to reflect differences in cost of living, suggesting that a regional minimum wage rate can be considered.

¹ For employers with less than five employees, new minimum wage was effective starting 1 August 2025.

² The figures represent mean monthly basic expenditure of decent living (PAKW) for household per capita per state, 2023, as reported in Cost-of-Living Indicators 2023 published by Department of Statistics Malaysia (DOSM)

Cost of doing business varies among states and places in terms of economic and business development as well as demand conditions. Businesses operating in developed states with better economic growth, and firmer consumer spending will enjoy decent revenue and profit, hence, the employers can afford to pay higher minimum wage. In contrast, businesses in less developed states that registered slower economic and weak consumer spending will be struggling to pay higher minimum wage.

In short, given slower economic growth and weak business ecosystem in less developed states, the implementation of a uniform minimum wage will exert more financial burden on companies and employers in these regions compared to those in more advanced states, particularly when considering operating costs, cost of living and households' income per capita.

In this regard, the time has come for the Government to review and consider formulate a differentiated minimum wage rate based on factors like geographic location, the industrial sector, workers' working experience, or company size. Considering local cost of living and industry-specific demands for setting a minimum wage can provide a more nuanced approach than a single and universal rate across the board in all states.

Regional minimum wages can be a better option than a single national minimum wage policy because they can account for regional differences in cost of living, economic development, and labour market conditions.

Indeed, the implementation of regional minimum wages is not an unfamiliar approach, often used to address economic disparities and promote balanced development.

Chapter 2: Minimum Wage Determination

2.1 Minimum Wage

Minimum wage is the lowest amount a worker can legally be paid for their work. It's set by the Government to ensure people aren't underpaid for their labour.

The International Labour Organization (ILO) defined minimum wage as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.

The Minimum Wage Fixing Convention, 1970 (No.131) has stipulated that each member states, which has ratified this Convention undertakes to “establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate.” There have been ongoing debates regarding this definition, as it does not specify the components that what should be included in the calculation of the minimum wage³, such as whether the wage includes only basic wage, or whether it can include bonuses, tips, and commissions, allowances and other additional payments.

As of 30 October 2024, 54 territories, including Malaysia, have ratified this Convention. However, there are many other countries that have implemented minimum wage policies without being signatories to it.

2.2 Regional Minimum Wage

While the minimum wage policy is a common labour market tool needed to set a national wage floor to ensure a basic living for employees, the institutional structure of minimum wages varies between countries, be it a statutory minimum wage set by the Government through consultations with trade unions and employers, or a minimum wage that is determined through collective (bipartite or tripartite) negotiations (Rutkowski, 2003). About 90% of countries around the world have statutory minimum wages (World Bank 2012), though the form of minimum wage policy varies between each country.

Criteria⁴ taken into consideration in determining the minimum wage level, are social and economic considerations, in relation to national practice and condition includes:

- The needs of workers and their families, considering the general level of wages in the country, cost of living, social security benefits, and relative living standards of other social groups; and
- Economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

³ Minimum Wage Systems, International Labour Conference, 103rd Session, 2014 (ILC.103/III/1B)

⁴ The Minimum Wage Fixing Convention, 1970 (No.131)

In the United States (US), when the legislation for the 1938 Fair Labour Standards Act (FLSA) was debated, the South was the strongest opponent against the minimum wage, where the wages were considerably lower in the South compared to the North (Nordund 1997).

However, opposition to the minimum wage wasn't just from the South but from states that have the right-to-work laws⁵. Levin-Waldman, Oren M. (1999) paper on minimum wage essentially analysed the regional differences factoring in adopting a minimum wage i.e., state type, education attainment, industrial areas. In this paper, the author noted that many of the studies on the minimum wage have a rather narrow approach, basing it on national averages, and thereby overlooking the regional differences between states that have the right-to-work law and states that have high union density. The paper noted that minimum wages vary by states with the emphasis on the state type⁶ compared to other factors. The impact of minimum wage was more intense in some states compared to others critiqued the use of cost of living. In summary, while this paper favoured the adoption of a regional minimum wage, its methodology in adopting the regional approach is based on right-to-work and high union density states.

Some countries do not have a national minimum wage set by their central government. Instead, wages are often determined by individual regions or specific industries. Regardless, most countries still have some kind of minimum wage system in place, even if it is not defined at national level.

Several regional economies, including Indonesia, Thailand, the Philippines, and Vietnam, have had differentiated regional minimum wages in place for an extended period.

The responsibility for setting the minimum wages amongst these four ASEAN economies have been decentralised to regional authorities, considering the regional disparities persisted in cost of living and other socioeconomic factors. The minimum wage setting undergoes a tripartite negotiation that predominantly involves national government, regional/provincial authority or government and stakeholders (employers and employees).

Table 1 showed selected regional countries' minimum wage rate, which varies according to districts, provinces, or cities. An exhaustive list of region minimum wage rate for these countries is provided in Appendix C.

⁵ Laws that are generally favourable to businesses and are hostile to union activity.

⁶ Congressional opposition to the minimum wage has tended to be stronger in the South and "right-to-work" states – even among Democrats whom otherwise vote for increases – than in high union density states where wage rates on average are considerably higher (Levin-Waldman 1998).

Table 1: Selected regional minimum wage rates within ASEAN

Philippines		Thailand	
Region	Daily rate (PHP)	Region / Province	Daily rate (THB)
National Capital Region (NCR)	608-645	Central / Bangkok	353
I (Ilocos)	435-468	North / Chiang Mai	340
V (Bicol Region)	395	North East / Udon Thani	328
VI (Wester Visayas)	480-513	South / Narathiwat	328
Indonesia		Vietnam	
Province	Monthly rate (IDR)	Region	Monthly Rate (VND)
Aceh	3,460,672	I	4,960,000
North Sumatra	2,809,915	II	4,410,000
West Sumatra	2,811,449	III	3,860,000
Riau	3,294,625	IV	3,450,000

Note: The list is not exhaustive.

Source: Department of Labor and Employment, National Wages and Productivity Commission; Ministry of Labour, Thailand; Ministry of Labour (Kementerian Ketenagakerjaan Republik Indonesia); Ministry of Labour, Socialist Republic of Vietnam

2.3 Historical Timeline of the Minimum Wage Policy in Malaysia

Provisions of minimum wages in its earliest forms in Malaysia started with the Wages Councils Act 1947 (Act 195), however, this was applicable only for certain categories of occupations and industries in certain circumstances, based on the recommendations of the commission of inquiry. Several wage regulations orders were gazetted covering the following five occupations:

- (i) Catering & Hotel;
- (ii) Cinema Worker;
- (iii) Stevedores & Cargo Handlers;
- (iv) Shop Assistants; and
- (v) Private Security Guards.

The coverage of occupation sectors was too narrow, rendering the rest of the employees' wages to be determined by a free market. Furthermore, the process of setting minimum wages has been seen as overly tedious and ad-hoc, with reviews not carried out frequently enough. On top of that, weak compliance has undermined the very purpose of having a minimum wage in the first place. Thereafter, the National Wages Consultative Council Act 2011 (Act 732) was gazetted on 15 September 2011, with the purpose of advising the Government on all matters related to the minimum wage.

The Act 732 contains provisions relating to:

- (i) The functions and powers of the council;
- (ii) Minimum wages order;
- (iii) Investigation and enforcement; and
- (iv) Offences, penalties and other matters.

Eventually, this led to the establishment of the National Wages Consultative Council (NWCC), which is tasked at recommending and reviewing the minimum wage. The NWCC is a tripartite body comprising representatives from the Government, employees, employers, and independent stakeholders. According to Section 25 of Act 732, the NWCC shall review the minimum wage rate at least once every two years.

