

THE LABOUR MARKET SHOCK AND POLICY RESPONSES TO COVID-19

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BALANCING THE NORMAL AND 'ABNORMAL' IN TROUBLED TIMES

- Covid-19 puts the economy and labour market (LM) into crisis mode
- Very severe social disruption through job losses, workers stood down or even withdrawal from the labour force, especially among females
- Big issues are the effects by industry and sector (informal and formal sector), gender, age and class

Issues for jobs and policies

- ❖ Where are the most jobs likely to be lost and how to replace them? (in tourism and labour-intensive industries, or in MSMEs)
- ❖ How to ensure people, especially youth, get back into more productive jobs for the future – for how long and how deeply will young people be affected, and what about older job seekers less able to reskill?
- ❖ How much is the damage temporary and how much of it is more permanent? What new strategies need to be adopted?

- ‘Supply’ effects make the shock of the pandemic different from ‘normal’ slumps in economic activity (threats to output or investment)
 - ❖ Social distancing, lockdowns and controls on labour mobility (PSBB) directly affect the number of available workers to fill jobs
 - ❖ Restrictions on the mobility of commuters from towns and villages close to the cities, and limitations on participation in normally crowded markets and labour-intensive industries

Outline of the Talk

- Indonesia's labour market leading into Covid-19
- Some estimates of the national labour market effects in 2020
- Policy responses
- Beyond Covid-19

Indonesia's Labour Market Leading Into Covid

The Labour Market on the Eve of Covid-19

1. Agriculture and the informal sector still 2/3 of all jobs, even though formal wage jobs have been growing much faster than informal jobs
2. The nature of many jobs have changed globally and in many parts of (mainly urban) Indonesia with the digital revolution and to a lesser extent automation, although
 - wages are still very low in Indonesia making labour-intensive investments and activities profitable

3. In past decades, business has adjusted to tight labour regulations by making employment for many workers *more* rather than *less* vulnerable

- high rates of non-compliance with regulations, and an increase in contract or out-sourced workers

National Employment Effects of Covid

- We are still in the dark regarding the labour market impact of Covid.
 - ❖ Absence of national survey data on employment during the lockdown period through to the present
 - ❖ The effects on employment are still unfolding as the struggle against Covid-19 continues

Here are some estimates

- Unemployment predicted to rise from 5 to 6-7% (e.g. SMERU estimates), loss of 3-4 million jobs during the main shutdown, which is not large
 - ❖ Other figures suggest as much as 10 million by the end of the year.
- Nonetheless the social impact is much bigger than most unemployment estimates suggest
 - ❖ A big drop in hours/days worked especially in MSME's that account for well over half of all non-agricultural jobs
 - ❖ Unemployment rates could well to return to levels of the 1980s and 1990s (25-30%) among certain groups such as more educated youth aged 15-24

