



THE DAY AFTER TOMORROW

Estimating the Impacts of Ending Temporary Wage
Subsidy Programme

The Day After Tomorrow: Estimating the Impacts of Ending Temporary Wage Subsidy Program

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FOREWORD

Evidence-based policymaking is necessary to achieve intended outcomes as informed decisions are made based on data availability, rigorous research, analyses as well as evaluations of social costs and benefits. This is where SOCSO's role comes into play in supporting policy assessment of national labour market programmes.

The current challenges in addressing the economy post COVID-19, such as the one we are facing today calls for evidence-based policies in a rapid response scenario. The mission of EIS-UPMCS Centre for Future Labour Market Studies (EU-ERA) is highly relevant in this context, blending the scientific and empirical approaches into the current policy assessment.

This report contains "first-hand" information on the impact of ending the Wage Subsidy Programme (WSP) on employment. Findings from the snap survey justify the need for government intervention to design and implement a targeted WSP. This is deemed a fair and productive policy decision that could promote sustainable economic recovery.

As a matter of fact, our assessment in the *Quarterly Labour Market Perspectives* for the third quarter of 2020 illustrated a significant recovery in the labour market, which is represented by a '**rhombus**' shape

This report is simplified and presented in an informative format. Everyone can easily understand the content and make use of the findings for various purposes.

**YBhg. Dato' Sri Dr. Mohammed Azman bin
Dato' Aziz Mohammed**

Chief Executive,
Social Security Organisation (SOCSO)

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Our gratitude goes to all firms that contribute to this survey.

This report is written by

Muhamad Zharif Luqman Hashim, Mohd Yusof Saari, Chakrin Utif, Mazzatul Raudah Abdul Halim and Mohd Alzaieri Abdul

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SUMMARY

The unprecedented nature of COVID-19 pandemic has set in motion one of the most abrupt disruptions in decades, which has severe negative impact on output and employment. In response to this, **the Malaysian government under the PRIHATIN Economic Stimulus Package has designed the temporary Wage Subsidy Programme (WSP) to save jobs and help firms to keep as many employees as possible on the payroll.** Temporary WSP has also been adopted in many outbreak-affected countries using different terminologies such as *Job Support Scheme* in Singapore, *Temporary Emergency Bridging Measure* in the Netherlands and *Emergency Wage Subsidy* in Canada.

WSP 1.0 was launched on April 1, 2020 covering a 6 month financial assistance, benefiting for more than 2.7 million workers and 331,950 employers. The WSP was then extended for another 3 months under WSP 2.0, benefiting 821,697 employees and 81,921 employers. Ending the WSP in December 2020 leads to a critical policy question: how will it affect employees and unemployment rates? **This report documents the findings from a snap employer survey on the potential impacts of ending WSP on employees.**

In this survey, a sample of 1,700 firms were extracted from the “population of firms” receiving WSP in the Social Security Organisation (SOSCO) data system. An online survey was conducted from October 30 to November 22, 2020 with a total response of 469 firms. The survey contains a total of 12 questions covering firm background (3 questions), employability of future employees (4 questions), and business situation (5 questions). The survey questionnaire was drafted and refined based on the International Labour Organization (ILO) survey questions for assessing the needs of enterprises resulting from COVID-19.

The findings confirm our expectation that ending WSP is unlikely to increase unemployment rate. Out of the total respondents, only 15% plan to reduce the size of employment, but the remaining either plan to increase employment (29%) or retain current employment (56%). Thus, the net effect of WSP on employment is positive.

The findings also provide a “strong” case for the implementation of a targeted WSP along with the positive signs of labour market recovery. As a matter of fact, our assessment in the *Quarterly Labour Market Perspectives* for the third-quarter of 2020 indicates a “**Rhombus**” shape, manifesting a positive sign of economic and labour market recoveries.

Firms in some sectors have shown significant recovery after the re-opening of the economy in June 2020, which was also complemented with massive economic stimulus packages. However, some firms in some sectors such as tourism may require a longer term to recover and would still need WSP assistance from the government. Therefore, the implementation of targeted WSP is needed to help sustain industries that have not fully recovered.

The findings documented in this report should be considered as a “first hand” information on the employment consequences of ending the temporary WSP. **This study has its own limitations because it does not consider other factors that are significant and could influence the findings.** It is worth mentioning two main limitations. First, the survey does not take into account the impacts of the Conditional Movement Control Order (CMCO) periods. Opening up all economic activities are preconditions for economic recovery and the implementation of CMCO is likely to influence the speed of production and employment recoveries. Second, the survey questions are limited and could not deep-dive into a more micro-view of affected employment. For example, the information on occupation, qualification and age of workers are important considerations before appropriate actions could be taken.



Aims and Scope

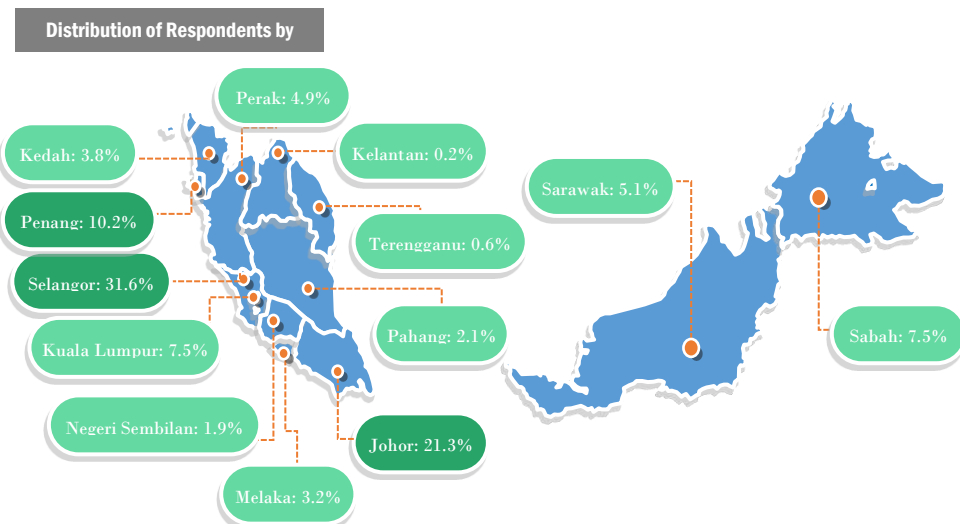
AIMS AND SCOPE

The unprecedented nature of COVID-19 pandemic has set in motion one of the most abrupt disruptions in decades, which has severe negative impact on output and employment. In response to this, the Malaysian government under the PRIHATIN Economic Stimulus Package has designed the temporary Wage Subsidy Programme (WSP) to save jobs and help firms to keep as many employees as possible on the payroll. Temporary WSP has also been adopted in many outbreak-affected countries using different terminologies such as *Job Support Scheme* in Singapore, *Temporary Emergency Bridging Measure* in the Netherlands and *Emergency Wage Subsidy* in Canada.