The NWCC has outlined the following objectives (Ibrahim & Said, 2015):

- (i) Ensuring the basic needs of workers and their families are met;
- (ii) Providing sufficient social protection of workers;
- (iii) Encouraging industries to move up the value chain by investing in higher technological equipment and increasing labour productivity; and
- (iv) Reducing the nation's dependence on foreign labour.

The mechanism is straightforward. The NWCC will deliberate extensively on the minimum wage rates proposed by the National Wages Consultative Technical Committee (Ibrahim & Said, 2015). The recommended minimum wage rate needs to be approved by the Minister of Human Resources and finally, the Cabinet.

The minimum wage is formulated from a specific set of variables that make up the base and adjustment criteria as below.

Table 2: Criteria in formulating the minimum wage

Base criteria	Adjustment criteria
Poverty Line Income (PLI)	Labour productivity
Median wages	Consumer price index
	Unemployment

Source: Ibrahim & Said (2015)

Following the enactment of the Act 732, the NWCC will propose the minimum wage rate for Government's consideration, which saw the gazetting of several Minimum Wage Orders.

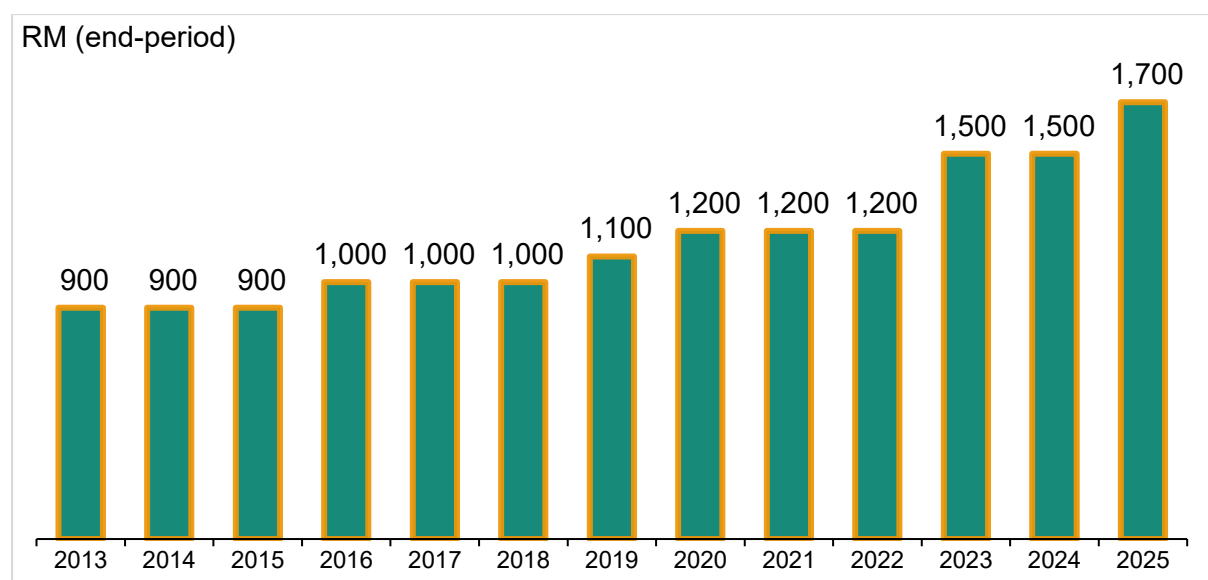
Table 3 and Figure 1 showed the minimum wage adjustments over the years.

Table 3: Evolution of minimum wage since inception

MWO	First effective date	Monthly rate (Hourly rate)	
2012	1 January 2013 ⁷	Peninsular Malaysia RM900 (RM4.33)	Sabah & Sarawak RM800 (RM3.85)
2016	1 July 2016	Peninsular Malaysia RM1,000 (RM4.81)	Peninsular Malaysia RM920 (RM4.42)
2018	1 January 2019	RM1,100 (RM5.29)	
2020	1 February 2020	City Council & Municipal Council: RM1,200 (RM5.77)	Other areas: RM1,100 (RM5.29)
2022	1 May 2022	RM1,500 (RM7.21)	
2024	1 February 2025	RM1,700 (RM8.17)	

Source: Various government gazettes

Figure 1: Evolution of minimum wage rate (upper-bound) in Malaysia



Source: Various government gazettes

⁷ Full implementation on 1 January 2014 as some employers applied for exemption to adjust to additional overhead costs.

Chapter 3: Exploring the Need of a Regional Minimum Wage in Malaysia

The question of implementing a regional minimum wage in Malaysia is a subject of ongoing debate, balancing the need to address variations in the cost of living with concerns about the economic impact on businesses in different states.

Malaysia is a Federation consisting of 13 states, and 3 Federal Territories with noticeable differences in socioeconomic factors across these different states/regions. The level of economic development, income, and quality of life can vary significantly between these states and regions. This section will explore the disparity that exists between the existing states and regions as well as further dissect the issue of a national minimum wage from an employee's and an employer's point of view.

A minimum wage policy is necessary to address inequality in wages, reduce poverty and increases the quality of living. However, there are different approaches to the adoption of minimum wage. Many countries, like Indonesia, adopts a regional approach that accurately reflects the difference cost of living in all its 38 provinces.

An argument can be made that a national minimum wage while has factored in cost of living, it must consider various socioeconomic factors that are unique to each region and state. A curated minimum wage that reflects socioeconomic factors in these states would effectively address the disparity of wages that exists as a result from a uniform approach while not being a burden to employers.

The existence of regional and states' socioeconomic disparities such as uneven distribution opportunities, disparity in households' income and households' expenditure by strata, unemployment rate, inflation rate, and Poverty Line Income (PLI) makes it an arduous task when setting the right minimum wage rate.

The mean Poverty Line Income (PLI)⁸ of an average household varies with each state as seen in Table 4; Selangor, a highly urbanised state, has a mean PLI of RM2,830, while the mean PLI for Perlis is RM2,140.

Essentially, this translates that households in Selangor require a higher minimum income to cover their basic needs, where else in Perlis, a substantially lower minimum income is required to cover the same basic needs. This reinforces the notion that the cost of living in Perlis is lower in comparison to Selangor. Considering the cost of doing business is relatively lower in Perlis, a uniform minimum wage would adversely lead to higher business costs due to an increase in labour costs. This will cause ripple effects on the supply chains that would eventually pass onto consumers through higher prices of goods and services, and therefore, pushes up cost of living. What deemed as sufficient income level to cover basic needs would now be significantly reduced even though the income is above the poverty income line.

⁸ The mean Poverty Line Income (PLI) is the average monthly household income required to afford a basic standard of living, covering essential food and non-food needs. A household with an income below the PLI is considered to be in absolute poverty.

Moreover, the mean PLI is further deconstructed to its strata level, naturally urban households have higher household income compared to rural (except for Sabah). For instance, urban household PLI in Negeri Sembilan is nearly 40% higher than its rural counterpart, and therefore, highlighting the different income levels. This demonstrates the need for a customised minimum wage catering to differences in mean household income by region and strata.

Table 4: Mean Poverty Line Income (PLI) by states

	Household (RM)		
	Total	Urban	Rural
Malaysia	2,589	2,660	2,342
Selangor	2,830	2,848	2,421
Kuala Lumpur	2,816	2,816	n.a.
Terengganu	2,751	2,799	2,662
Sabah	2,742	2,706	2,795
Melaka	2,670	2,721	2,122
Johor	2,627	2,665	2,481
Sarawak	2,618	2,860	2,263
Pahang	2,480	2,675	2,235
Negeri Sembilan	2,402	2,617	1,876
Perak	2,297	2,332	2,199
Kedah	2,271	2,303	2,206
Pulau Pinang	2,250	2,258	2,136
Perlis	2,140	2,199	2,069
Labuan	2,576	2,606	2,196
Putrajaya	2,450	2,450	n.a.