Employment effects: a. three estimates

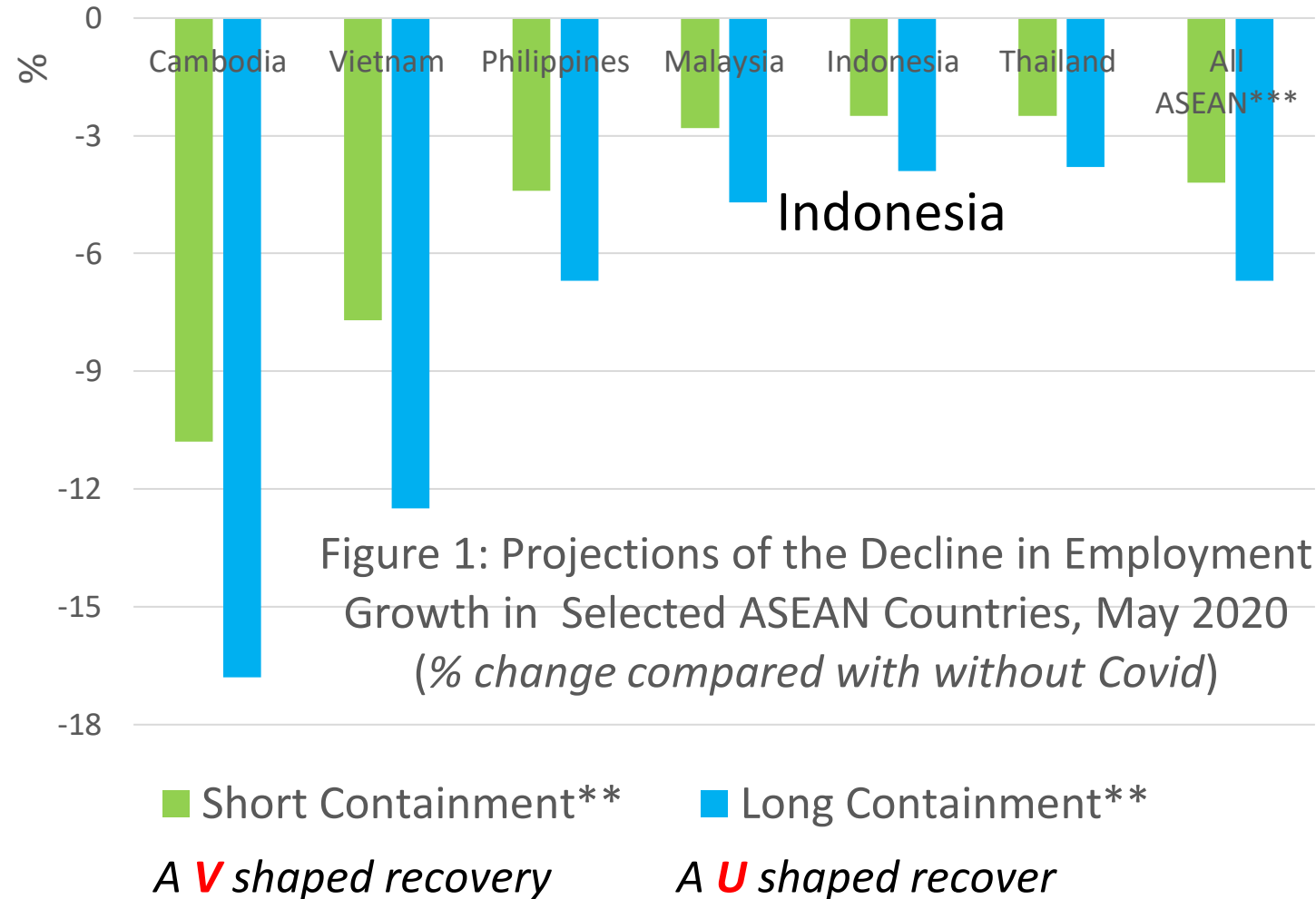
1. ADB: In May, ADB made a projection of the employment impact compared with a “Covid free baseline” in ASEAN (see Figure)

- ❖ V shaped recovery (‘short containment’)

- ❖ U shaped recovery (long containment)

ADB (continued)

- *Even though Covid situation is much worse than without Covid, Indonesia does better than other more globally exposed countries in ASEAN*
- **A Long containment** will take unemployment rate back to end of the SBY first term (8%)
 - *In Indonesia, almost certainly a long containment*



*Source: Based on GTAP Analysis of the Economic Effects of Covid-19, See ADB (2020)

2. ILO enterprise study* (during the lockdown in April 2020) – *very significant effects of COVID on employment*

- **Suspension of business:** *Two out of three* enterprises suspended business operations (temporally or permanently), especially small enterprises.
- **Job losses:** *About 63 per cent* of surveyed enterprises had laid off workers during the lockdown

But paradoxically some enterprises faced difficulties in recruiting workers

- **Difficulties in recruiting workers:** *A quarter* of enterprises cannot secure sufficient number of workers for their business operations due in part to restriction in movement.

**ILO, The clock is ticking for survival of Indonesian enterprises, jobs at risk (Research Brief, Jakarta May 2020)*

3. World Bank Survey on the characteristics of workers affected by Covid (May 2020). In April-May

- The effects were felt evenly across all five expenditure quintiles and among less and middle educated, though not the tertiary educated
- *By region*, a significant share of workers affected (just under 20%) were from the Outer Island provinces, despite the concentration of Covid cases in Greater Jakarta and West Java

Employment effects: b. implications of the very large decline in GDP growth in Q2

- The data on economic growth were quite disturbing in Q2 2020: economic growth was -5.3% year on year, the largest decline since 1998 (*year on year*).
- Most major industry growth rates turned negative except agriculture, but there were huge declines in some
 - ❖ Two smaller industries – transport, and hotels and restaurants (hospitality) – recorded a dramatic decline in output (20-30%) compared with the previous year 2018-19 (esp. air transport)*
 - ❖ Decline in both these industries is particularly related to the slump in the tourist industry which has had big effects on incomes and jobs nationally and in selected regions, especially in Bali and Yogyakarta**

Q2 GDP AND JOBS (CTD.)

