REFSA
Research For Social Advancement

REFSA BRIEF
Issue 9 August 2020

Creating Jobs Through Public Education and Healthcare Investment

Hafiz Noor Shams, Visiting Fellow

info@refsa.org

Executive Summary

The Malaysian government can play an important role stabilizing and jumpstarting the jobs market that has been battered during the COVID-19 recession. Combined with the potential negative employment effects of increased automation and digitalization, there is a significant risk of the unemployment rate remaining elevated even beyond this recession, with wages growing slowly.

This paper proposes counteracting measures in the form of a long-term public sector expansion. Specifically, the public health and tertiary education systems should be expanded to meet underserved demand. These expansions would be designed to prepare Malaysians for technological changes, while simultaneously creating new public jobs. It would also help the country overcome its demographic challenges, as the society ages in the next two decades.

These proposals should create a lever for the government to influence overall wage growth. Public sector wages set above market rates may provide a benchmark for the whole economy, and assist the economy in achieving faster post-recovery wage growth.

1. Background: Recession, Wages and New Technology

1.1 Recession and rising unemployment

The coronavirus-driven economic crisis has created both a supply-side and a demand-side shock. Initially an adverse supply shock disrupting various supply chains and preventing workers from going to work, its implications on household income have led to a negative demand shock. The combination of these two shocks is causing a severe economic recession and dramatic job losses.

In June 2020, the World Bank projected the Malaysian economy would contract by 3.1% in real terms in 2020.[1] Under these extraordinary circumstances however, all projections are marred by large forecasting uncertainties. There is a significant risk that GDP would shrink by more than projected.

While some firms may weather the crisis, many will not. This is true for smaller firms. Businesses have adapted through a combination of downsizing their workforce, furloughing workers, cutting pay or closing down altogether, whether temporarily or permanently. This has grave implications for the jobs market, since small and medium enterprises (SMEs) employ a significant proportion of domestic workers. In 2018, SMEs provided 66% of all jobs in Malaysia and formed 38% of the national GDP.[2]

The result is massive unemployment nationwide and it is rising fast. Malaysia's monthly unemployment rate had surged from 3.3% in February, prior to the imposition of the Movement Control Order (MCO), to 5.3% by May 2020, a three-decade peak (Figure 1).[3] A Department of Statistics Malaysia's survey designed to gauge preliminary effects of the COVID-19 pandemic suggests the numbers could be far worse.[4] Furthermore, anecdotal evidence suggest companies are still serving notice to their employees throughout June, after the reported May figure.

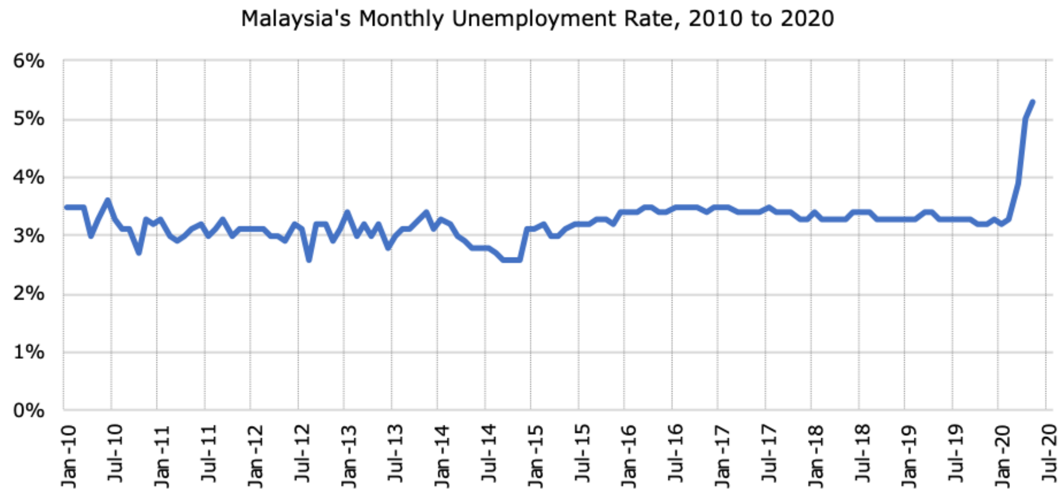

Figure 1: Malaysia's monthly unemployment rate. May 2020 unemployment rate is the highest in 3 decades.