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Due to sluggish business performance and slow recovery of certain sectors, ending the WSP is expected to affect most of the recipients, employees and employers alike. This study aims to examine the impacts of ending the WSP on employees. An online survey was designed and distributed to a randomly selected sample of 1,700 firms receiving WSP. A detailed explanation of the methodology is provided in Appendix A (page 28).

Majority of the respondents (firms) are from the developed states with high degree of industrial concentration. States of Selangor, Johor and Penang represent 63% of total respondents.

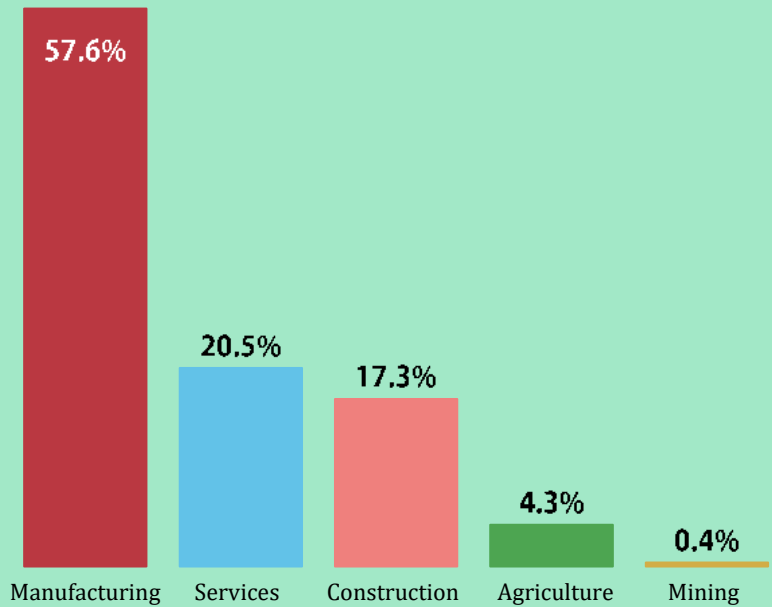


58%

of the respondents are from the manufacturing sector, followed by

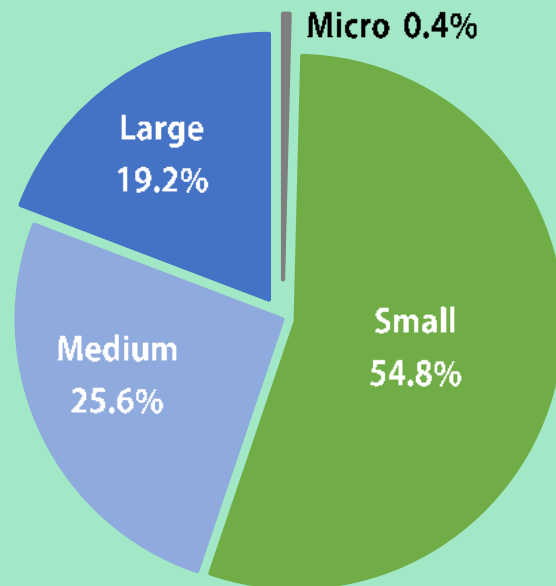
21%

from the services sector.

Distribution of Firms by Sectors

81%

are small and medium enterprises (SMEs) consisting mostly of small enterprises.

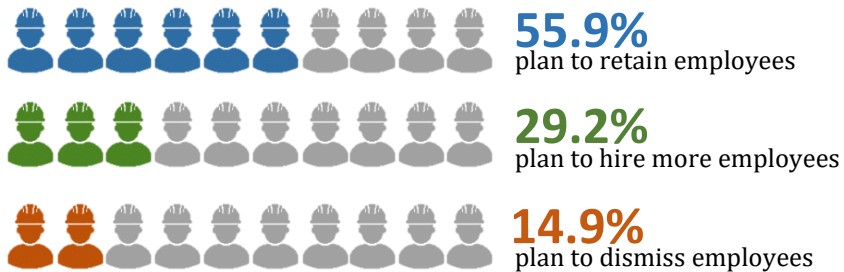
Distribution of Firms by Establishment Sizes



Key Findings

HIGHLIGHTS

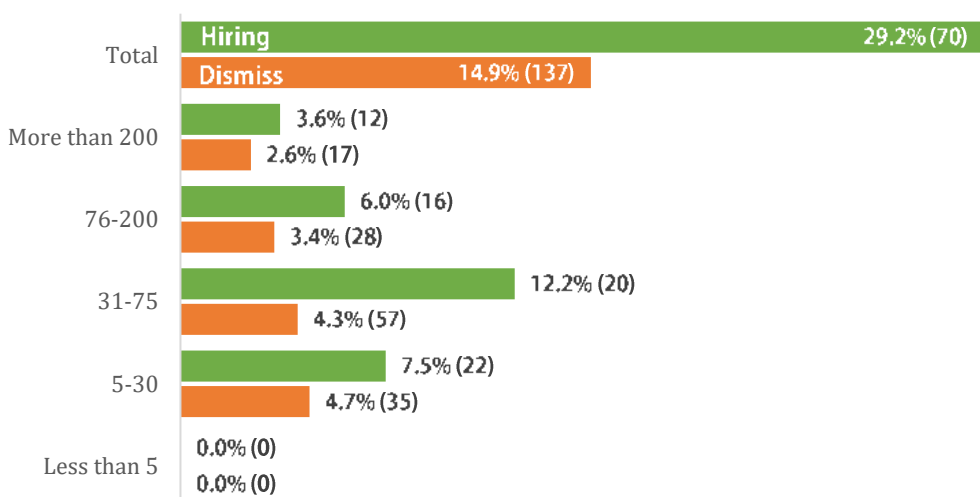
Ending Wage Subsidy Programme (WSP) is unlikely to increase the rate of unemployment. The percentage of firms that plan to dismiss employees is relatively smaller than the firms that plan to increase employees. Altogether, the net effect of WSP on employment is positive.