Notes: The mean PLI refers to the findings from the Household Income Survey 2022 using the 2019 methodology.
n.a: Not applicable.

Source: Cost of Living Indicators 2023, Department of Statistics Malaysia (DOSM)

The Government has revamped its socioeconomic classification system to accurately reflect socioeconomic differences amongst Malaysians, which are captured in the Basic Expenditure of Decent Living (PAKW). This classification⁹ highlights the unequal distribution of resources intra-states. Decent living defined by the Department of Statistics, Malaysia (DOSM), “is a meaningful life that meets the needs and wants of a society as well fulfilling their ability to

⁹ PAKW is an abbreviation for *Perbelanjaan Asas Kehidupan Wajar*.

participate in society.”, which the Government should transition to when it is ready to adopt a living wage¹⁰ in Malaysia.

Table 5 showed basic expenditures required by an average household size (between 3-5 persons). A household of 3.9 people in Melaka requires RM5,291 per month to live a decent life, while a similar household in Perlis only needs RM3,818 to achieve the same standard of living, therefore highlighting significant states’ disparities in the cost of living within Malaysia.

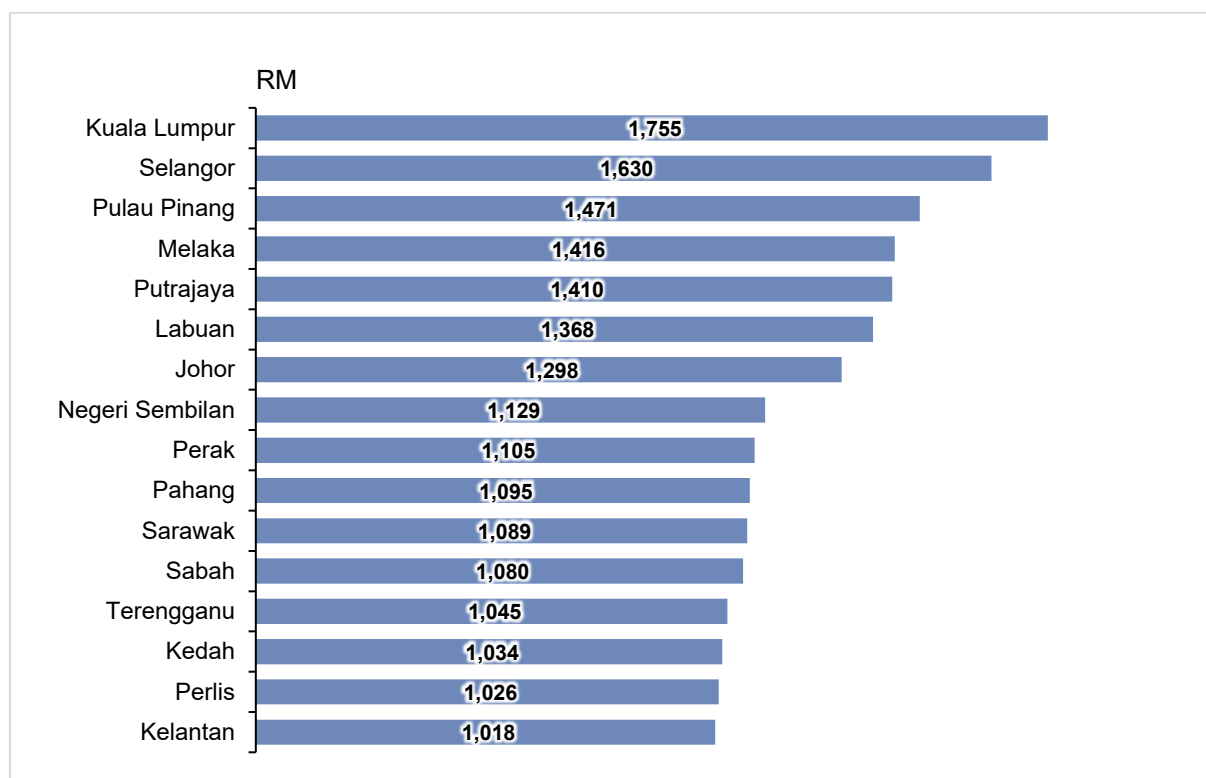
Table 5: Mean monthly household size and basic expenditure of decent living (PAKW) by state, 2023

State	Household	
	Size (persons)	Basic expenditure (RM)
Malaysia	3.8	4,729
Selangor	3.8	5,854
Kuala Lumpur	3.2	5,468
Labuan	4.1	5,376
Melaka	3.9	5,291
Putrajaya	3.9	5,249
Terengganu	4.6	4,695
Pulau Pinang	3.4	4,675
Johor	3.7	4,634
Sabah	4.3	4,414
Kelantan	4.2	4,170
Sarawak	4.0	4,167
Negeri Sembilan	3.6	3,987
Pahang	3.7	3,949
Perlis	3.9	3,818
Kedah	3.8	3,787
Perak	3.5	3,727

Source: Cost of Living Indicators 2023, DOSM

¹⁰ The living wage is the wage level that could afford the minimum acceptable living standard; participation in society, personal and family development, and freedom from financial stress.

Figure 2: Mean monthly basic expenditure of decent living (PAKW) for household per capita by state, 2023

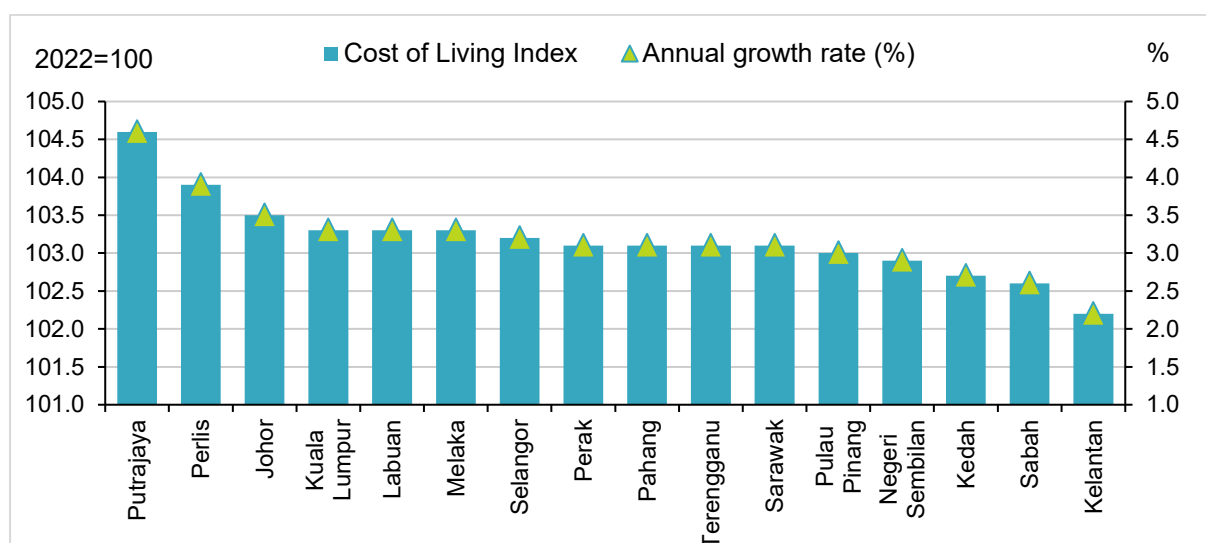


Source: Cost of Living Indicators 2023, DOSM

Furthermore, Figure 2 showed the mean monthly basic expenditure for household per capita needed for a decent living condition. This reflects on average, the visible household per capita expenditure differences between states, which contributed to the regional disparity argument of the cost-of-living, just one of the socioeconomic factors: Kuala Lumpur (RM1,755), and Selangor (RM1,630) being the highest, while all other states fall under RM1,500.