1 World Bank. Malaysia Economic Monitor, June 2020. June 2020.

2 Department of Statistics Malaysia. Small and Medium Enterprises (SMEs) Performance 2018. 2019

3 Department of Statistics Malaysia. May 2020 Monthly Principal Statistics of Labour Force, Malaysia. July 2020.

4 Department of Statistics Malaysia. Report of Special Survey on Effects of COVID-19 on Economy and Individuals. April 2020

1.2. Wage cuts

Wage growth would come under pressure during periods of heightened unemployment. At least 20% of private employees report they have suffered pay cuts in response to the crisis, based on results from an unrepresentative survey conducted by the Department of Statistics Malaysia in late March 2020.[5]

Any recovery period would likely be a picture of massive unemployment. Such an environment would grant private employers elevated bargaining power vis-à-vis employees in wage determination, risking slowing post-recovery wage growth.

Moreover, Malaysia has a history of underpaying its workers relative to labor productivity. According to Bank Negara Malaysia, Malaysian workers are generally paid less than workers in other economies after accounting for productivity.[6] By granting employers with greater bargaining power relative to their employees, the recession will likely worsen this situation.

1.3. Effects of new technologies on the labor market

Even before the pandemic, new technology was already changing the labour market. Digitalization and automation have abolished certain jobs. In recent years, movie theaters like Golden Screen Cinemas and fast food chains like McDonald's are already utilizing touchscreens for on-the-spot purchases on top of online purchases, instead of running manned counters.

The crisis provides an opportunity for companies to digitalize and automate further. If they indeed do so, a far greater number of low-skilled jobs will be lost in the short run. Working-from-home arrangements enabled through digitalization are already raising questions regarding the need for some jobs to be performed in physical office spaces.

Digitalization and automation could create new, higher-skilled jobs. Nevertheless, any training needed to fill up those jobs will take time to complete. It is never as simple as reassigning a person from one job to the next. For workers, there is always an adjustment period along with the associated costs. Therefore, there is a risk this new technology could create a temporal mismatch between job destruction and job creation: joblessness would come first, before newly created jobs are filled.

If the technological transition is managed improperly, the situation in the already-struggling labour market would worsen, and contribute to a deep and prolonged recession that may rival the Asian Financial Crisis of the late 1990s. In 1998, the Malaysian economy contracted by 7.4% in real terms, making the 1990s crisis the worst recession in Malaysian history thus far (Figure 2).[7]

5 Department of Statistics Malaysia. Report of Special Effects of COVID-19 on Economy and Individual. April 2020.

6 Bank Negara Malaysia. Annual Report 2018. March 2019.

7 World Bank. Open Data. Accessed June 2020.

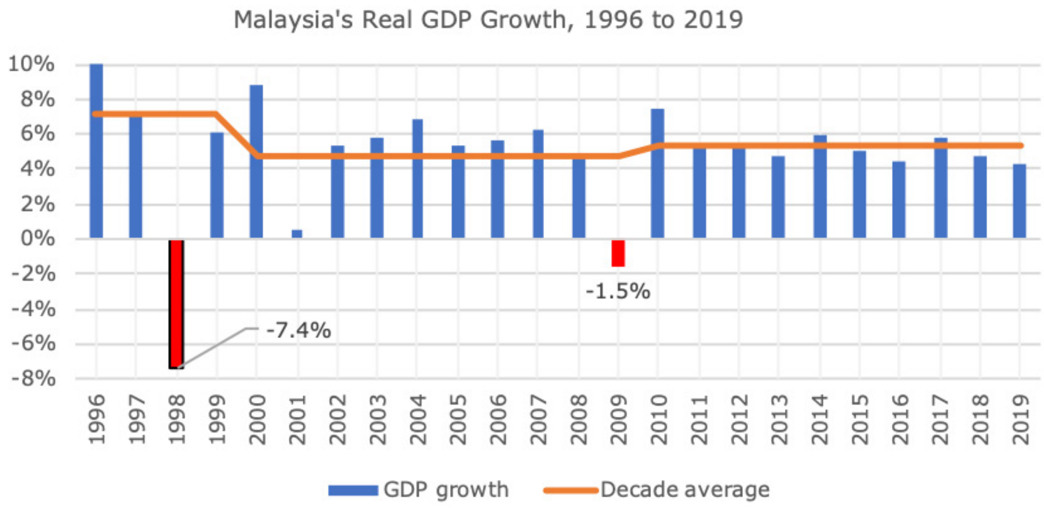

Figure 2: Malaysian real GDP growth 1996-2019. The orange line indicates the average growth over the decade, which demonstrates the deceleration of growth since the 1990s.

