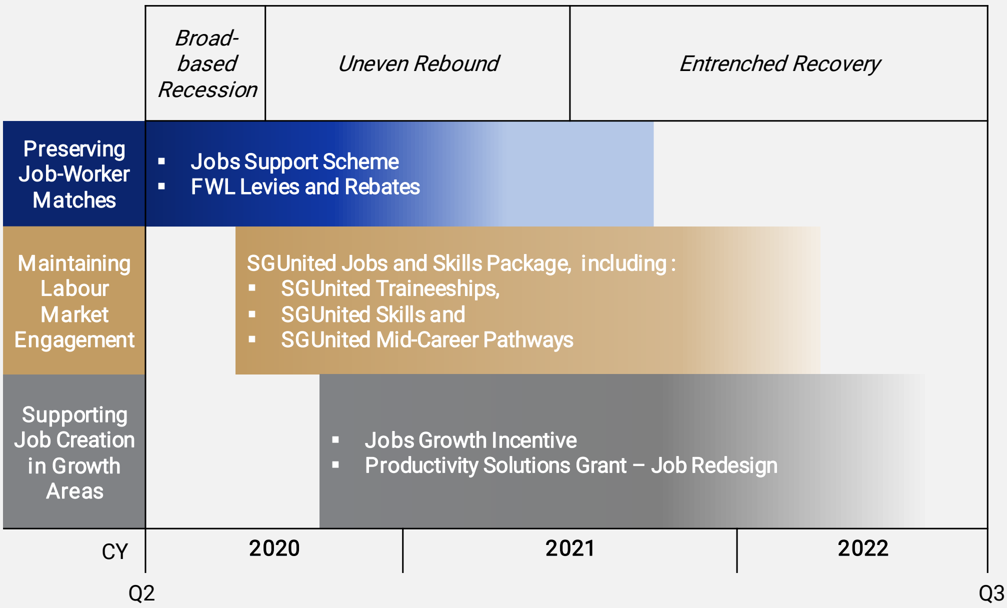
Box B: Labour Market Policy Responses to COVID-19

Introduction

Since the onset of the pandemic, each phase of the COVID-19 crisis has called for distinct approaches to support the labour market. **Figure B1** provides a stylised description of how the objectives and design of Singapore's fiscal support for the labour market have varied in each stage of the crisis. Broadly, key labour market policies introduced over the past year can be broken down into three categories. The first consisted of policies to preserve job-worker matches during the most acute phase of the recession, or job retention policies. Policies in the second category were implemented to help maximise labour market engagement for unemployed workers during an uneven recovery and facilitate the reallocation of workers to recovering sectors. The third, most recent set of policies have sought to foster job growth for locals in sectors that have brighter economic prospects over the medium term.

Figure B1 Timing of key labour market policy measures during COVID-19



Note: Colour shades within each policy category denote intensity of programme disbursement. Darker shades represent periods of higher disbursement, and lighter shades represent lower disbursement. Quanta and timing of programme disbursements for FY2020 are based on EPG's internal estimates, while those for FY2021 are based on Budget 2021 announcements.

Preserving job-worker matches

During the circuit breaker phase (Apr–May 2020) when most economic activity was curtailed, policy sought to provide income support for workers and at the same time preserve the productive capacity of the economy. Sharp declines in firm revenues caused the marginal product of workers to fall well below prevailing wages in the short term, which would typically have led firms to let workers go at scale. Moreover, many of the job losses would likely have been permanent in the absence of fiscal support for firms, as firm bankruptcies would have spiked. Such firm closures and job losses would have caused the destruction of productive job matches and a large spike in the number of unemployed workers. The permanent loss would have damaged the economy's productive capacity as intangible capital embedded in existing job-worker matches is destroyed, and as discouraged displaced workers exit the labour force.

During this phase, job retention policies, such as wage subsidy schemes, helped to preserve the economy's productive potential by enabling firms to retain workers and continue operations. Further, the cash flow relief for firms granted by these policies helped reduce the incidence of firm shutdowns as a result of temporary liquidity shortfalls. A recent IMF study, based on a newly developed search-and-matching model, showed that the effectiveness of labour market measures varied with the persistence of the shock. In particular, job retention policies are the optimal policy response in the initial acute phase of a "lockdown" shock, in terms of effectively mitigating the rise in unemployment (see IMF, 2021).

The centrepiece of Singapore's labour market measures during this period was the Jobs Support Scheme (JSS), which provided broad-based cash transfers to firms across all sectors equalling a portion of resident workers' wages. Wage subsidies were conditional on firms retaining and continuing to pay their workers, and the bulk of the support was concentrated in Q2–Q3 2020 when economic activity was most sharply curtailed.