According to Konus (1939), cost of living is defined as the minimum amount of expenditure required by a family in each period to achieve the standard of living desired by the household. The uneven development of urbanisation caused cost-of-living differences among states (Nor Asmat Ismail, 2022) as seen in Figure 3, as evidenced in the top 3 states that have a high cost of living (Putrajaya, Perlis and Johor). It is fair to surmise that states with higher cost of living inadvertently resulted in higher basic expenditure. However, the tabulated data proved to be contrary, Perlis for example, based on Table 4, is one of the states (third lowest) that has a low basic expenditure. The rationale is simple as cost of certain goods and services are expensive, the households in Perlis would just opt for cheaper alternatives. This made a strong case that the cost of living alone should not be a sole factor in determining the regional minimum wage as other socioeconomic factors have to be considered.

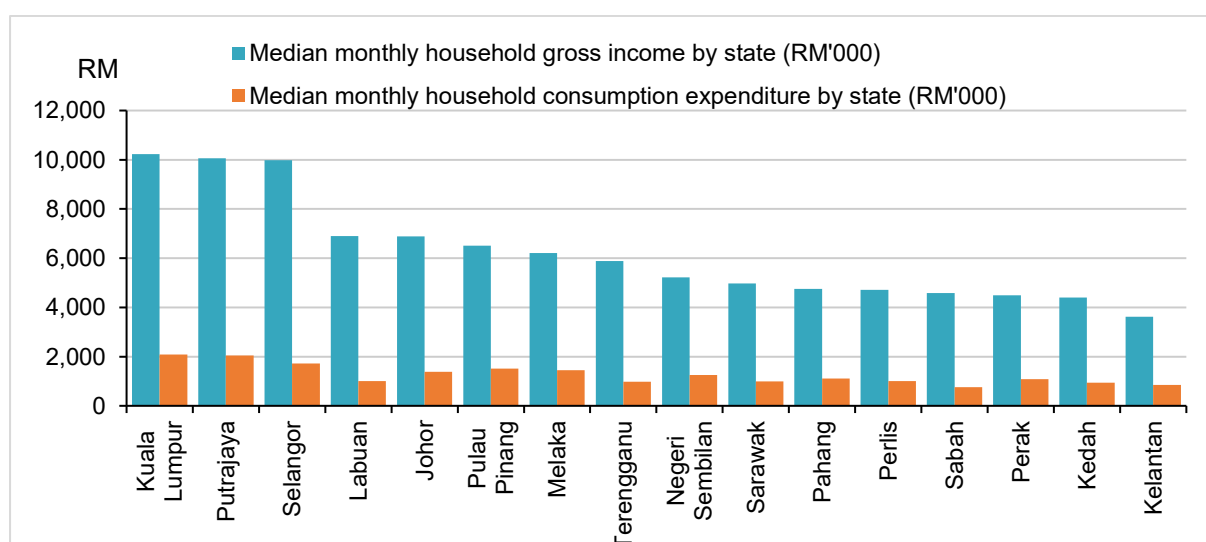
Figure 3: Cost of living index and annual growth rate by state, 2023



Source: Cost of Living Indicators 2023, DOSM

Furthermore, there is an established positive correlation between household's gross income and its consumption expenditure. A higher income generally increases a person's purchasing power, leading to higher consumer spending, particularly on normal goods and services. However, a low consumption expenditure to gross income ratio can indicate that cost of living pressures, influenced by socioeconomic factors like income levels, household size, and urbanization, leaving little discretionary income. This demonstrates the need for minimum wages to be set in relation to regional living costs, not just general economic growth, highlighting that minimum wage policy should consider how much income is needed to cover basic needs and maintain a decent standard of living in a specific area. (see Figure 4).

Figure 4: Median monthly household gross income and consumption expenditure by state, 2022



Source: Household Income Survey 2022 and Cost of Living Indicators 2023, DOSM

From an employer's point of view, current minimum wage, specifically those in the rural states is burdening businesses' operational costs, which would then be passed onto consumers if the businesses are unable to absorb it. The rationale behind implementing a regional minimum wage is to stem off undue cost pressure on their business operation but it needs to cater to socioeconomic factors of the regions or states.

Where else from an employee's point of view, a uniform minimum wage can be a boon and a bane. States with high urbanization rates, and therefore high costs of living, would not benefit from a low uniform minimum wage, as it is insufficient to cover basic living expenses. In contrast, a low minimum wage might be sufficient for rural states where the cost of living is significantly lower. A high uniform minimum wage would have cascading effects in the rural states as higher manpower costs would be passed onto consumers in terms of higher prices of goods and services. Therefore, the differing economic conditions suggest that uniform minimum wages are not always the most effective policy.

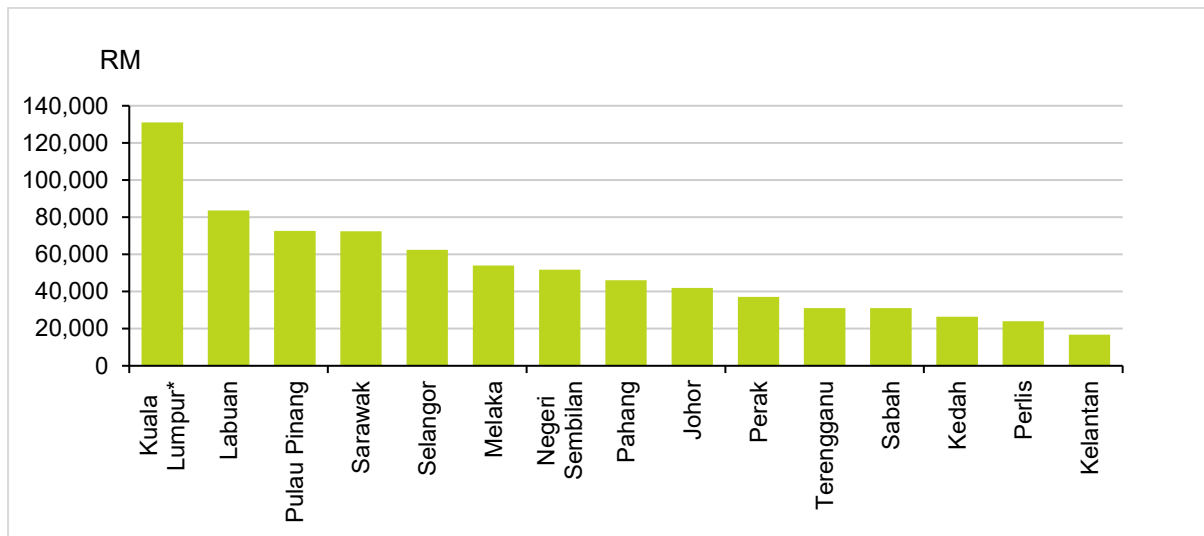
A regional minimum wage is generally considered a more effective policy than a national one because it takes into account the diverse socioeconomic factors (cost of living and regional economic conditions) across different areas within a country, which helps to balance the needs of both employees and employers more effectively. This localized minimum wage setting approach can prevent a uniform national wage rate from being set at too high level for some weaker economic and business conditions regions/states or too low for more affluent areas, potentially leading to better outcomes for worker welfare and business viability across the entire country.