1.4. Roles of government in this recession

Such a recession could leave a long-lasting effect on the economy as the Asian Financial Crisis did. Prior to the late-1990s recession, the Malaysian economy on average expanded 7.1% annually. This slowed to 4.7% in the 2000s and 5.3% in the 2010s. Lower average growth in the following decade could be viewed as a long-term output loss. Arguably, the loss was only recovered fully in recent years (Figure 3).

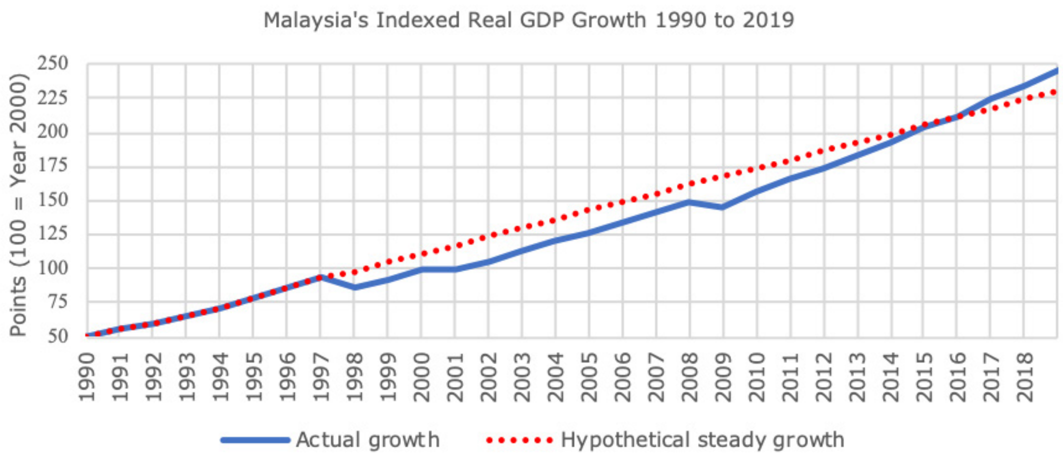

Figure 3: Index Malaysian GDP from 1990 until 2019 showing the 1998 recession and the 2009 recession. Malaysia took approximately 2 decades to recover fully from the Asian Financial Crisis in the late-1990s. The difference between the hypothetical steady growth and the actual growth lines from 1997 until 2016 could represent the output loss.

If not enough is done to address current troubles in the labour market, it is possible Malaysia would experience a permanently higher unemployment rate, as compared to the previous 3.0–3.5% range of the past decade.
Without effective counteracting measures, the economy could easily rest on a suboptimal growth path for an extended period, with recovery from the pandemic never quite completed. A condition of persistently high unemployment over an extended period of time would have negative repercussions on Malaysian living standards and social stability.

At a time when the private sector is struggling to keep its doors open and along with the ongoing technological disruption, the government has a role in stabilizing and jumpstarting the jobs market.

2. Selected Expansion of the Public Sector

Making more good-paying jobs available could break the spiral of falling demand and falling income. The government could create jobs directly through a selected expansion of the public sector over a number of years.

Such job creation could address wage issues in the market mentioned in the previous section as it would force private employers in selected industries (including some classes of general workers) to compete with the public sector. If wages in the public sector are set marginally but meaningfully higher than those in the private sector, public sector pay could induce overall wage growth in the economy. This could hasten wage growth, and partially address the observed mismatch between wages and productivity.

The following sections elaborate the proposed plans within the public tertiary education and healthcare systems.

2.1. Public tertiary education system

2.1.1. Details

The public tertiary education system should be expanded in conjunction with a program to encourage the unemployed, or those at risk of unemployment, to enrol in full-time certificates, diplomas, undergraduate, or postgraduate programs in public colleges and universities. This includes vocational learning. The government would provide scholarships for the program participants.

