

Youth underemployment should be acknowledged, not overlooked — Jason Loh and Farah Natasya

NOVEMBER 10 — Even though the unemployment rate tempo is decreasing with the September figure produced by the **Department of Statistics (DOSM)** as at 3.6 per cent (from 3.7 per cent in August), one thing that's often being overlooked and discounted is underemployment which should also be accorded equal policy emphasis and priority — notwithstanding or rather precisely because of the growing popularity of the gig economy.

The steadily downward trend in the unemployment rate might be because more have decided to settle for any kind of job available to cope with the rising cost of living, including new entrants (ie., those who haven't worked before or stopped working previously). This can be also seen in the increase in the Labour Force Participation Rate (LFPR) which "... rose 0.9 percentage points to 69.2 per cent ...".

Both unemployment and underemployment represent different forms of labour underutilisation.

Underemployment — which simply means underutilisation of the working or active labour force — can be further defined as time-related (TRU) and skills-related (SRU). In the context of Malaysia, DoSM defines TRU as those who are employed for less than 30 hours per week (ie., below capacity) whereas SRU is defined as those with tertiary education working in semi-skilled and low-skilled occupations (ie., skills or qualifications mismatch).

In the context of the gig economy, both TRU and SRU can overlap and converge — a critical point that perhaps has been neglected in the government's policy analyses, discussions and formulations so far, irrespective of which coalition was in power.

This can also be readily discerned in the manifestos of all three main coalitions — set against the backdrop of the current general election.

The Pakatan Harapan (PH) manifesto fired the first salvo (with the hope of outflanking its opponents) by a policy attention on gig workers. For example, PH has vowed to provide for a "career progression system" for gig economy workers - whereby "[g]ig economy companies will be given incentives for developing the skills and career of their employees ... [whereas] SPM graduates will be encouraged to further their studies in TVET [technical and vocational education training] fields" (p. 20).

As for the Perikatan Nasional (PN) manifesto, it mentions a special incentive of RM1,000 for gig economy workers to pursue tertiary studies at accredited higher educational institutions, but made no mention of youth underemployment.

Even under the Barisan Nasional (BN) manifesto which promises to enact a Dependent Contractor Act for gig economy workers (p. 21), it hasn't paid attention to addressing and resolving the problem of youth underemployment.

Like unemployment, the overall underemployment rate has decreased. DoSM in its Labour Market Review for Second Quarter (Q2) 2022 reported that the rate for TRU reduced from 2 per cent to 1.4 per cent, while the rate for SRU decreased from 37.7 per cent to 36.7 per cent between Q2 2022 from Q2 2021, respectively.

But it doesn't tell the whole story.

This can be readily seen in DoSM's September 2022 Labour Force Statistics (LFS) Report. DoSM reports that for September 2022, the youth unemployment rate for those in the age category of 15-24 was 12.1 per cent and the youth unemployment rate for those in the age category of 15-30 was 7.1 per cent.

The youth unemployment rate — understood as “capturing” the fresh graduate category or otherwise those within the range — has consistently stood at three times the national unemployment rate (see e.g., “Gaps in the Labour Market: More than just unemployment”, Siti Aisyah Tumin, Khazanah Research Institute/KRI, February 25, 2021, p. 2).

Now, the underemployment rate should be higher — when we consider the growth of the gig economy.

According to the World Bank, Malaysian gig economy workers comprise approximately 26 per cent of the workforce (ie., the labour pool in employment) which isn't very far from one out of three workers which translates into about four million freelancers.

According to jobs market expert Joelle Pang (Managing Director of FastJobs Malaysia — job search portal), a study conducted by Zurich Insurance Group and the Smith School of Enterprise and the Environment (University of Oxford) in 2020 found that 38 per cent of Malaysians who were currently employed full-time were considering joining the gig economy within the next year. This percentage was considerably higher than the global average of 20 per cent (“Gig economy: Its effects and the future of work in Malaysia”, Focus Malaysia, September 12, 2022).

We should therefore expect to see that the underemployment, including for the youth, figure will be “range-bound”.

According to the LFS for September 2022 again, the underemployment figure has only marginally reduced by 100,000 — from 2.1 million in 2021 to 2 million so far.

In fact, the figure for SRU for 2021 which was at 1,838,300 million hasn't come down but marginally increased to 1,839,600 million by Q3 2022 (a decrease of only by 1300) — which shows range-bound movement (Table B3, p. A4). For TRU, the figure has come down marginally from 293,100 to 186,000 (a decrease of only by 107,100) (Table B2, p. A5).