The RM1,700 new minimum wage that took full effect from 1 August 2025 would be more than sufficient for employees in states that have low cost of living. However, this comes at a cost to employers whose business may not generate sufficient revenue (low profit margin) relative to other states, therefore eventually an increase in business costs would be borne by the consumers, which inadvertently increased the cost of living.

To reinforce this argument, Figure 5 shows GDP per capita for each state. The states with low GDP per capita generally reflecting lower standard of living that is associated with lower income levels, and also lower economic development. The increase in minimum wage to RM1,700 would exert additional cost to an already struggling business. Businesses have two options to manage increasing business costs, that are either absorbing the cost and maintaining final prices of goods and services to retain market share, therefore, having low profit margin, or the consumers would be at the short end of the stick, paying higher prices as businesses passed through the increased costs.

Where else, states with higher GDP per capita typically have higher value-added economic activities, translating into better business prospects in those areas. As a result, these businesses are more likely to afford paying higher minimum wages while still sustaining their business. This suggests again that a region-specific minimum wage policy would better align with the economic realities of different states and businesses' localisation capacities while ensuring fairness in employees' compensation aligning with local conditions.

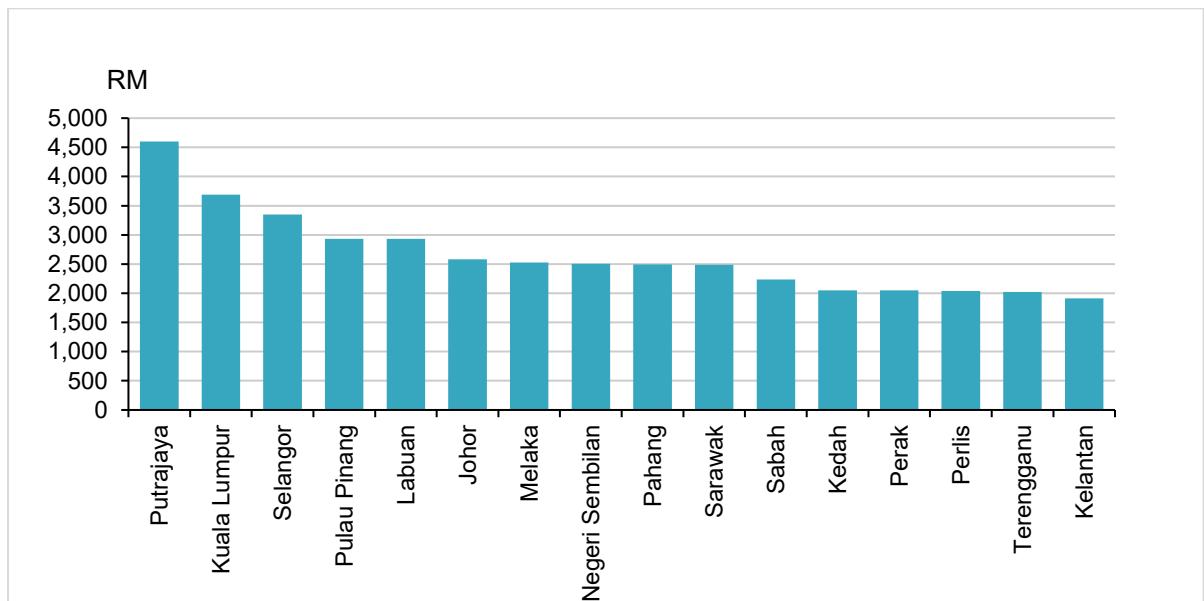
Figure 5: GDP per capita (RM) at current prices by state, 2023



Note: *includes Putrajaya.

Source: DOSM

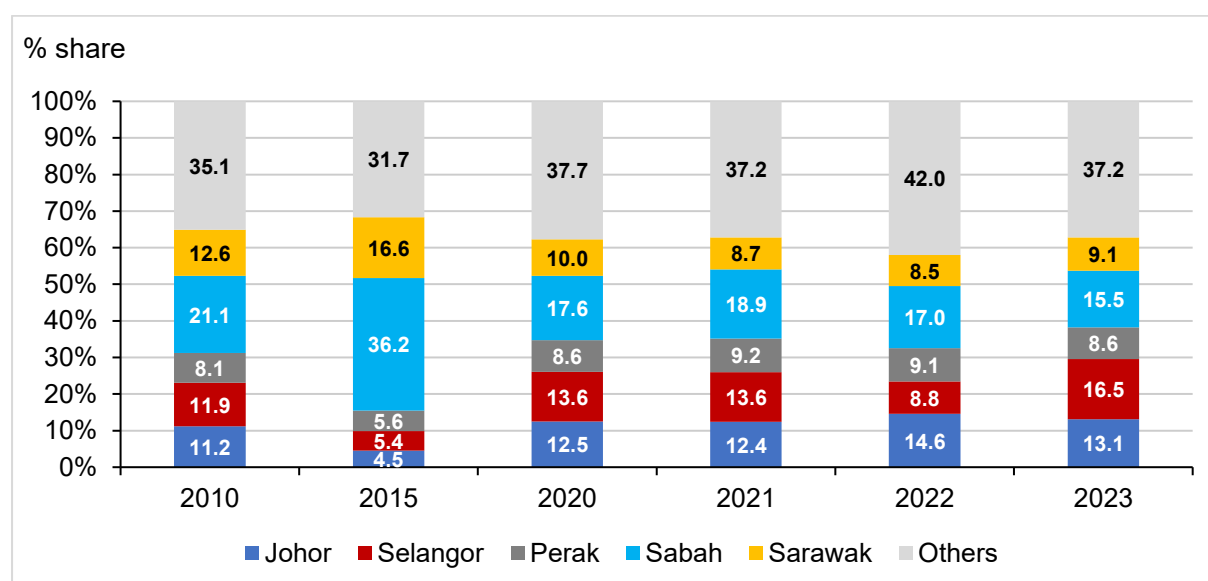
Figure 6: Median monthly salaries and wages of employees by state, 2024



Source: Employee Wages Statistics (Formal Sector) Report, 2024, DOSM

In 2023, Selangor accounted for 16.5% of total wage recipients earning below the minimum wage (Figure 7), even though it represented 24.4% of total employed persons, according to the Labour Force Survey 2023. In contrast, Perak, Sarawak and Sabah made up only 7.0%, 7.5% and 10.3% of employed persons respectively, yet their shares of total wage recipients below the minimum wage were higher at 8.6%, 9.1% and 15.5%. This pattern suggests that employers in these states face greater difficulty complying with the minimum wage, reflecting structural challenges such as lower firm productivity, smaller enterprise size and weaker economic conditions. Selangor's lower incidence of non-compliance with minimum wage, despite its large workforce, indicated that more developed and better-capitalised regions are generally better suited to meet statutory wage requirements.

Figure 7: Profile of wage recipients earning below minimum wage, 2010-2023



Source: Ministry of Finance

To conclude, a stark difference in various socioeconomic indicators by state makes it challenging to apply a uniform national minimum wage across the country. Therefore, it is appropriate to consider adopting a regional minimum wage to address these limitations as mentioned above amid facing potential challenges.

Chapter 4: Potential Challenges in Implementing Regional Minimum Wage

Imposing a regional minimum wage is not as straightforward as it may seem, there are several factors that need to be considered.