The majority of firms that are planning to hire more employees are the ones with the employee size of 31-75.

For dismissal, the decision is closely associated with the number of existing employees. That is, the higher (lower) the number of employees in a firm, the lower (higher) the number of firms that are expected to dismiss their employees.

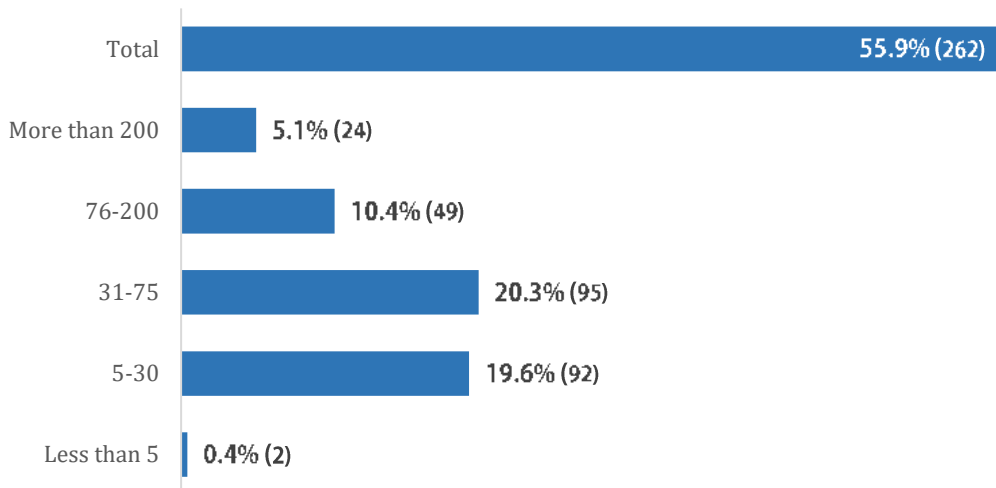
Figure 1. Hiring and dismissal of workers according to the size of employees



Note: Figures given in the brackets () refer to the number of firms that are planning to retain employees.

Firms with employee size of 5-30 and 31-75 are more likely to retain their employees.

Figure 2. Retaining workers according to firms' size of employees



Note: Figures given in the brackets () refer to the number of firms that are planning to retain employees.

The findings provide a “strong” case for the implementation of a targeted WSP along with the positive signs of labour market recovery. As a matter of fact, our assessment in the *Quarterly Labour Market Perspectives* for the third-quarter of 2020 indicates a “**Rhombus**” shape, manifesting a positive sign of economic and labour market recoveries.

The findings of this survey are also consistent with the following developments that are implicitly implying labour market recovery:

- ❖ Only 22% of firms applied for the WSP extension (SOCSO, 2020)
- ❖ There are only 34,400 SME firms facilitated by financial institutions for repayment assistance in September (BNM, 2020) compared to 243,000 firms that utilised the automatic moratorium in July (ABM, 2020).



Retaining Employees

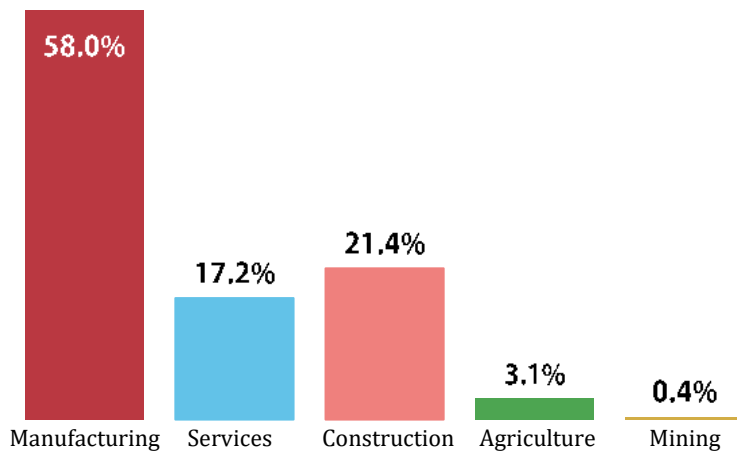
EMPLOYMENT PRESERVATION

While the majority of firms planning to retain workers are from the manufacturing sector, most of them are small enterprises.

Firms that are most likely to retain their workers are from the manufacturing sector

58%

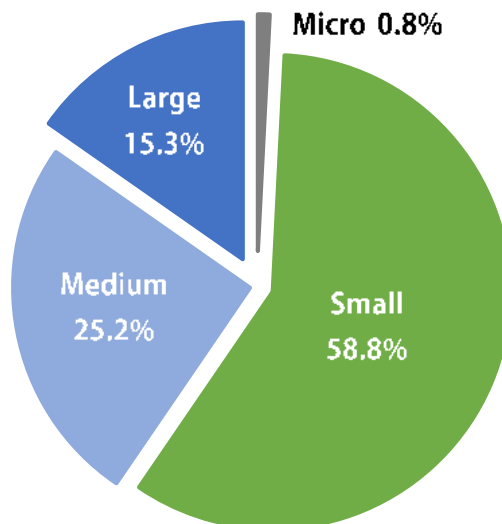
Figure 3a: Sectoral concentration



Small enterprises are most likely to retain their workers

59%

Figure 3b: Establishment sizes





Hiring Employees

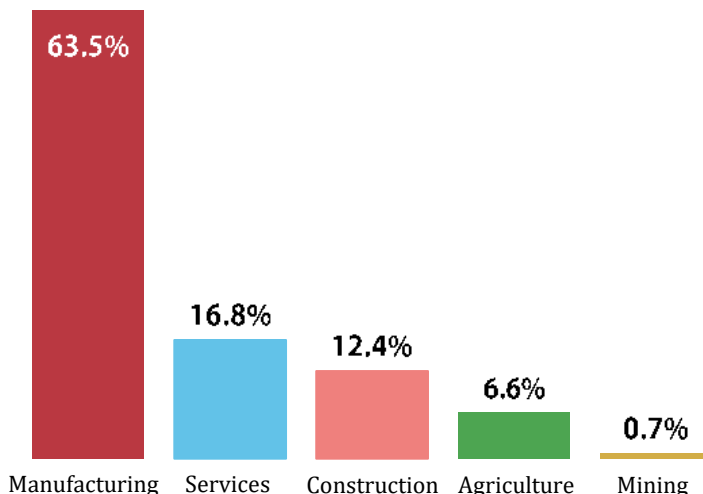
EMPLOYMENT EXPANSION

Employment expansion is largely originated from the manufacturing sector and mostly driven by small enterprises. The approximate size of potential employment expansion is around 1 to 10%.