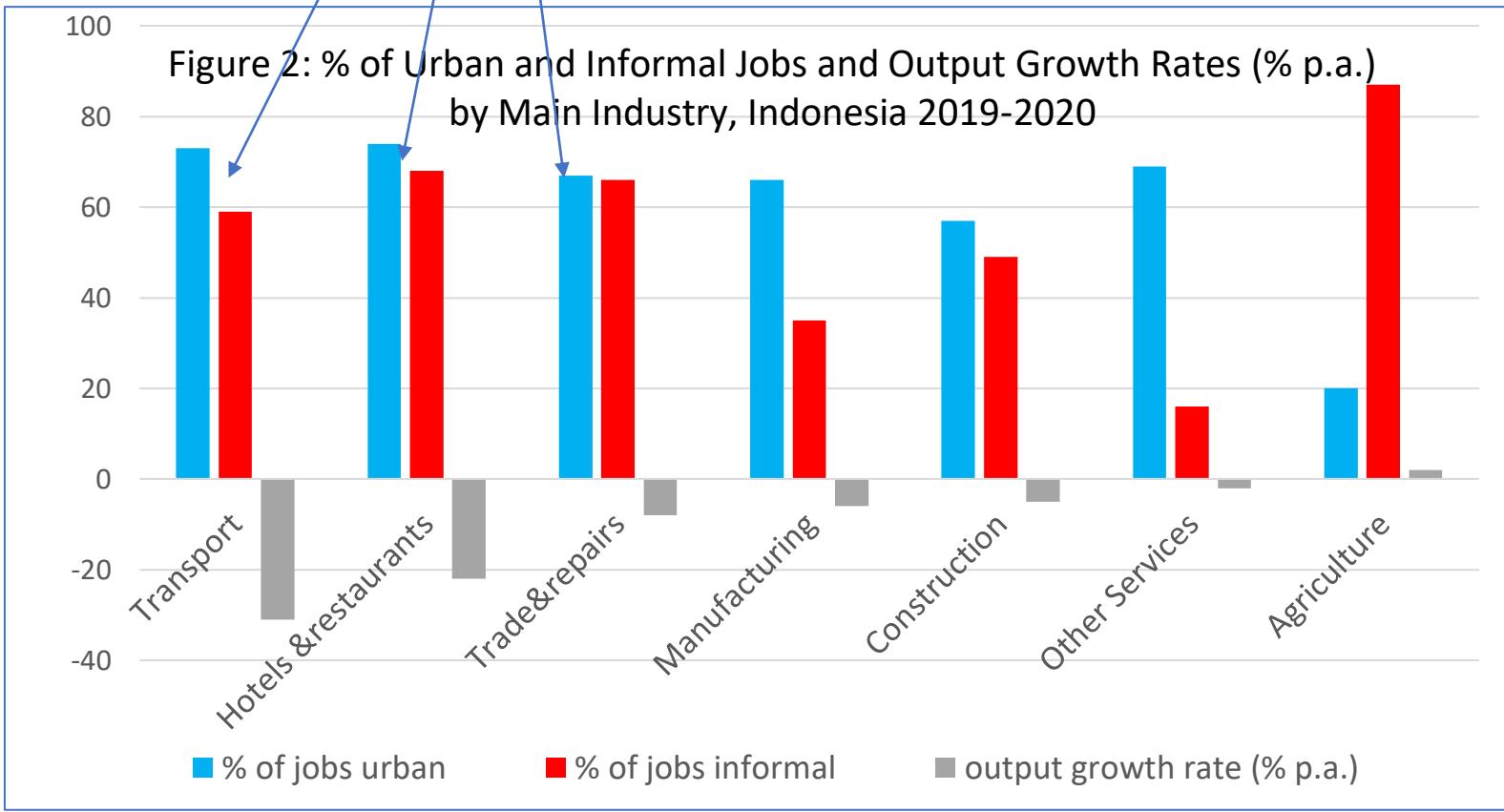
❖ Two larger industries – **trade and manufacturing** – recorded smaller but still very significant declines (-8 - -6%).