This program would be a means to reskill or upskill the Malaysian labour force in order to meet certain long-run, mission-oriented targets while the labour market is in an extended downturn. Some of these long-run targets should involve preparing the labour force required to spur the growth of the green economy or reindustrialisation exercises that will require widespread automation and digitalisation.

Upon graduation, some graduates could be offered guaranteed employment on projects the government deems necessary to fulfil its long-term goals.

The program can benefits the labour market in at least two ways:

a) It takes workers that are otherwise unemployed, or at risk of being unemployed, off the labour market between a period of 6 and 48 months depending on the program enrolled. This would reduce pressures in the market and provide the economy time to recover, while allowing participating Malaysians to improve their skills.

b) The program would require public education institutions to expand their workforce, by hiring lecturers, teaching assistants, lab technicians, librarians, and others to cater for increased demand. These service-oriented jobs would be more resilient to the proliferation of digitalisation and automation.

2.1.2. Benchmark

There is room for more graduates. In 2016, only 21% of the total Malaysian population aged over 25 had any kind of post-secondary education. In contrast, other high-income countries had in excess of 40%, as shown in Table 2. The average amongst upper-middle class countries, meanwhile, was 22.7%, higher than in Malaysia.[8] For a country on the verge of transitioning from an upper-middle to a high-income country, this suggests there is plenty of scope to get more Malaysians to complete higher education.

Countries	2018 World Bank income classification	2018 GNI per capita (USD current, Atlas method)	Post-secondary education attainment among the population aged 25+ (2016 unless stated otherwise)
United States	High	$63,200	42.3%
Singapore	High	$57,900	57.4%
Germany	High	$47,150	38.6%
Japan	High	$41,150	37.3% (2010)
South Korea	High	$32,610	45.1% (2015)
Estimated high income average			30.8%
Estimated upper-middle income average			22.7%
Malaysia	Upper-mid	$10,590	20.9%
Mexico	Upper-mid	$9,180	16.5%
Iran	Upper-mid	$5,420	23.2%
Indonesia	Lower-mid	$3,820	9.4%
Vietnam	Lower-mid	$2,360	14.2% (2009)

Table 1: Proportion of population aged 25 and above with post-education education for Malaysia and other selected countries.

8 World Bank. Open Data. Educational attainment, at least completed post-secondary, population 25+, male (%) (cumulative). Accessed June 2020.

2.1.3. Cost and timeline

It is difficult to provide an estimated cost for this expansion. But based on the Ministry of Education's Graduate Tracer report, Malaysia's tertiary education system produced 341,000 graduates in 2018, of which slightly more than a third came from private institutions. To meet the upper-middle income average, Malaysia may need to produce at least 200,000 new graduates on top of the usual graduation numbers. If this proposed program is to run for 4 years, this means an additional 50,000 graduates per year, at minimum.

In 2018, the Ministry of Higher Education was allocated a RM13.9 billion budget. A rough estimate suggests the higher education yearly budget should be raised to approximately RM16.0 billion, before accounting for changes in later years. This would translate to an additional spending of 0.1–0.2% of GDP yearly relative to business as usual spending over the period of 4 years.

2.2. Public health sector

2.2.1 Details

The COVID-19 pandemic has highlighted the importance of a well-funded and well-maintained health system, particularly during widespread health emergency.

Just as important, the expansion of the public health sector would prepare Malaysia for demographic ageing. The Malaysian population is still young, with a median age of 29 in 2019.[9] However it is expected to become an aged society by 2035, where 15% of the total population would be 60 years old or older according to the National Population and Family Development Board.[10] As society ages, demand for affordable healthcare will rise.

More immediately, an expansion of the public health system would partially address existing problems. At present, there is an oversupply of medical graduates and nurses who are not employed within the health system, a problem acknowledged by the former Health Minister Dzulkefly Ahmad in 2018.[11]

This is a curious problem as well. Although Malaysia has a glut of medical graduates, the country has a shortage of doctors. In 2015, the physician-patient ratio in the country stood at 1.5 doctors for 1,000 people.[12] Although this is above the World Health Organization's recommendation of 1 to 1000, it is lower than other countries of comparable development. Among upper-middle income countries, the ratio stood at 2 physicians for every 1,000 people in 2017 and, among high income countries, it was 3.1 per 1,000 persons.