The manufacturing sector is the main source of employment expansion

64%

Figure 4a: Sectoral concentration



Small enterprises are the major source of employment expansion

53%

Figure 4b: Establishment sizes

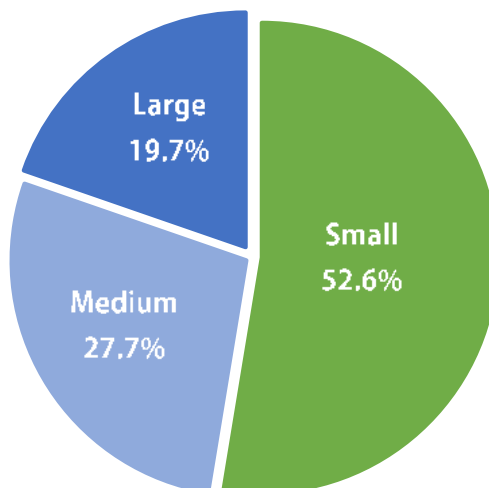
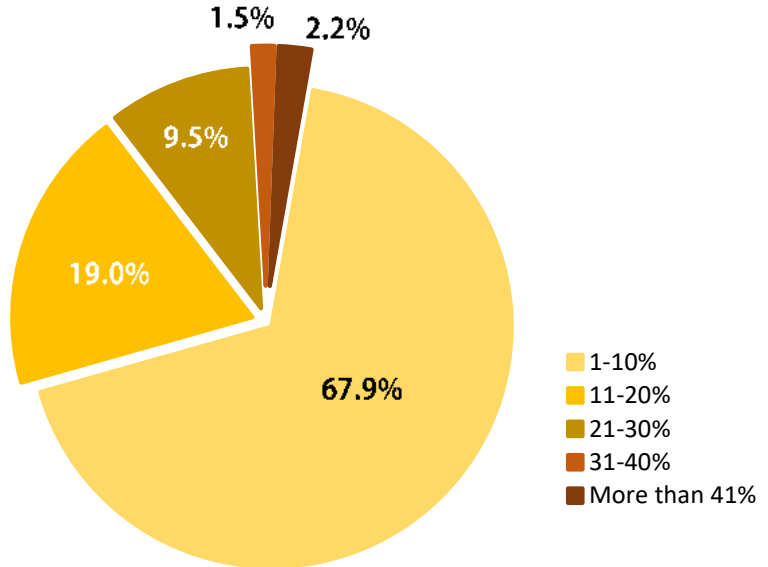


Figure 5: Size of employment expansion

68%

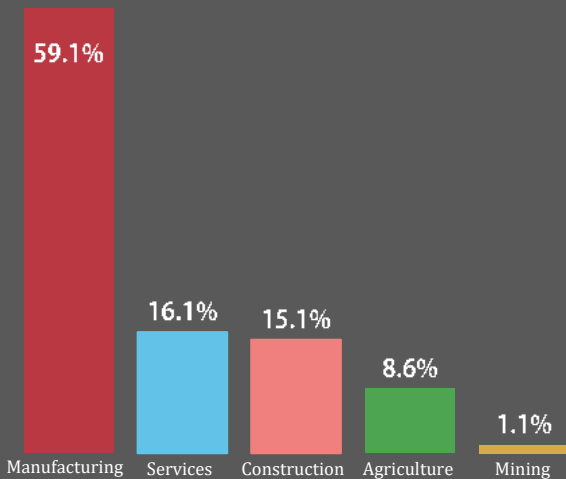
of firms plan to increase employment around 1 – 10%.



The detailed findings for 1-10% increase in employees are illustrated below.

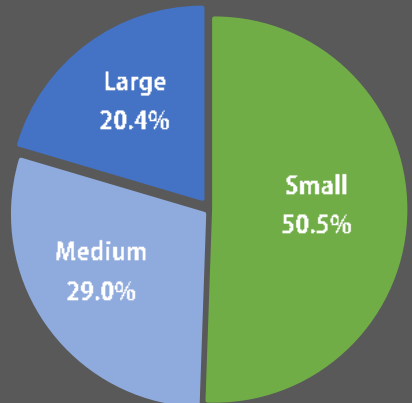
59% are from the manufacturing sector

Figure 5a: Sectoral concentration for 1-10% expansion of employees



51% are small enterprises

Figure 5b: Establishment sizes for 1-10% expansion of employees





Dismissal of Employees

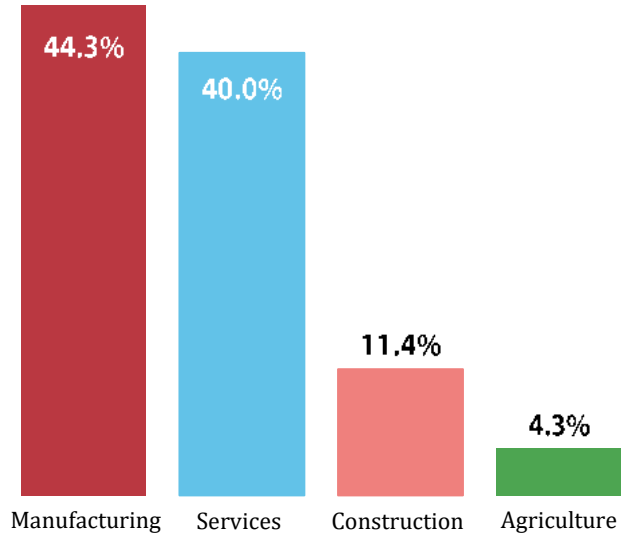
EMPLOYMENT REDUCTION

Employment reduction comes mainly from the manufacturing and services sectors with the small enterprises dominating the most. The magnitude of reduction is between 1-10% and 11-20%.