Both are very urban, and trade employs a high proportion of informal workers (See Figure 2)

*Catatan Kebijakan No. 4, July 2020

Q2 GDP AND JOBS (CTD.)

Urban and informal jobs appear to be particularly threatened in several of the rapidly contracting industries



❖ Loss of jobs during the lockdown was especially severe for motorcycle taxis and street vendors in the major cities, and informal workers depending on the tourism sector (70-80% loss of incomes).
Joanna Octavia, Global Webinar ANU July 29

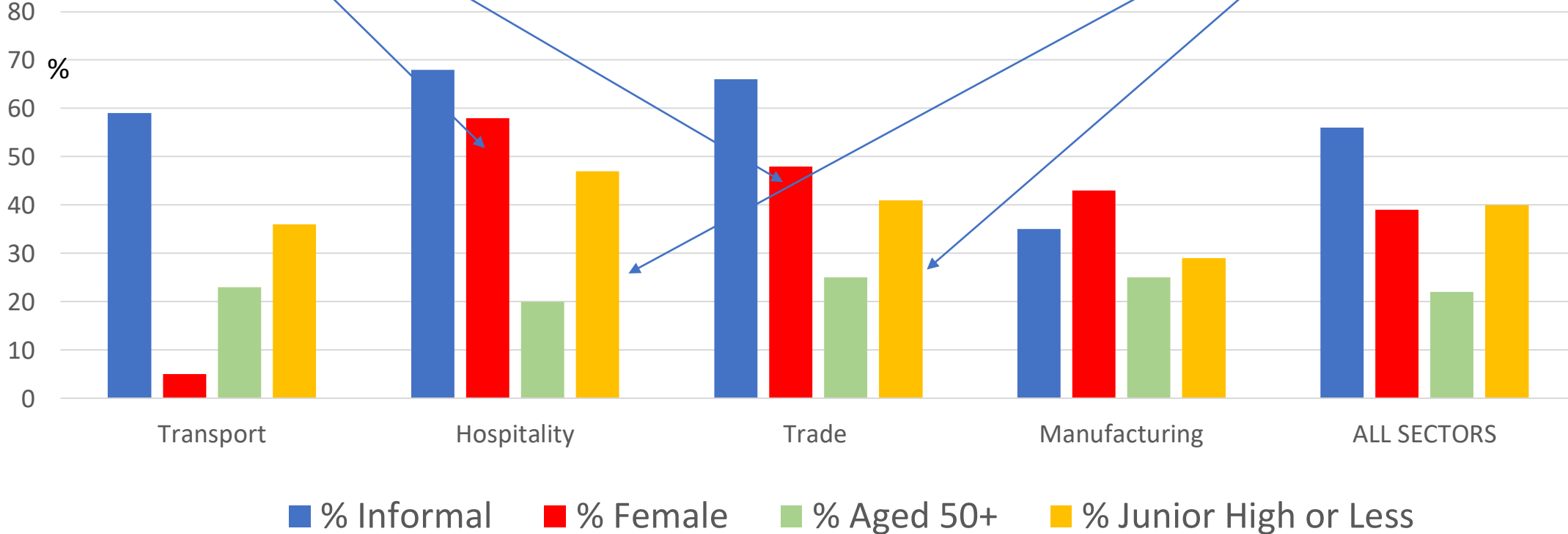
[Data on the distribution of workers in urban areas and informal jobs from the National Labour Force Survey, August 2019]

In Covid sensitive industries, these economic developments were likely to have big impact on the more vulnerable in 2020

Women were likely to be especially vulnerable in sectors with a large informal sector

Less educated workers were concentrated in some of the rapidly contracting industries

Characteristics of Workers in Covid Sensitive Industries, 2019 (%)



Summing up on trends

- The above discussion on socio-demographic impacts is quite speculative – we await the August Labour Force Survey for confirmation
- The effects on both employees and small businesses likely to be very large, as long as the economy remains depressed, and may be even worse if further lockdowns are put in place or further restrictions are placed on mobility across regions

Some Qualifications

- Have not covered the rural or agricultural employment in this discussion which varies hugely from region to region – overall probably less affected than industry and services
- Returning migrant workers (from Malaysia and elsewhere in East Asia, from cruise ships) not covered but this one group for whom opportunities are likely to remain depressed.

