

The Ultimate Productivity Webinar Series #2 – Report

The Ultimate Productivity Webinar Series #2:
Labour Market Structure and Productivity Growth

Composition and allocation of labour according to skills in the production sectors largely influence the magnitude of productivity growth. The presence of large skill mismatch among graduates and heavy dependency on foreign labours may limit the productivity growth. The aims of this session are to discuss the linkages between labour market structure on productivity and suggest potential recommendations to improve the labour market conditions.

20th Nov 2020 (Friday)
10.00am – 11.00am

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PANELLISTS
Dato' Amir Omar
Former Secretary General, Ministry of Human Resources

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Assoc. Prof. Dr. Mohd Yusof Saari
Chief Economist, Centre for Future Labour Market Studies, SOCSO

MODERATOR
Dr. Muhammad Daaniyall Abd Rahman
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Topic : Labour Market Structure and Productivity Growth.

Duration : 1 hour (60 minutes discussion and Q&A)

Format : Forum Discussion

Panelist :

1. Dato' Amir Omar

Former Secretary General, Ministry of Human Resources

2. Assoc. Prof. Dr. Mohd Yusof Saari

Chief Economist, Centre for Future Labour Market Studies, SOCSO

Moderator : Dr Muhammad Daaniyall Abd Rahman

School of Business and Economics, Universiti Putra Malaysia

Participants : 50 persons

Introduction

Composition and allocation of labour according to skills in the production sectors largely influence the magnitude of productivity growth. Maximizing the full potential of skilled labour is important for Malaysia to achieve desirable outcomes. Skill mismatch and heavy foreign labour dependency (low-skilled workers) are among the two aspects that characterized the Malaysian labour Market. The presence of large skill mismatch among graduates and heavy dependency on foreign labours may limit the productivity growth. The aims of this session are to discuss the linkages between labour market structure on productivity and suggest potential recommendations to improve the labour market conditions. In addition to skill mismatch and foreign labour dependency, other structural aspects of labour market such as quality of education and investment are expected to be discussed.

Question 1 – Dr Mohd Yusof Saari

People may not see the whole overview of the importance of labour market structure for productivity growth. Can you explain how labour market structure actually influence the labour productivity?

In the overall picture, the relationship between productivity and labour market involves three mechanisms. Firstly, the market labour itself that we can categorize according to three type of skills, which are high, medium and low skills. Currently, the growth of these three skills are very stagnant. Therefore, we need to break the composition of the workforce to know whether we really maximize the full potential of their productivity. Second, the supply side of labour that could influence the market structure which then relates directly to the demand side of labour. For example, different types of investment can influence the demand for high or low skilled workers. Third, the demand and supply

side of the labour market itself. The equilibrium of demand and supply side should be addressed in order to have connection with productivity growth.

Question 2 – Dato' Amir Omar

As one of the prominent personnel in the national labour market planning, I believe that you would have been addressing labour market efficiency in the planning process. Based on your view, what are the main areas should be prioritized in the labour market planning in promoting labour productivity growth.

When we look at the labour market, the current policy tendency is looking towards supply side rather than demand side. Too much emphases are given to the labour supply with less attention is given to the demand from the industry. Other than that, the most important area is the salary. The salary that we are producing in the current labour market still remain the same. This could discourage people to enter into the labour market with a better education level and upgrade their skills in accordance to the demand from the industry. Another area is training and transformation of our economic structure. We have over-supplied of skilled workers and it causes flux in the market. Another area to look at is the skills mismatch. For example, one of the areas is new type of occupation, especially in the informal sector which very difficult to model in the economic planning. Another area that we need to look into is underemployment. The real important is not to the supply side which we are producing too many students, but to look at the demand side where we utilize more foreign labours. Lastly, we must encourage the industry and university collaboration to keep track and coordinate based on all the data that we have.

Question 3 – Dr Mohd Yusof Saari

One of important points mentioned by Dato' is on the skill mismatch that need to be addressed in the policy making. In fact, job-qualification mismatch is a structural issue that has been existed since the past two decades. So according to analysis conducted by EU-ERA, about 44% of graduates are working in the non-graduate jobs. So, this

incidence of mismatches is affecting productivity growth. So, can you elaborate this issue and what other policy interventions required to address this?

The issue of mismatch is very important to be addressed because it has close relationship to the productivity growth. Malaysia is not alone in this issue as the OECD countries are also facing with similar problem. In fact, there is serious labour misallocation and mismatches that is largely occurred in the high skill or tertiary education in Malaysia. Studies found that skills and qualifications mismatch is associated with lower labour productivity. It means that we could not utilize our full potential of local workforce. Malaysia have invested in large amount on education and it would end up with something that are not benefitting the country in the long term. From productivity perspective, talent or workforce allocation matters for productivity growth where we could not maximize the talent. We need to tracing out the type of mismatch that we are facing right now where our economy is creating more jobs for non-skilled workers.

Question 4 – Dato' Amir Omar

From year to year we can see that higher learning institutions are producing a lot of graduates. According to EIS vacancies data, most of the vacancies are jobs that categorize in very specific area such as, Business, Accounting and Management. By taking this fact, do you think we need to restructure the way the higher learning is implemented?