A. Induce Migration of Workers across States

A regional minimum wage (wage differential across states/regions) could potentially lead to a migration of employees from states with lower minimum wages to states with higher minimum wages, as workers would be incentivized moving to areas where they can earn a higher salary base. That said, intra-state and inter-state migration is highly depending on the rate of minimum wage set. Table 6 showed a high percentage of migration of employees between urban regions, which could see further increases when regional minimum wage is set at a significant gap between states.

Debatably, businesses located in states with higher minimum wage will experience a competitive disadvantage in terms of personnel cost compared to those located in lower minimum wage states, but they may attract higher productivity employees with higher salary. Nevertheless, the net effect depends on how well businesses leverage on the benefits to motivate workforce, and these include the provision of training and reskilling programs, better workplace and shifting to a higher-value-added production model.

Table 6: Intra-state migrants and inter-state migrants by migration flow, 2022

State	Intra-state migrants		Inter-state migrants	
	Urban – Urban (%)	Rural – Urban (%)	Urban – Urban (%)	Rural – Urban (%)
Johor	89.9	-	34.0	-
Kedah	81.2	10.7	91.8	-
Kelantan	48.0	-	48.9	-
Melaka	90.6	-	64.2	-
Negeri Sembilan	84.5	-	75.0	2.5
Pahang	53.0	-	83.0	-
Pulau Pinang	82.8	-	54.4	38.0
Perak	82.1	-	97.2	-
Perlis	85.0	-	76.1	-
Selangor	95.0	-	100.0	-
Terengganu	35.3	4.3	52.0	13.1
Sabah	65.7	6.7	95.1	-
Sarawak	47.0	15.0	58.4	-

Note: Data for W.P. Kuala Lumpur, W.P. Labuan dan W.P. Putrajaya could not be released due to high Relative Standard Error (RSE) values.

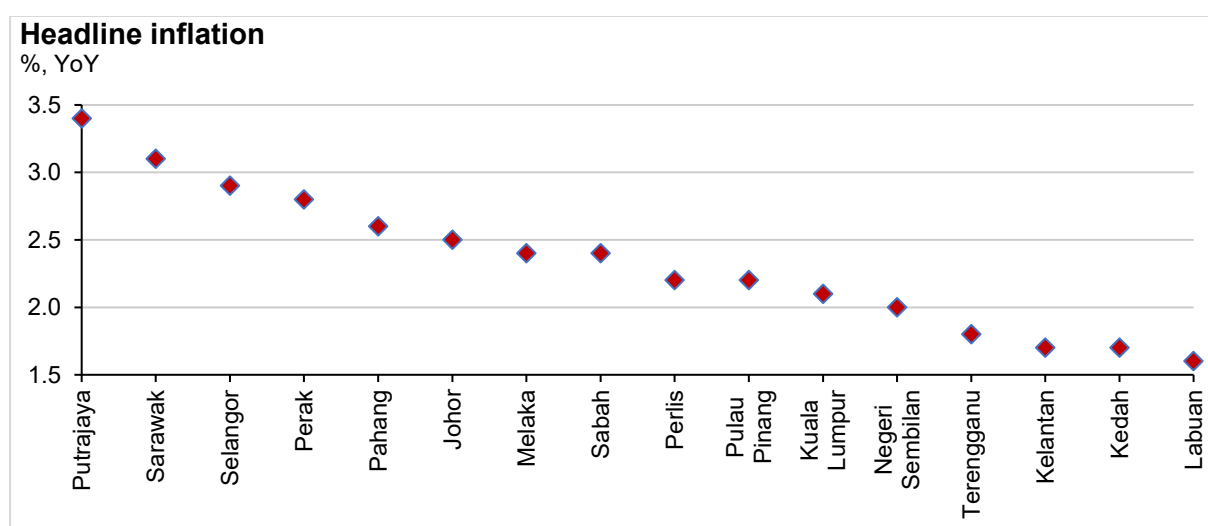
Source: Migration Survey Report 2022

B. Inflation Risk, Increased Labour Cost and Unemployment Rate

Economic disparities across states pose a significant challenge in setting the right minimum wage for each state as it has varying cost of living and income levels. Too sharp an increase in the minimum wage, if not accompanied by corresponding productivity improvements, risks driving up unit production costs, compelling businesses to pass on higher labour expenses through price increases in order to sustain profitability. This could fuel consumer inflation risk, reducing consumers' real purchasing power. Minimum wage increases are more likely to cause inflation during periods of high inflation.

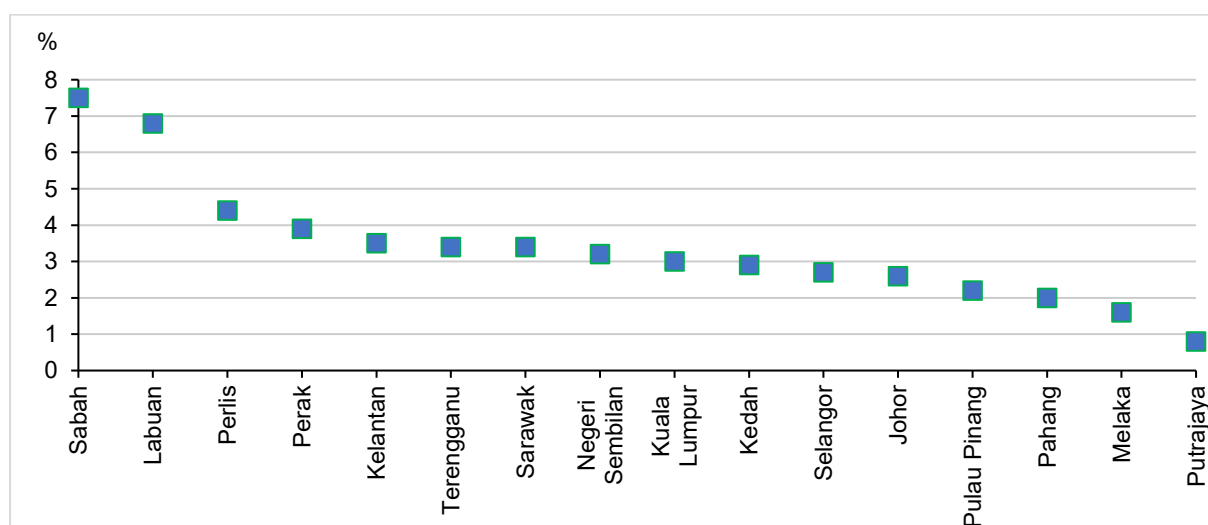
In regions with strong labour market conditions, high minimum wage rate leading to increased labour costs for businesses will induce them to reduce employment to preserve their profit margin. This could exacerbate the unemployment situation in states that have experienced weak labour market conditions.

Figure 8: Annual headline inflation by state, 2023



Source: DOSM

Figure 9: Unemployment rate by state, 2023



Source: DOSM

C. Complexity in Managing Multiple Scales

Significant variation in GDP per capita, cost of living, and value-added economic activities across states/regions can make it difficult to determine fair wage levels. Balancing these economic disparities while ensuring a fair and sustainable wage policy is a complex task.

Implementing different regional minimum wages across states can be a challenge administratively that will require careful record-keeping and adherence to strict regulations, especially for a company that has several operations across the states. This will directly lower the compliance of regional minimum wage.

D. Defining Regions Appropriately

Determining what constitutes a region is the most fundamental aspect. Carefully dividing regions based on factors like cost of living, economic development, labour market integration and industry composition is crucial for effective implementation. If a region is poorly defined, it will lead to exacerbating disparities and compliance issues.