POLICIES TO PROTECT
DISPLACED WORKERS AND
SUPPORT JOB CREATION

Policies

- Wide array of social assistance programs to support the poor (bottom 3-4 deciles) – PKH, Kartu Sembako, and cash assistance (BLT)
 - ❖ Also impact on jobs through increased spending
 - ❖ Tax exemptions for wage employees with annual incomes less than 200 million
 - ❖ Support for MSMEs (Rp. 123 trillion) in a range of areas*
- The big problem identified by many speakers in this conference is the slow roll out of spending in all these social programs.**

- There have been efforts in recent months to support low and middle income, non-poor wage earners who lost jobs but have not benefited from social assistance (issue raised by Chatib Basri and others)
 - ❖ Special programs such as the PraKerja Card also designed to help people who lost their jobs or have significantly less work and incomes.
 - ❖ New program of wage subsidies of assistance to 14 million lower wage private sector employees of Rp. 600,000 per month (4 mths) *to stimulate consumption**
 - ❖ Funds also channeled to wage workers through BPJS Tenaga Kerja (Labour and Health Social Security Funds)

Kartu PraKerja*

- *The original idea pre-Covid*: elements of a focused unemployment benefit and training scheme for youth
- *Revised with Covid*: focus changed to support for displaced workers and employees of MSMEs, besides assisting with skills
 - ❖ The size of the scheme was doubled to Rp. 20 trillion (support for 5.6 million persons),
 - ❖ Greater focus on online courses, which were more easily organised, and consistent with social distancing

*I am indebted to Dr. Titik Anas for help with some of the data in this section

PraKerja

- There has been huge interest in the scheme
 - ❖ over 10 million people are reported to have showed interest during the first 3 waves
 - ❖ nearly 700,000 were beneficiaries by the end of July 2020, and similar attention shown after a brief interruption in August, with 4 waves of 800,000 ready to sign up
 - ❖ In July, over ½ of participants had been laid-off workers, 35% job seekers and a small number of MSMEs and employees.

PraKerja

- *Wide range of courses*: half in marketing and sales (for start-ups), and a further 15% in information technology. Language, food and drink courses also, but the latter a small proportion of the total.
- Geographical spread (Figure 4)