We really need to look at the occupational demand and change the curriculum structure from time to time, becoming more flexible and industry-oriented. Another area is that the lecturers or trainers themselves are found lacking in terms of industrial attachment, limiting their knowledge of the real world. Throughout the years, we have found that there is a lot of market changes, urging the need to adapt these changes. Fortunately, accessibility now is much better and people are understanding in term of utilization of ICT. Other than that, understand the dynamic changes and subsequently looking at the new market demand. Especially related to IR4.0. Moreover, looking at high demand of SME's

particularly in the services sector. We really need to look at what are the skill-set and the training mechanisms required by this sector. Hence, whilst industry should play an important role, the lecturers themselves should not be scared or find it very difficult to meet with the industry to identify what are the demand and supply of the labour market.

Question 5 – Dr Mohd Yusof Saari

This is related to training, which is found to be one of the determinants to promote labour productivity. Currently, the government have allocated a large amount of budget to fund for reskilling and upskilling and training programs for the post COVID-19 pandemic recovery. So based on your research, how does training promote the productivity growth and what types of training that are needed to promote productivity?

There are two types of training. First, long-term training that refers to the formal education. Second, short-term training on which the government have allocated a large amount of budget for short-term training and many institutions are involved in providing short-term courses. Most of the research show that there is a positive correlation between training and productivity. However, there are on different cases. Firstly, self-induced learning by participating in seminar and public talk generally would not enhance productivity. Meanwhile, a formal training such as on-the-job training is more contributed to labour productivity. Another case is that giving training to non-permanent workers is promoting productivity growth compared to permanent workers. This is because non-permanent workers who are thinking they are not securing the job, might want to prove themselves as good employees and retain their jobs. Lastly, training may have positive relationship to the productivity but not necessarily will improve wages. Hence, we need to give training that is not only improving labour productivity but at the same time increasing the wages.

Question 6 – Dato' Amir Omar

Malaysia is one of the countries that characterized by having large share of foreign workers. As far as productivity growth is concerned, over reliant on foreign workers

hinders productivity growth because of low innovation and deterring wage growth. On the other side, technological change and automation are likely to promote productivity growth but may have adverse effects on the employment generation. In your view, how can we balance or even synergize these two objectives – increased automation without reducing employment generation.

The real important thing is that, we really need to look into what are the demand and supply in the labour market. This is important in order to understand industry's reliance to foreign workers. It is becoming an addiction for the industry hiring the foreign labour especially the low skill foreign worker because these foreign workers are actually working more than what they should do (over-worked). However, the real problem is that when industries meet something against the labour law, they will be penalized not only at the local regulatory context but also internationally. Moreover, politicians can say that we need more workforce (foreign worker) but question remains: are they really working in that particular industry. So, these are factors that indirectly encourage employers to hire foreign worker. If you want to hire foreign worker, you must have to search for the skilled foreign worker, not the unskilled one. Subsequently, how to derive the productivity growth if you do not format your action plan properly because we really need to be stringent in analysing and understanding the whole labour market, particularly related to foreign worker and unskilled foreign worker. As a result, it is not about you can or cannot hire foreign worker, but targeting which sectors that create the multiplier effect to the economy and subsequently improve productivity and then moving Malaysia to next higher level in the economic achievement, is more matter.

Question and Answer with Participants

Question 1

Why does skill mismatch happen, is it because of the lack collaboration between the industry and the supply side or what do you think? And how can we encourage industry to hiring more high skilled workers in a realistic way?

There will be definitely skills mismatch in the labour market but how subsequently to reduce it is more important. We need to collaborate with other institutions that have much better understanding in the market demand. Meaning that, the curriculum should be coming from the industry. Subsequently, industry players need to be given opportunity to teach in the university. This is because they really understand the dynamic and variability of the market. It is something that we really need to change in term of modelling, in term of structure, where the students need to be given more exposure to the reality in the labour market.

Question 2

The growth of wages is lower compared to the labour productivity growth. It means that the worker is not well compensated equally to the output that they produce. So, how do you see this given the current situation? Is it a conducive condition now we are in order to promote productivity growth, but at the same time our wages are not in line with the things that we want to achieve?

The National Wage Council is currently looking at the minimum wage. It is crucial to have guidelines on how much the salary a worker could get if ones enter to the labour market. Additionally, a new dimension about skills set as well as remuneration is also very important so that whatever the salary the worker gets, eventually this will produce multiplier effect on the economy. Besides, we need to look ways that can improve salary and subsequently improve the quality of life in Malaysia. Next, understand the real labour market situation is not only looking on the employment, but also looking at the other areas like skills mismatch, underemployment, hours of work and so on. Hence, we really need to have a look into these matters in order to have balance in the labour market.

Other than that, we must also to review and revise employability indicators. This is because the current employability indicators do not reflect the reality. We want to have more realistic indicators that workers are really working in the right field, and if they are not working in the same field, at least they are still equally compensated at their expected wages and also skill levels. By analysing data from the recent study, actually 44%

graduates are working in the non-graduate jobs. So, this is a huge amount of underemployment. At the end, since people are investing in education, they could not get a higher return on the education.

Prepared by



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