Manufacturing and services sectors are the sources of employment reduction, contributing

84%

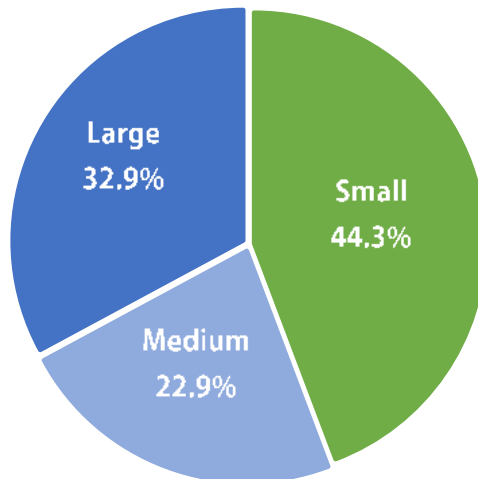
Figure 6a: Sectoral concentration



Small enterprises indicate the most reduction, contributing

44%

Figure 6b: Establishment sizes



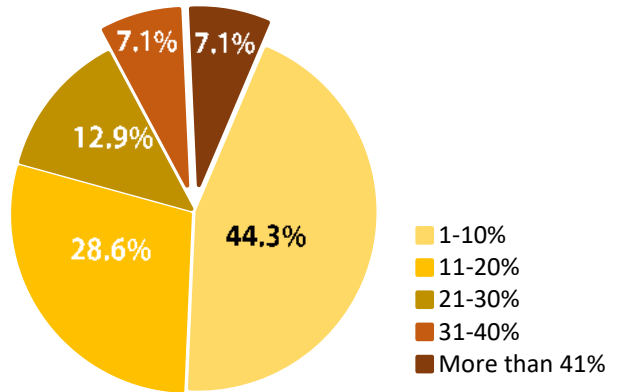
Most employment reduction is expected to be between 1 to 10%

44%

and 11 to 20%

29%

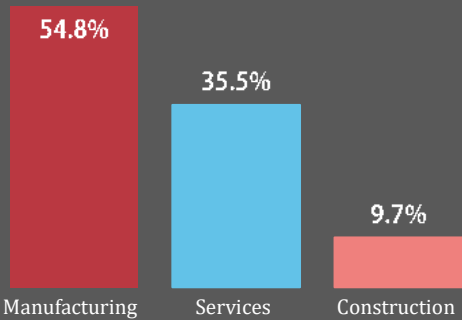
Figure 7: Size of employment reduction



The detailed findings for 1-10% and 11-20% reduction of employees are illustrated below.

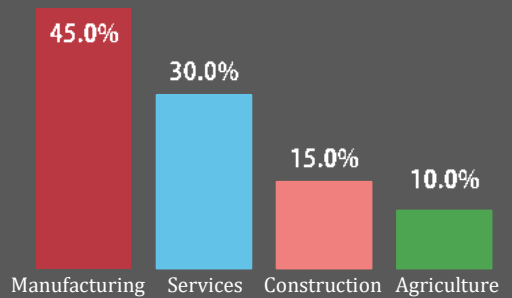
55% of the reduction of **1-10%** employees are from the manufacturing sector

Figure 7a: Sectoral concentration for 1-10% reduction of employees



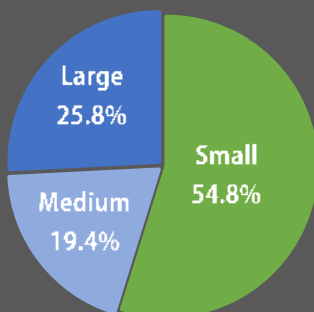
45% of the reduction of **11-20%** employees are from the manufacturing sector

Figure 7b: Sectoral concentration for 11-20% reduction of employees



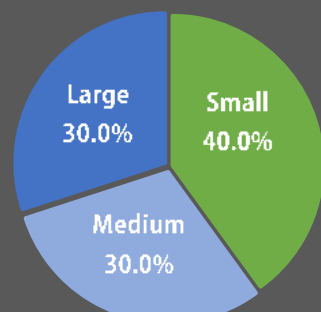
55% of the reduction of **1-10%** employees are from small enterprises

Figure 7c: Establishment sizes for 1-10% reduction of employees



40% of the reduction of **11-20%** employees are from small enterprises

Figure 7d: Establishment sizes for 11-20% reduction of employees





In-Depth Comparison

SEVERITY OF IMPACTS

What is the level of impact on firm sales?

The magnitude of impacts due to COVID-19 influences the firm's decision to dismiss or hire employees. Only 8% of firms planning to hire employees are experiencing the highest severity impact compared to 30% for the firms that are planning to dismiss their employees (see also Appendix A for econometric results).