During the circuit breaker period when most workplaces were closed temporarily, firms across all sectors received a 75% subsidy on the first $4,600 of each resident employee's wages. After the end of the circuit breaker in June, the heavily- impacted aviation and tourism sectors continued to receive substantial subsidies of 75% of resident wages up to August 2020, with subsidies tapering and set to expire by end-September 2021, as announced in Budget 2021. Most other sectors in the economy that rebounded by end last year saw a sharper reduction in subsidy levels, with subsidies ending in March 2021. EPG estimated that Budget FY2020 prevented the resident unemployment rate from rising by a further 1.7% points in 2020, with the JSS alone estimated to have contributed 0.9% point (See Chapter 4 of October 2020 *Macroeconomic Review*).

Temporary waivers and rebates of foreign worker levies (FWL) from Q2 to Q3 2020 also reduced foreign labour costs, thus helping to keep firms afloat. These cost reductions were particularly important for firms that were heavily reliant on Work Pass and S Pass holders, many of whom had to be quarantined as the infection rate in dormitories remained high. As the subsidies for resident workers via the JSS far outweighed cost reductions from FWL rebates and waivers, the marginal cost of retaining residents still fell relative to that of foreign workers. This encouraged firms to retain resident workers and restrained the rise in resident unemployment.

Maintaining labour market engagement

The recovery from the circuit breaker was highly uneven across sectors when the economy reopened in June 2020. The rebound in the labour market was skewed towards sectors that were able to resume activities, while employment remained in the doldrums for those that did not experience any discernible recovery, such as aviation and tourism.

While firms in most sectors began to expand their resident headcount in Q3 2020, the overall labour market slack stayed elevated, mainly because of weak labour demand in highly-impacted sectors. Retrenchments in the arts, entertainment & recreation and air transport related industries continued to rise, driving a q-o-q rise in overall retrenchments in Q3. Firms also continued to shed foreign workers, as indicated by the EDI for non-residents remaining significantly below its midpoint in H2 2020 (See Chart 3.4). The foreign workforce thus acted as a buffer for the resident workforce during this period.

Active labour market policies also helped to keep resident jobseekers engaged in the labour market during this phase. Employment facilitation efforts through career matching services and career conversion programmes assisted workers who had lost jobs in heavily-impacted sectors transition to sectors where hiring remained active. Unemployed residents were also able to participate in highly subsidised training and attachments that helped to increase their chances of finding productive jobs when labour demand returned. These policies supported incomes, helped restrict the rise in short-term unemployment, and ultimately reduced the potential for hysteresis from long-term unemployment. The aforementioned IMF study also showed that worker reallocation policies should be implemented after the initial acute phase of the shock, as reallocation across sectors was less effective when all sectors faced synchronised shocks that negatively impact labour demand. Worker reallocation policies became optimal for reducing unemployment during the recovery period as it facilitated workers' shift towards less-impacted sectors through faster job creation.

The active labour market policies introduced in this phase of the crisis broadly came under the umbrella of the SGUnited Jobs and Skills (SGUJS) package.[1] This package was designed to provide transitional upskilling and employment facilitation support for displaced workers, keeping them engaged either in the labour market or in activities (training and attachments) that would facilitate future participation in the labour market, even while employment conditions were weak. Active labour market policies complemented temporary income support for workers who were displaced or saw significant income declines, under programmes like the Temporary Relief Fund and COVID-19 Recovery Grant, where support was conditional on recipients participating in job search or training.

To help link up unemployed workers to available jobs, 24 SGUnited Jobs and Skills Centres were rolled out across Singapore progressively from July 2020. Through these centres and other outreach efforts, jobseekers were informed of available opportunities. The available jobs included temporary roles that saw a transitory demand boost amid the pandemic, such as swabbing or quarantine operations and implementing safe management measures, as well as permanent positions in sectors such as ICT, financial services, education and healthcare that were relatively unaffected by COVID-19. Public sector hiring also played an important role in filling the labour demand gap in this period, providing up to 15,000 temporary or permanent job opportunities. The efforts to match resident workers to jobs were likely bolstered by continued constraints on the entry of foreign workers in Q2–Q4 2020 due to border controls. These restrictions likely created greater opportunities and incentives for matching residents to roles that would have otherwise been filled by foreign workers.