As a time-series record (according to quarters), DoSM's LFS goes back to 2017.

For TRU, the figures from 2017 until 2019 consistently displays range bound behaviour — jumping only by 116 per cent in 2020 due to the shock therapy of the movement control orders (MCOs) implemented to contain the transmission of Covid-19. On a quarterly basis, the figure for Q2 of 2020 (which was the height of MCO 1) was 413,500 underemployed. It was also the highest for the youth aged 15-24 as by Q4 of 2020, the underemployment had spiked to 130,300 (the highest ever) and largest contributor to the overall figure of 369,100 (at 35 per cent).

By September 2022, it's those aged between 25-34 that make up the largest sub-category (at 67,400).

What it could mean that the fresh graduates and those within the age range of 15-24 are increasingly competing with the 25-34 age group for gig economy jobs but with the former working longer hours than the latter possibly due to the lower delivery rates than before.

When it came to SRU, the figures exhibit linear growth of an average of 100,000 increase per year between 2017 to 2019.

The figure jumped from 1,540,900 in 2019 to 1,886,800 in 2020 — representing a 350,000 increase which translates into a jump of 246 per cent. From 2020 to Q3 (ie., until September) 2022, the SRU rate hardly came down (1.887 million, 1,838 million, 1.840 million, respectively). For Q3 of 2022, those aged between 25-34 comprise 861,400 which represents 47 per cent (or close to half) of the total underemployed, followed by those aged between 15-24 at 344,100.

This could imply that there's not enough jobs that are commensurate with graduates' qualifications or skilled-jobs openings in the labour market

Again, under the SRU, the compound annual growth rate (CAGR) based on 11 quarters from 2017 to 2020 is 2.43 per cent and from 2020 to 2021 based on 4 quarters, it's 5.19 per cent. On a typical annualised basis, the CAGR from 2017 to 2022 is around 6 per cent which is a staggering six times the same for the unemployment rate (ie., CAGR from 2017 to 2022)

In both TRU and SRU, we can now appreciate that the situation is a persistent hidden problem and, therefore, structural (instead of cyclical). This means that at least for the past decade or so, the government has been ineffective in remedying the problem.

In an article entitled, "Malaysia's Youth on the Unemployed Frontline" (Malaysiakini, April 18, 2020), Bridget Welsh and Calvin highlighted how the employment rates for the youth are persistently higher and tend to be much more sensitive to economic conditions than the overall unemployment rate. But also, "... [that] it's getting considerably harder and harder for young Malaysian job seekers to find employment compared to the overall population. The gap between younger Malaysians and others in the labour force is widening".

This would point to not only youth unemployment but, by extension also, underemployment, being structural — since many would be compelled to do gig economy jobs which in turn would become more competitive in terms of the hours offered, not to mention the skills mismatch (for graduates).

There's the discredited NAIRU (non-accelerating inflation rate of unemployment) policy approach which has enabled the creation of a large pool of unemployed as embodied in the EU (outside Germany) and that's permanent, by default or what's termed as "hysteresis" (i.e., unemployment as a long-term and structural phenomenon irrespective of the business cycle).

And there's also the "hysteresis" associated with underemployment, by right.

In short, there'll always be an army or large pool of underemployed youths with implications for wages, skills, savings (present and retirement), access to affordable housing, socio-economic mobility, and not least repayment rates for National Higher Education Fund Corporation (PTPTN) which relies on borrowings at commercial rates (on the basis as government-guaranteed debts) to provide funding or loans to students (which is unsustainable).

What's more, the unconditional cash transfers (UCTs) would continue to increase — diverting fiscal resources which could be better deployed for upskilling, reskilling and cross-skilling schemes and programmes.

Introducing the GST in this context is highly regressive and is tantamount to placing the fiscal weight and burden on the underemployed, among the lower-income groups, which overall and together constitute the majority of wage earners (at least, that's the reality on the ground in terms of the implementation — when it came to the net effect, overall, prices went up and didn't come down).

Lack of prospects for wage increases via career progression on the back of better or higher qualifications and skilled training means our tax base could also become "stagnant" or grow sluggishly.

It's time that all competing coalitions as aspirants for power and potential incoming government seriously (re)look at the issue of underemployment that has been a hidden blight in our nation's economy all this while.

In another article, EMIR Research will then advance key policy recommendations for effectively addressing and reducing the incidences of underemployment in the country.

At the end of the day, politicians and policy makers should acknowledge the problem of youth underemployment, and not overlook it.

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