Figure 8a: Firms planning to hire employees

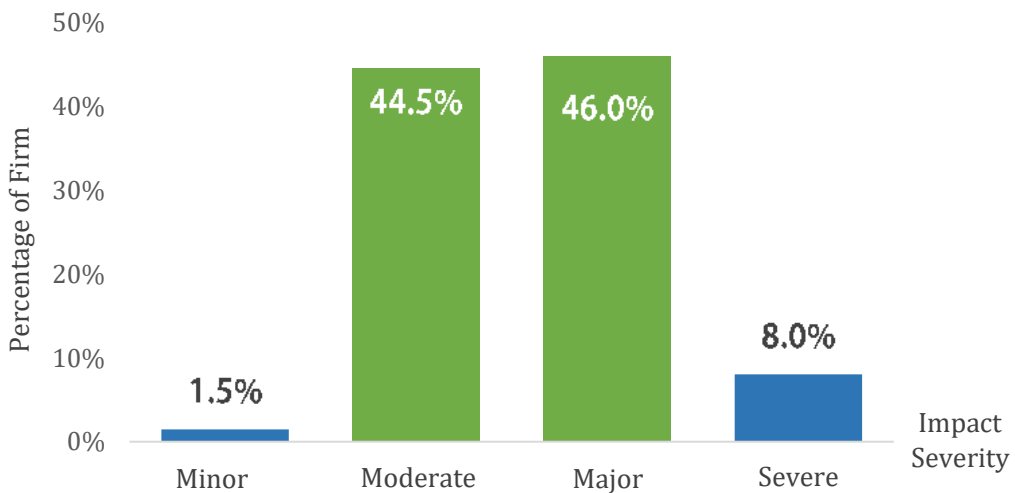
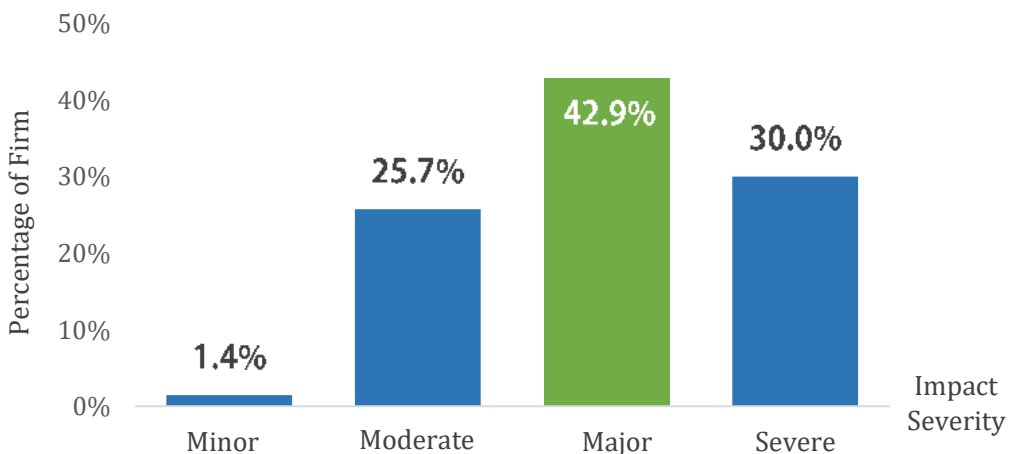


Figure 8b: Firms planning to dismiss employees



BUSINESS RECOVERY

What is the percentage of business recovery prior to COVID-19?

The magnitude of recovery determines the firm's decision to dismiss or hire employees. More firms plan to hire employees because 71% of them had recovered more than 25% (see also Appendix A for econometric results).

Figure 9a: Firms planning to hire employees

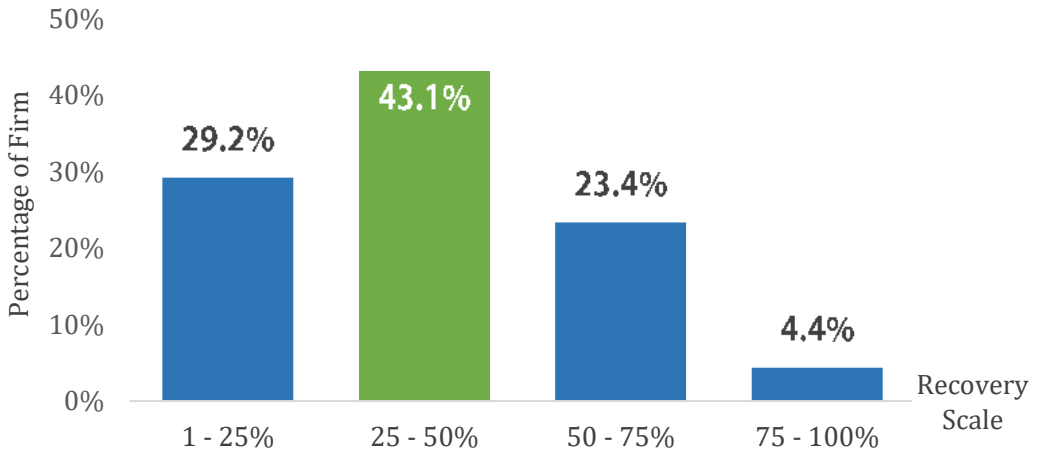
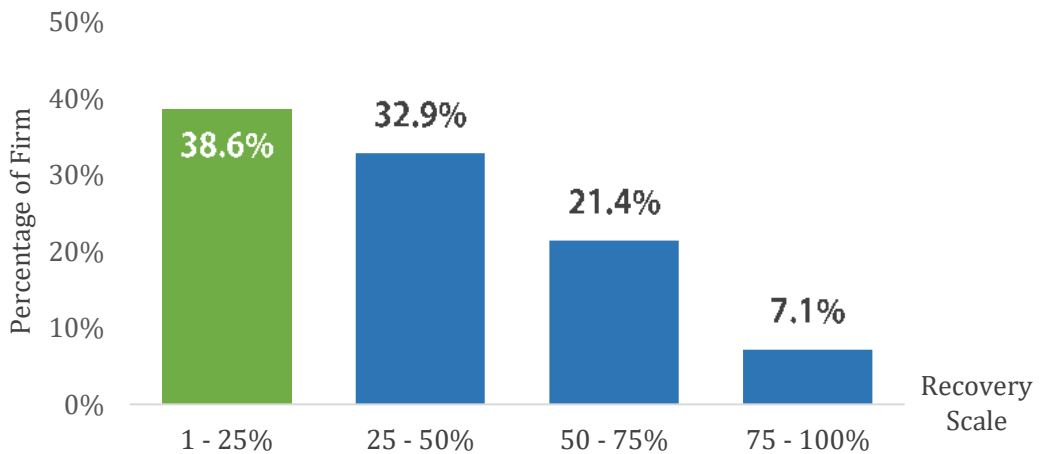


Figure 9b: Firms planning to dismiss employees



FULL RECOVERY PERIOD

Given the current situation, how long will it take for your firm to fully recover?

Tendency of firms to reduce employment is higher when longer recovery period is required. The share of firms with employee dismissals that take more than 12 months to fully recover is higher than that of firms that are hiring employees—57% versus 47%.