C. Pra Kerja Program (to end of July)

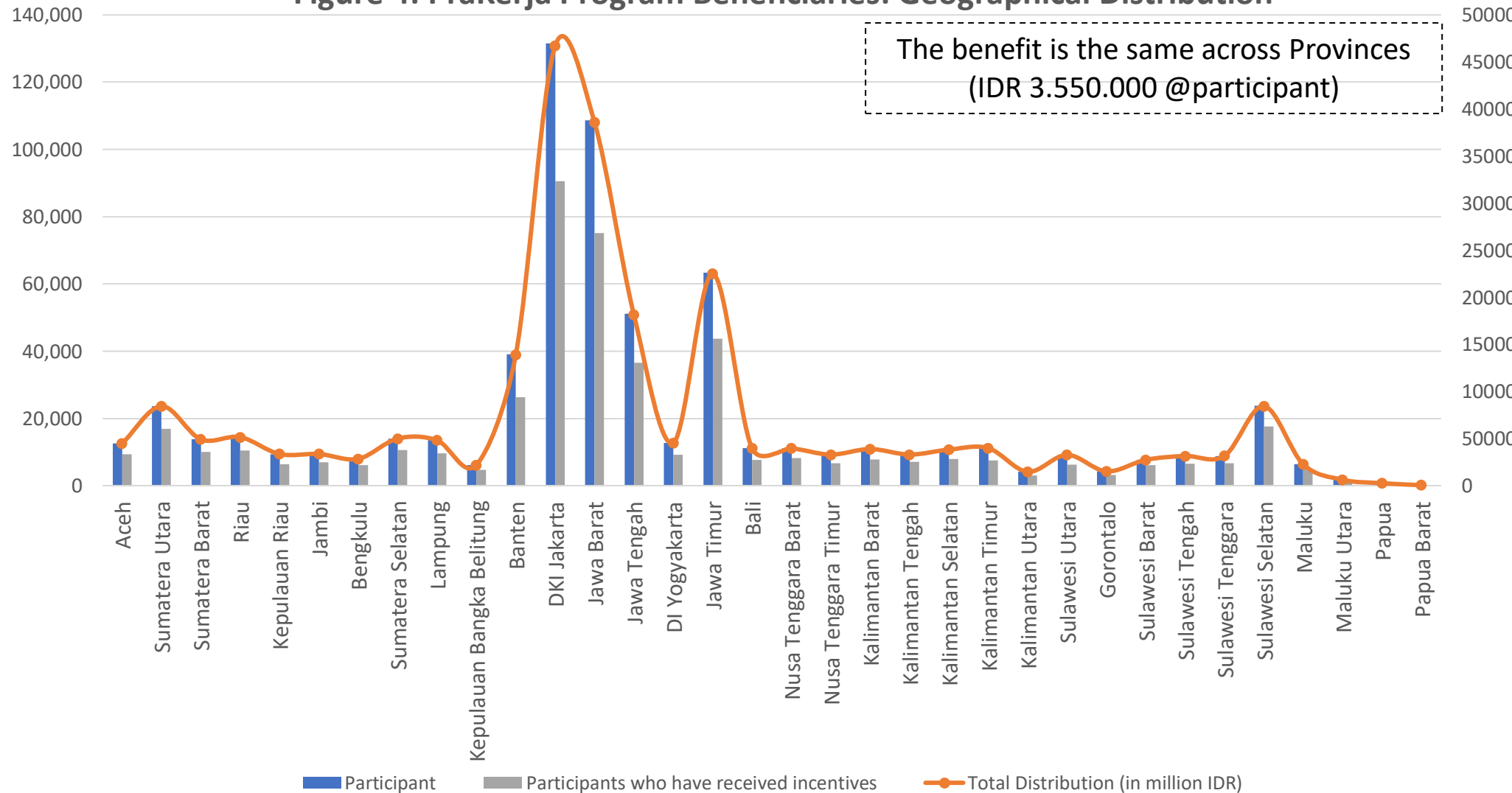


Geographical spread:

--Over one-third of the take-ups were from Jakarta and West Java, and a further 40% from elsewhere in Java

--No. of participants outside Java was not trivial – well over 1000, and quite a significant number 5000 or more (e.g. South Sulawesi and North Sumatra above 10,000)

Figure 4: PraKerja Program Beneficiaries: Geographical Distribution



BEYOND COVID-19

BEYOND COVID-19

- The demand side of the labour market is quite uncertain
 - ❖ Like in 1998, youth unemployment will almost certainly be higher and the informal sector will be bigger (maybe much bigger) in Indonesia during the recovery into 2021
 - ❖ Schemes like Kartu Prakerja may be needed to ensure that young people get into the gig economy and digital jobs
 - Higher barriers of entry into the job market and worsening labour conditions for youth. [E.g. Tifani Siregar (Phd candidate Waseda)]*
 - ❖ In the depressed labour market, there is likely to be increased tension between a focus on creating more productive jobs *versus* programs regulating basic protections for workers (minimum wages, severance pay etc.).
 - Reforms like the omnibus law offer a compromise**

BEYOND COVID-19

While these are very big challenges – not least given the on-going spread of Covid-19 – Indonesia also has some wellknown advantages for a recovery in jobs (e.g. presentation from Hal Hill)

- *It is embedded in the East Asian region* which is still the most dynamic region in the world – growth in this region has been positive for jobs
 - ❖ With the caveat that dynamic labour markets have depended on economies open to trade, investment and tourism
- A history of *prudent economic management* which underpins the growth of investment and jobs
- A *large population* size and domestic market provides some insulation from the impact of international shocks

- *A youthful population [demographic dividend]* – ability to adapt to the new technology a source of dynamism – the challenge is to make sure they get a foot into the labour market
- *A large informal sector still means more opportunities* in hard times, compared with more developed countries

TERIMA KASIH