9 Department of Statistics Malaysia. Current Population Estimates, Malaysia, 2018-2019. July 2019.

10 National Population and Family Development Board. Factsheet Malaysia Demographic Trends.

11 Bernama. Government to resolve issue of housemen placement. New Straits Times. June 9 2018.

12 Ministry of Health. Health Fact 2019: Reference data for 2018. November 2019.

2.2.2 Benchmark

Based on the World Bank's database, Malaysia's total healthcare spending amounted to 3.9% of GDP in 2017. This is lower than the average spend of 5.7% among the upper-middle income countries.[13] This spending includes both public and healthcare spending; out of the total healthcare spending. Out of the total healthcare spending however, only approximately half could be attributed to spending within the public health system.

Countries	2018 World Bank income classification	2018 GNI per capita (USD current, Atlas method)	Healthcare expenditure relative to GDP (2017)	Out-of-pocket spending (2017)	Doctors per 1,000 people (2007 unless stated otherwise)
United States	High	$63,200	17.1%	11.0%	2.6
Singapore	High	$57,900	4.4%	32.1%	2.3
Germany	High	$47,150	11.3%	12.7%	4.2
Japan	High	$41,150	10.9%	12.9%	2.4 (2016)
South Korea	High	$32,610	7.6%	33.7%	2.4
High income average			12.5%	13.6%	3.1
Upper-middle income average			5.7%	32.9%	2.0
Malaysia	Upper-mid	$10,590	3.9%	38.0%	1.9 (2019)
China	Upper-mid	$9,620	5.2%	36.1%	2.0
Mexico	Upper-mid	$9,180	5.5%	41.3%	2.4
Iran	Upper-mid	$5,420	8.7%	41.8%	1.6 (2018)
Indonesia	Lower-mid	$3,820	3.0%	34.6%	0.4
Vietnam	Lower-mid	$2,360	5.5%	45.5%	0.8

Table 2: Comparison of healthcare expenditure and out-of-pocket spending across selected economies.

While healthcare spending ratio in Malaysia is low relative to the upper-middle income average, high out-of-pocket spending indicates Malaysians do not have enough healthcare protection. In 2017, it was estimated that 38.0% of total healthcare expenditures were paid out-of-pocket, a figure higher than the upper-middle income average of 32.9%.[14]

All this suggests there is room to expand expenditure and create jobs within the public healthcare sector.

13 World Bank. Open Data. Current health expenditure (% of GDP). Accessed June 2020.

14 World Bank. Open Data. Out-of-pocket expenditure (% of current health expenditure). Accessed June 2020.

2.2.3. Cost and timeline

If expenditure amongst upper-middle income countries are taken as a benchmark, Malaysia would be required to raise its heath spending by nearly 2% of GDP relative to business as usual. As shown in Table 1, healthcare spending among upper-middle income countries was 5.7% in 2017, higher than Malaysia's 3.9%. The expansion could be staggered over a number of years to take into consideration the fiscal burden it would impose on the government and, ultimately, taxpayers.

2.3. Ancillary jobs

The expansion of the public health and tertiary education systems will create not only professional-level jobs, but many other ancillary jobs. Although much of these ancillary jobs will be less-skilled and perhaps susceptible to automation in the longer-run, it will quickly create jobs as these positions would not require training over a long period of time – unlike professional jobs for which training could take years. Some of the jobs that will be created include clerks, janitors, and security personnel, which while support staff, are nonetheless crucial to the smooth running of healthcare and educational facilities.

3. Conclusion

The COVID-19 recession is causing severe job losses in the private sector. The government can play an important role both stabilising and stimulating demand for labour. The public healthcare and education system can be expanded to create new jobs, while meeting long-term challenges like technological change and demographic ageing.

About REFSA

Research for Social Advancement (REFSA) is a progressive, non-profit think tank that promotes social advancement in Malaysia. Since its inception, REFSA has been at the forefront of policy discussions and debates in the important political and socio-economic issues of the nation. Today, our aspiration hasn't changed – we want to power the movement for a just, inclusive and multi-ethnic society.

About REFSA Brief

REFSA Brief is a series of briefs and opinion pieces that aim to analyse pertinent socio-economic issues and encourage discussions in policy issues across the public, private and the third sector.

Connect with us

refsa.org

twitter.com/inforefsa

facebook.com/refsa

linkedin.com/company/research-for-social-advancement