Figure 10a: Firms planning to hire employees

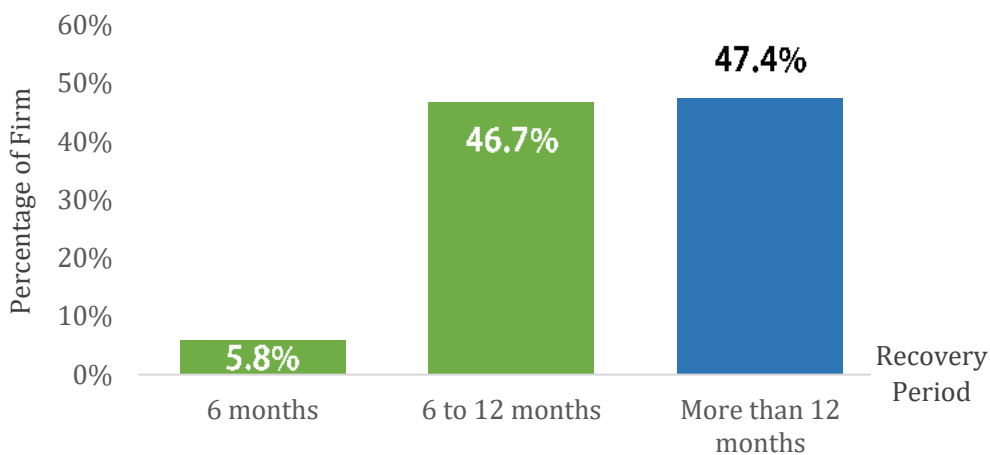
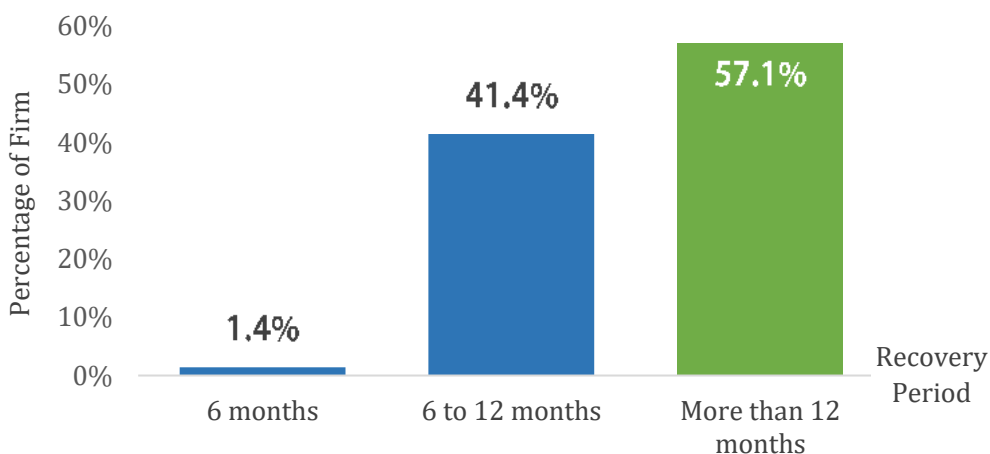


Figure 10b: Firms planning to dismiss employees



BUSINESS CONTINUITY

Does your firm plan to continue its business operations as usual from 2021 onwards?

Business prospect determines the employment demand. More than 87% of firms that are planning to hire employees expect to continue their business operation in 2021. Firms planning to dismiss employees are like to be facing more business uncertainties (see also Appendix A for econometric results).

Figure 11a: Firms planning to hire employees

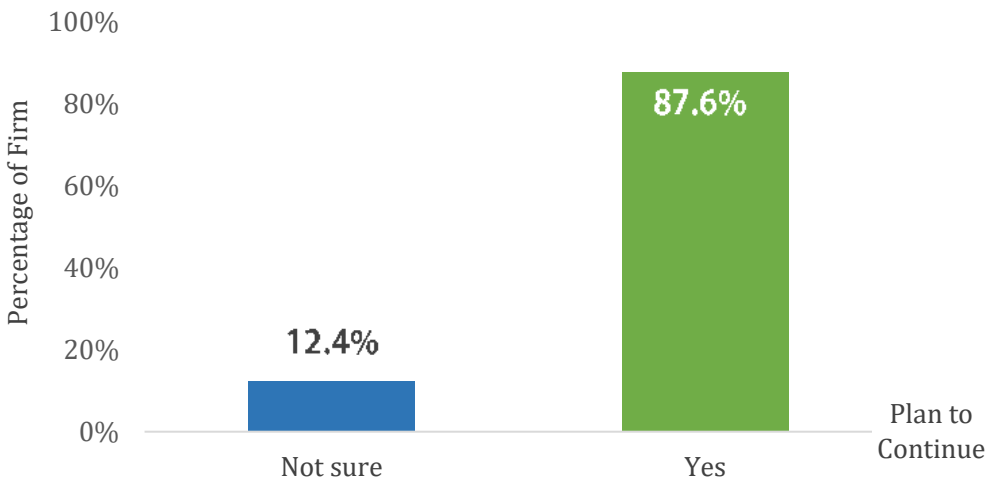
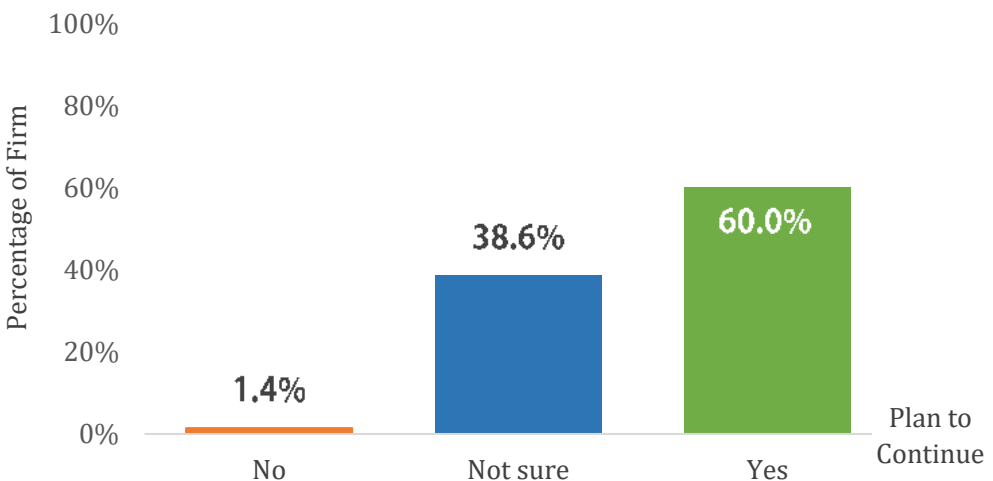


Figure 11b: Firms planning to dismiss employees





Appendix and References

APPENDIX A: ECONOMETRIC RESULTS

Objective:

This Appendix provides empirical assessment on the relationship between firm's business situation and employment prospect (dismissal or hiring). The objective of the analysis is to examine the empirical factors that determine the employment prospect. The econometric results support the descriptive analyses in the previous chapters.