Jobseekers who would benefit from developing new skills were also matched to training programmes that could either be classroom-based or provided by companies, under the SGUnited Skills and SGUnited Mid-Career Pathways—Company Training programmes, respectively. Fresh graduates and mid-career individuals could further tap on full-time

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[1] The SGUJS package enhanced a robust framework of active labour market policies already in place before COVID-19. These include career conversion programmes under the Adapt & Grow umbrella, as well as Next Bound Skillsfuture initiatives to support worker reskilling announced in February 2021.

opportunities with firms under the SGUnited Traineeships and SGUnited Mid-Career Pathways—Company Attachments programmes. These programmes helped jobseekers gain industry-relevant experience and develop new skills, better positioning them for the economic recovery. Participants in these programmes also received an allowance to help them maintain an income stream, which was either funded by the Government or shared between the Government and host companies.

These efforts to improve matching efficiency have borne fruit, with resident employment recovering to its pre-crisis level by Q4 2020 after plunging by 64,000 in the first half of the year. As at end-2020, about 76,000 residents, or about 3.2% of the resident labour force, were placed in SGUJS positions. Of the 76,000, about 59,400 were placements into jobs, and the remaining into company-hosted traineeships and attachments, as well as training opportunities. The resident labour force participation rate in 2020 remained similar to that in 2019, supported in part by these programmes that facilitate worker reskilling and the matching of workers to permanent jobs.

Supporting job creation in growth areas

As most sectors approach pre-COVID levels of activity, the majority of firms no longer face threats of consolidation or closure, but may still be unwilling to commit to expansion plans. Still-significant macroeconomic uncertainty could induce firms to build up cash buffers to protect against further short-term volatility, rather than engage in longer-term investments that have substantial fixed costs, such as hiring and training workers for permanent positions. As the need for temporary positions associated with COVID-19 management fades, the creation of sufficient high quality, permanent jobs will determine longer-term labour market outcomes.

During this third phase, labour policies should help to lower the marginal cost of hiring and training resident workers for permanent roles in areas with potential for productivity and wage growth. These are likely to be in sectors with strong growth prospects post-COVID. The crisis has also provided the opportunity to accelerate progress towards longer-term policy imperatives—reducing the economy's reliance on low-skilled foreign workers, upgrading the human capital and capabilities of the resident workforce, and pushing for more equitable growth.

The Jobs Growth Incentive (JGI)—which provides firms with up to eighteen months of partial salary support for each additional resident hire—helps with job creation in growth areas. As firms will only be eligible for the full wage subsidy if they do not reduce resident employment levels for up to eighteen months after being eligible for benefits, the JGI is designed to support hiring in healthy firms, rather than offer short-term cashflow relief for struggling entities.

The JGI encourages firms that meet the eligibility criteria to accelerate their hiring of reskilled resident workers who have undergone SGUJS training, traineeship or attachment programmes. Growth industries like the ICT sector in particular are likely to benefit, especially as the sector accounts for the largest number of SGUJS placements. Amid international travel restrictions that constrain the inflow of foreigners, the JGI also encourages firms to consider resident job candidates for roles, even where they may not currently possess all the requisite skills and experience. The JGI thus temporarily subsidises wages of resident workers until their productivity is sufficiently high in relation to their wages, which should occur with the accumulation of adequate on-the-job training and experience.

In addition, other programmes, such as the Support for Job Redesign under Productivity Solutions Grant (PSG-JR), will complement the hiring incentives by encouraging firms to work with job redesign consultants to redesign work processes, tasks and responsibilities. In line with firm's investments in new technologies, the redesigning of jobs should facilitate the adjustment of worker tasks, which will enable the productivity of those hired to further increase while on the job.

Sum-up

In each phase of the COVID-19 crisis, Singapore's policies to support the labour market have evolved in line with the dynamic nature of the pandemic's impact on the economy. Employment retention was the overriding imperative in the early stages of the crisis, when aggregate supply and aggregate demand fell sharply in tandem across the entire economy. Support from the JSS that enabled firms to keep workers employed and to continue paying wages to workers was key in mitigating broad-based income declines during this period. During the initial uneven phase of recovery, reallocating workers to sectors that recovered more quickly, while maintaining labour market engagement for displaced workers, became key priorities. Active labour market policies to match unemployed workers to available jobs, and to expand training opportunities, have minimised the hysteresis effects from the pandemic. As the broader economic recovery gains momentum, the Government needs to ensure that employment recovers alongside economic growth. Providing incentives for hiring, particularly in roles that have attractive long-term prospects, would encourage the formation of productive permanent job matches that will elicit a more sustainable phase of labour market recovery.

References

International Monetary Fund (2021), "Chapter 3. Recessions and Recoveries in Labor Markets: Patterns, Policies, and Responses to the COVID-19 Shock", pp. 63–80, in *World Economic Outlook: Managing Divergent Recoveries,* 2021 April.