E. Data Availability and Reliability

The compilation of granular data plays a central role in decision-making when it comes to establishing a regional minimum wage rate. Regularly reviewing socio-economic data to review regional minimum wages are needed to maintain their relevance. Therefore, it is crucial that policy makers have accurate and reliable data before deciding on a tailored wage rate.

F. Administrative Burden

Businesses have operations in multiple regions must maintain an effective and robust monitoring and compliance system to track and comply with different wage standards. This poses a problem with employers having limited resources. Therefore, it will lead to a compliance and enforcement issue.

Chapter 5: The Way Forward

A national minimum wage with a single rate for all workers is fundamentally based on the principle that every worker has equal rights to the same wage protection, regardless of their location, industry, or other socio-economic factors within the country.

However, national minimum wage cannot be a one-size-fits-all solution. It needs to consider regional cost of living differences, socio-economic factors, economic and business development of different states. The cost of living, prices of goods and services can differ substantially between states/regions as well as differences in the labour market conditions, with better economic and business activities and low unemployment in some states, while some states have experienced weaker business conditions with higher unemployment.

Economic disparities across states pose a significant challenge to setting effective minimum wages because different states have varying cost of living and income levels, making a uniform national minimum wage potentially too high for some areas and insufficient for others. This disparity can lead to issues such as businesses in low-wage states struggling with increased labour costs, while workers in high-cost states may find the minimum wage still unable to cover basic expenses. A multi-tiered approach, with minimum wages calibrated to regional cost-of-living differences, is a potential solution to better support livelihoods without unduly burdening businesses in economically weaker regions.

Table 7: Comparison between a regional and uniform minimum wage

Criteria	Regional Minimum Wage	Uniform Minimum Wage
Fairness	Accounting for variations in cost of living, productivity, and local economic factors	Promotes equality, and hence it may not necessarily reflect each regions' economic development
Simplicity	More administration coordination is needed	Easy to implement
Economic Efficiency	More comprehensive	Too broad
Political Feasibility	Overlapping jurisdictions	Easier to legislate

The Government can consider to implement a regional minimum wage by state. There is a provision in Section 22(1) of Act 732, which states that regional areas are one of the matters to be considered and recommended by the NWCC.

The following arguments validate for the implementation of a regional minimum wage:

- Better reflection of localised economic realities. Different states have different economic and business conditions, with varying income levels, labour market conditions, and business costs. Hence, a regional minimum wage can better accommodate the differences in minimum wage.

- b) More equitable distribution of income. By adjusting the minimum wage based on varying cost of living across different states/regions while considering local economic and business conditions. This can help ensuring that workers in high-cost areas can afford necessities while not unduly burdening businesses in lower-cost areas.
- c) Stimulating local economies. Higher minimum wage for workers living in high cost of living areas can help to improve their purchasing power, supporting consumers' spending in local areas and spur economic activity.
- d) Reducing labour market distortions. A uniform minimum wage might force some businesses in lower economic growth and business costs areas to reduce employment due to the higher labour costs. A regional minimum wage would better align wages with local economic conditions.

In conclusion, to implement a regional minimum wage policy, the National Wage Consultation Technical Committee should conduct thorough economic and business analysis to identify distinct regional cost of living and cost variations, then set differentiated minimum wages accordingly.

The policy must be transparently communicated, and effective monitoring and enforcement mechanisms, alongside ongoing evaluation and review based on economic and business conditions, are crucial for its success and to ensure fair outcomes for both workers and businesses.

Appendix A: List of City Council and Municipal Council areas

16 City Council Areas			
Johor Bahru	Pulau Pinang	Petaling Jaya	Miri
Iskandar Puteri	Seberang Perai	Kuala Terengganu	Kota Kinabalu
Alor Setar	Ipoh	Kuching Utara	Kuala Lumpur
Melaka Bersejarah	Shah Alam	Kuching Selatan	Seremban

40 Municipal Council Areas			
Batu Pahat	Sungai Petani	Port Dickson	Taiping
Kluang	Langkawi	Jempol	Teluk Intan
Kulai	Kubang Pasu	Kuantan	Kangar
Muar	Kota Bharu	Temerloh	Ampang Jaya
Segamat	Alor Gajah	Bentong	Kajang
Pasir Gudang	Jasin	Manjung	Klang
Kulim	Hang Tuah Jaya	Kuala Kangsar	Selayang
Subang Jaya	Sepang	Kemaman	Dungun
Padawan	Sibu	Kota Samarahan	Bintulu
Sandakan	Tawau	Labuan	Putrajaya

Source: Minimum Wage Order 2020

Appendix B: Minimum wage models for selected ASEAN nations

Countries	Mechanism of the minimum wage models
Philippines	<p>From the enactment of the Republic Act, #6727 in 1989, minimum wage policy has always been decentralised to provincial or regional authorities hence wage rates vary according by geography at the regional level to reconcile the disparities in cost of living, socioeconomic factors, and economic and social development plans across regions¹¹.</p> <p>The wages are set by tripartite regional wage boards located in every region.</p>
Indonesia	<p>Minimum wage setting is the responsibility of the regional governments since the beginning of its formulation in 1969. The country has 34 provinces that are made up of regencies, cities, and villages, all of which have their own local governments.</p> <p>The minimum wage rate is decided by Governors after considering recommendations from Provincial Wage Councils (province level) and Wage councils (district level).</p> <p>As of 2024, the average monthly minimum wage across Indonesia's 34 provinces ranges from IDR2.0 million (US\$126) to IDR5.1 million (US\$311).</p>
Thailand	<p>The law specifies the appointment of the National Wages Council (NWC) to make recommendations on suggested wage rates and to ensure that proposed wage rates coming from the provinces remained consistent with what "an employee deserves" and "sufficient for an employee's living."¹²</p> <p>Final decision is still the responsibility of the Minister of Labour based on recommendations from the NWC, provincial committee, and the Subcommittee on Technical Affairs and Review (STAR), representing a tripartite deliberation.</p> <p>Starting next year, Thailand plans to increase its daily minimum wage to 400 baht (\$11.76). This increase will affect more</p> <p>Tourism-related businesses and four-star hotels: minimum wages were raised to 400 baht (US\$11.39) per day in specific areas¹³</p>
Vietnam	<p>Historically, Vietnam first implemented a statutory minimum wage in 1992 for foreign companies, followed by domestic companies (applicable to 10 or more employees) in 1994. The rates were different for both foreign companies and domestic firms. The current minimum wage system varies according to sector of employment, i.e. public or private. Public sector has a separate rate of minimum wage (common minimum wage) than private which varies according to region.</p>

Source: Carpio & Pabon, 2014; (ASEAN Labor Costs: Minimum Wage and Social Insurance Essentials, 2024)

¹¹ The Act created the National Wage and Productivity Commission (NWPC) as well as Regional Wage and Productivity Tripartite Boards (RWPTBs) for the 17 administrative regions of the country.

¹² The World Bank (2011a) "Optimal Design for Minimum Wage Policy in Malaysia", July 2011mimeo. p. 128.

¹³ Bangkok's Pathumwan and Watthana districts, Pattaya City in Chon Buri, Chiang Mai's Nakhon Chiang Mai municipality, Prachuap Khiri Khan municipality, Phangnga's Khuk Khak subdistrict municipality, Phuket province, Rayong's Ban Phe subdistrict, Songkhla's Hat Yai municipality, and Surat Thani's Koh Samui district.