Probit Model:

This study applies the Probit model, the technique that is widely used in the labour market literature (Brown & Session, 1997; Cirillo et al., 2020; Cowling et al., 2020). The model that fits our goal can be generalised as follows:

$$\Pr(\text{employment prospect}) = \Phi(\beta_0 + \beta_1 \text{impact} + \beta_2 \text{recovery} + \beta_3 \text{continue})$$

Employment prospects are the dependent variables that represent two cases—the dismissal or hiring employees. The dependent variable takes value of 1 for the case of dismissal employees and 0 if otherwise. The similar approach used for the case of hiring employees. *Impact* refers to the magnitude of impact on firms' performance due to COVID-19. *Recovery* is a dummy variable where the value of 1 indicates the firm business recovery only 1 to 25% compared to before COVID-19 hit and 0 is otherwise. *Continue* represents indication of firms to the continuation of business operation in 2021. It is described by using dummy variables where value of 1 for the continuity business operation as usual in 2021 and 0 is otherwise.

Results:

Empirical estimations for hiring and dismissal employees are given in Table A1 and Table A2, respectively. Both the estimated coefficients that statistically significant and marginal effects are reported. The marginal effect is used to determine the magnitude of the effect of independent towards dependent variables.

Table A1: The case of firms with hiring employees

Dependent variable: employment prospect (hiring employees)		
Independent variables	Coefficient	Marginal Effect
Continue	0.562***	0.178***
Pseudo R ²	0.022	
No. of Observation	469	

Note: z-statistic correspond to the test of the following underlying coefficient being zero
*** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$

The coefficient of *Continue* turns up with a positive and statistically significant sign indicating that the firms with plan to continue business operation in 2021 have higher chance of increasing their employees. The marginal effects show that as the firms plan to continue business in 2021, there is a 17.8% chance for firms to increase their employees.

APPENDIX A: ECONOMETRIC RESULTS

Table A2: The case of firms with dismissal employees

Dependent variable: employment prospect (dismissal employees)		
Independent variables	Coefficient	Marginal Effect
Impact	0.382***	0.082***
Recovery	0.290*	0.061*
Continue	-0.450***	-0.096***
Pseudo R ²	0.081	
No. of Observation	469	

Note: z-statistic correspond to the test of the following underlying coefficient being zero
 *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$

The estimated coefficients for *Impact* and *Recovery* show positive relationship and statistically significant with the dismissal employees. This indicates that severity impact of COVID-19 and low level of recovery rates have higher chance of dismissal employees. Results show a negative and significant coefficient for *Continue*, implying that firms that plan to continue business operation in 2021 are less likely to dismissal employees.

APPENDIX B: METHODOLOGY

Data collection method: The data for this study was collected using an online survey where emails were sent to 1,700 selected firms. The samples of targeted firms are extracted from the “population” of firms that are incumbent recipients of WSP 1.0 and 2.0 assistance in the SOSCO data system. The online survey was conducted for about a month, starting from October 30 to November 22, 2020. The survey questionnaire contain a total of 12 questions covering firm’s background information (3 questions), employability of future employees (4 questions), and business situation (5 questions). The survey questionnaire was drafted and refined based on the International Labour Organization (ILO) survey questions for assessing the needs of enterprises resulting from COVID-19 (ILO, 2020).

Scope and coverage: The survey covers all firms (SMEs and large firms) throughout the nation that are still receiving WSP.

Sampling frame and technique: The sample was obtained from the SOCSO database in accordance to the characteristics needed for this study. For sample selection, non-probability purposive sampling technique is used to determine the desired information for the study.

Sampling size: Using Cochran’s sample size formula, the minimum sample size required for this study is 382 firms with a margin-of-error of 5% and 95% confidence level. A total of 469 responses was successfully collected with a 27.6 percent of response rate.

Method of data analysis: Descriptive analyses and Probit regression are utilised in this study. Probit model is used to model dichotomous or binary outcome variables. In the probit model, the inverse standard normal distribution of the probability is modelled as a linear combination of the predictors.

APPENDIX B: DEFINITION OF KEY MEASURES

Wage subsidy programme 1.0 was implemented on 1 April 2020 as part of the PRIHATIN Economic Stimulus Package to prevent massive layoffs. It subsidises eligible workers' salaries for 6 months. This programme was discontinued on 30th September 2020 and extended to the Wage Subsidy Programme 2.0. The subsidies of Wage Subsidy Programme is based on the company sizes and ranges from RM600 to RM1,200 per employee. For example, companies with more than 200 employees, between 75 and 200 employees and less than 75 employees are eligible for wage subsidy of RM600, RM800 and RM1,200 per month per employee respectively. For Wage Subsidy Programme 2.0, recipients and new applicants will be subsidized RM600 per employee per month for 3 months and 6 months respectively.

Unemployed are those who did not work during the reference week and are classified into two groups that is the actively unemployed and inactively unemployed.

Unemployment rate is the proportion of unemployed population to the total population in labour force. This rate measures the percentage of unemployed population in labour force.

Agriculture sector covers the forestry and fishing sectors.

Mining sector covers the quarrying sectors.

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About Us

EIS-UPMCS Centre for Future Labour Market Studies (EU-ERA) is a collaborative research laboratory between the Employment Insurance System (EIS) at Social Security Organisation (SOCSO) and Universiti Putra Malaysia Consultancy & Services (UPMCS).


The mission of the EU-ERA is to blend the scientific and empirical approaches into the current policy development which cover end- to-end labour market policies ranging from the labour supply to the labour demand issues. In meeting the scopes, the center focuses on forecasting and modelling; applied policy analysis; and capacity building and structured training programmes for labour market assessment tools.

Our core researchers have strong expertise in quantitative economic tools which include econometrics, input-output (IO), social accounting matrix (SAM), computable general equilibrium (CGE), system dynamics (SD) and data envelopment analysis (DEA). These quantitative tools are not only vital for labour policy assessments but also are able to address the inter-linkages between the labour market and other developmental issues such as investment, trade, income distribution, poverty, social policy, demography and aging, and migration.

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