

Impacts of  
introduction of  
unemployment  
insurance in malaysia  
economics essay



Unemployment insurance is a joint state-federal program that provides cash benefits to eligible workers. It is to provide temporary financial assistance to unemployed workers who are unemployed through no fault of their own.

The introduction of the insurance has angered many small-medium enterprises (SME) and typically Federation of Malaysian Manufacturer (FMM). The proposed unemployment insurance scheme has been shelved for the time being after much opposition from the enterprises. Since then, many have discussed and argued about the impacts the scheme may bring should it be introduced in Malaysia.

The main objective of unemployment insurance (UI) is that it provides income protection for those who have lost their job involuntarily. In the U. S., the government often provides additional support by extending the UI benefits during economic recession. UI can improve people's well being because it helps them to avoid from large drops in consumption despite losing their jobs. UI benefits can help increase cash on hand for the unemployed workers to support their consumption. Higher benefits can help reduce the pressure to take a low-paying job, though it may lead to a longer rate of unemployment. But at least for the workers, it is an insurance against job losses. Problems like a decrease in workers' consumptions during unemployment or if the economy is not producing enough jobs, UI can improve the economy's welfare by relaxing the liquidity constraints on unemployed workers and offsetting the negative incentive effect.

Another welfare improving effect of UI is job creation effect. Most workers seek out for high productivity jobs that pay higher salaries rather than low

productivity jobs that only offer low salaries. In this situation, the high benefit level shifts the balance more towards to high productivity jobs and turning down offers of low productivity jobs. When the benefit level is raised, firms have a higher incentive to create more high productivity jobs since workers would most likely to turn down low productivity jobs. Thus, more jobs are created for the workers. As a result, aggregate output and welfare increased.

However, the UI may bring more harm than good to the country. Since the introduction of UI worldwide, this publicly designed policy that helps people who lose their job may lead to structural unemployment as an unintended side effect. In many countries typically those in Europe, the benefits implemented are more generous and can last very long. However, the downside of this benefit is that it discourages the workers from finding a new job quickly. Because of this generous unemployment benefits, it is widely believed that it is one of the main causes of "Euroclerosis" that many European countries like Greece, Spain and Ireland are now suffering. Euroclerosis is an economic stagnation that can result from a government's overregulation and overly generous social benefits policies. It is a phenomenon where countries are experiencing high rates of unemployment and slow job creation during periods of economic growth. Malaysia is a developing country and is not ready for such a scheme to be introduced into the country. Should the scheme be introduced into Malaysia, it will not just stagnates the economy of Malaysia but also send the country down the slippery road of dole mentality and burgeoning social safety nets.

One major impact of the introduction of the scheme is that it may cause a high unemployment rate. A higher UI benefits can lead to a longer duration <https://assignbuster.com/impacts-of-introduction-of-unemployment-insurance-in-malaysia-economics-essay/>

of job search. Because of the benefits the insurance provided, the scheme would send a “ wrong message” to the workers. The reason is that the workers will put less effort in searching for a job because to them, higher benefits mean that he has less to lose from being unemployed. Even without a job, they still can get money for their consumptions. This is one of the unintended side-effect of the insurance. People will develop a mindset where they will be taken care of by the government and may lose the motivation to find jobs. Furthermore, he may hold out for a higher wage job before accepting a job offer since higher benefits lower the cost of being jobless. This means that the arrival of an acceptable job of his choice becomes less likely to happen, the waiting time in the unemployment pool will be longer. He will keep on waiting until he finds an acceptable job. Each unemployed person has a reservation wage, a minimum wage he or she is getting before accepting a job. This will cause an unemployed person to stay unemployed much longer because of the insurance and other social assistance programs that increase that reservation wage, they rather not work since they are still getting money without the need to exert any effort. This can have a negative effect on the economy because instead of reentering the job market, unemployed workers are relying on the government for assistance and staying unemployed much longer. No workforce to drive the economy and the economy goes down, causing all sorts of economic problems.

Most employers are naturally against funding the unemployment insurance scheme as this would add more costs in doing business. The problem with the scheme is that it penalizes good and well managed companies by adding unnecessarily to their cost of doing business when they are forced to

contribute to a scheme which is to bail out delinquent companies - those who retrench employees and did not pay any retrenchment benefit at all. It is an unfair cost burden on the employers who have to pay for delinquent employers. This encourages irresponsible management behavior. Most companies will avoid paying more just for the sake of unemployed workers, they would rather save the money to avoid from incurring more costs which may affect their businesses and profits. Sooner or later, every company will not pay any retrenchment benefits at all. Unemployed workers will stay unemployed even longer and at the same time no money in their pockets.

Some employers argue that the issue is not about the unemployment insurance but about getting the workers qualified for the job. Qualified workers with a specific set of skills are crucial for industries' growth. If the scheme do introduced into the country, there will be a lack of qualified and capable workforce in the industries since the unemployed workers rather depend on government and not work. Since such workers are hard to come by, companies will have to outsource or train foreign workers but only last for a certain period of time. Implementing such methods will only increase the cost of doing business. For businesses during recession, most qualified workers can only find jobs that are a lot less than the unemployment benefit they received. These people often prefer the unemployment insurance and the businesses are affected due to the lack of workers. This puts businesses at a disadvantage because qualified workers demand higher wages. Such acts will also affect the society. The more people receiving unemployment benefits, the less money in the unemployment insurance account. People with work and tax payers are further burdened by the increased taxation.

They have to pay more to cover for those filling for unemployment. Lack of workforce may lead to cost of production to increase and consumers will have to pay more for products and services.