Appendix C: Minimum wage rates in selected ASEAN countries in 2024

Indonesia (Monthly rate in IDR)

Province	Minimum wage rate	Province	Minimum wage rate	Province	Minimum wage rate
Aceh	3,460,672	DI. Yogyakarta	2,125,897	Sulawesi Selatan	3,434,298
Sumatera Utara	2,809,915	Jawa Timur	2,165,244	Sulawesi Tenggara	2,885,964
Sumatera Barat	2,811,449	Banten	2,727,812	Gorontalo	3,025,100
Riau	3,294,625	Bali	2,813,672	Sulawesi Barat	2,914,958
Jambi	3,037,121	Nusa Tenggara Barat	2,444,067	Maluku	2,949,953
Sumatera Selatan	3,456,874	Nusa Tenggara Timur	2,186,826	Maluku Utara	3,200,000
Bengkulu	2,507,079	Kalimantan Barat	2,702,616	Papua Barat	3,393,500
Lampung	2,716,497	Kalimantan Tengah	3,261,616	Papua	4,024,270.00
Bangka Belitung	3,640,000	Kalimantan Selatan	3,282,812	Papua Tengah	4,024,270.00
Kepulauan Riau	3,402,492	Kalimantan Timur	3,360,858	Papua Pegunungan	4,024,270.00
DKI Jakarta	5,067,381	Kalimantan Utara	3,361,653	Papua Selatan	4,024,270.00
Jawa Barat	2,057,495	Sulawesi Utara	3,545,000	Papua Barat Daya	3,393,500.00
Jawa Tengah	2,036,947	Sulawesi Tengah	2,736,698		

Source: Ministry of Labour (Kementerian Ketenagakerjaan Republik Indonesia)

Philippines (non-agriculture) (Daily rate in PHP)

Region	Minimum wage rates	Cities	Provinces
Metro Manila (National Capital Region (NCR))	608 – 645		
Cordillera Administrative Region (CAR)	470		
I (Ilocos)	435 – 468	Alaminos; Candon; Laoag; San Fernando; Batac; Dagupan; San Carlos; Urdaneta	Ilocos Norte; La Union; Ilocos Sur; Pangasinan

Region	Minimum wage rates	Cities	Provinces
II (Cagayan Valley)	460 – 480	Cauayan; Santiago; Ilagan; Tuguegarao	Batanes; Isabela; Nueva Vizcaya; Cagayan; Quirino
III (Central Luzon)	410 – 525	Angeles; Cabanatuan; Malolos; Olongapo; San Fernando; San Jose Del Monte; Balanga; Gapan; Muñoz; Palayan; San Jose; Tarlac.	Aurora; Bulacan; Pampanga; Zambales; Bataan; Nueva Ecija; Tarlac.
IVA (Calabarzon)	420 – 560	-	Batangas; Laguna; Rizal; Cavite; Quezon.
IVB (Mimaropa)	404 – 430	Calapan; Highly Urbanized City of Puerto Princesa.	Marinduque; Oriental Mindoro; Romblon; Occidental Mindoro; Palawan.
V (Bicol Region)	395	Iriga; Ligao; Naga; Tabaco; Legazpi; Masbate; Sorsogon.	Albay; Camarines Sur; Masbate; Camarines Norte; Catanduanes; Sorsogon.
VI (Wester Visayas)	480 – 513	Component cities; Highly Urbanized City of Iloilo and Bacolod.	Aklan; Capiz; Iloilo; Antique; Guimaras; Negros Occidental.
VII (Central Visayas)	453 – 501	Bais; Bayawan; Bogó; Canlaon; Carcar; Cebu; Dumaguete; Danao; Guihulngan; Lapu-Lapu; Mandaue; Naga; Tagbilaran; Talisay; Tanjay; Toledo.	Compostela; Consolacion; Cordova; Liloan; Minglanilla; Negros Oriental Province; San Fernando or Expanded Metro Cebu; *Other Municipalities.
VIII (Eastern Visayas)	390 – 420	Calbayog; Catbalogan; Baybay; Borongan; Maasin; Ormoc; Tacloban.	Biliran; Eastern Samar; Northern Samar; Southern Leyte.
IX (Zamboanga Peninsula)	401 – 414	Dapitan City; Dipolog City; Isabela; Pagadian; Zamboanga.	Zamboanga Del Norte; Zamboanga Del Sur; Zamboanga Sibugay.
X (Northern Mindanao ¹⁴)	401 – 428	Cagayan De Oro; El Salvador; Gingoog; Iligan; Malaybalay; Oroquieta; Ozamiz; Tangub; Valencia	Bukidnon; Camiguin; Lanao Del Norte; Misamis Occidental; Misamis Oriental; *All Other Areas
XI (Davao Region)	457 – 462	Davao; Digos; Island Garden of Samal; Mati; Panabo; Tagum	Compostela Valley; Davao Del Sur; Davao Del Norte; Davao Oriental

¹⁴ The only region that has daily minimum wages by municipality: Balingasag; Maramag; Jasaan; Opol; Laguindingan; Quezon; Lugait; Tagoloan; Mambajao; Villaueva; Manolo Fortich.

Region	Minimum wage rates	Cities	Provinces
XII (Soccsksargen)	396 – 417	General Santos; Kidapawan; Koronadal; Tacurong	North Cotabato (Except The 63 Barangays That Are Now Part of The Barmm); Sarangani; South Cotabato; Sultan Kudarat
XIII (Caraga Region)	385	Bayugan; Bislig; Butuan; Cabadbaran; Surigao; Tandag	Agusan Del Norte; Agusan Del Sur; Dinagat Island; Surigao Del Sur; Surigao Del Norte Including Siargao Island
BARMM (Bangsamoro Autonomous Region in Muslim Mindanao)	336 – 361		

Source: Department of Labor and Employment, National Wages and Productivity Commission

Thailand (Daily rate in THB)

Region	Province	Minimum wage rate	Region	Province	Minimum wage rate
Central	Ratchaburi	332	Central	Rayong	354
	Sing Buri	332		Prachin Buri	340
	Ang Thong	335		Saraburi	340
	Chainat	335		Suphan Buri	340
	Kanchanaburi	335		Trat	340
	Phetchaburi	335		Ayutthaya	343
	Prachuap Khiri Khan	335		Chachoengsao	345
	Sa Keo	335		Bangkok	353
	Chanthaburi	338		Nakhon Pathom	353
	Nakhon Nayok	338		Nonthaburi	353
	Samut Songkhram	338		Pathum Thani	353
	Lopburi	340		Samut Prakan	353
	Chonburi	354		Samut Sakhon	353
South	Narathiwat	328	South	Trang	332
	Pattani	328		Phattalung	335
	Yala	328		Krabi	340
	Chumphon	332		Phang Nga	340
	Nakhon Si Thammarat	332		Songkhla	340
	Ranong	332		Surat Thani	340
	Satun	332		Phuket	354

Region	Province	Minimum wage rate	Region	Province	Minimum wage rate
North East	Udon Thani	328	North East	Bueng Kan	335
	Amnat Charoen	332		Buriram	335
	Chaiyaphum	332		Loei	335
	Maha Sarakham	332		Nakhon Phanom	335
	Nong Bua Lamphu	332		Roi Et	335
	Sisaket	332		Surin	335
North East	Yasothon	335	North East	Khon Kaen	340
	Kalasin	338		Nakhon Ratchasima	340
	Mukdahan	338		Nong Kai	340
	Sakon Nakhon	338		Ubon Ratchathani	340
North	Nan	328	North	Tak	332
	Chiang Rai	332		Uthai Thani	332
	Kamphaeng Pet	332		Nakhon Sawan	335
	Lampang	332		Phayao	335
	Mae Hong Son	332		Phetchabun	335
	Phichit	332		Phitsanulok	335
	Phrae	332		Uttaradit	335
	Sukhothai	332		Chiang Mai	340

Source: Ministry of Labour, Thailand

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