

The Next Leap



Active Labour Market Policy

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From Labour Market Programmes to Active Labour Market Policy

SUMMARY REPORT

On behalf of

UHM

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Introduction

The Great Recession that struck the global economy in 2008 has had negative repercussions on the stability of the world economy. Indeed, to this day, the aftershocks of the Great Recession hamper the trajectory to growth.

As portrayed by persistently high unemployment rates the strategy to global recovery did not produce the desired economic outcome. In a way, the financial efforts embraced by governments on a global scale to address economic instability have simply shifted the burden of debt away from the private sector to the public sector. This is especially true across the European Member States.

In Malta, economic shortcomings during the global recession originated from subdued demand for exports. Yet, although the shortfall in foreign demand for local products has had a negative effect on production and profits, the impact has not been endured to its fullest. In part, short-term financial losses have been absorbed by private firms to minimise redundancies¹. Moreover, a timely and effective intervention by the state to the support of the local private sector has had a prominent role as well in mitigating the effects of the global recession on our economy.

In reaction to bleak economic projections, it is pertinent to engage policies that enhance the macroeconomic resilience of Malta. In contrast to quick-fix demand-side policies (e.g. an increase in social benefits), supply-side policies stimulate the productive capacity of an economy through the accumulation of capital. Indeed, in the near future, the function of supply-side policies will be evermore accentuated by the intensification of global trade which will have a direct impact on local prices, costs and eventually wages. Unless Malta adapts to the developing economic circumstances, intense competition from abroad will trigger more stagnant wages, a higher share of working poor and social inequality.

Active Labour Market Policy

Active Labour Market Policy (ALMP) is a supply-side policy endeavoured by many European countries. In simple terms, ALMP embraces labour market policies that address the activation of the inactive, unemployment and the development of skills. Case-studies of ALMP convey that labour market symptoms differ between countries. In turn, this explains why different countries resort to different types of ALMP. The wide array of ALMP programmes and schemes is classified into the following subcategories:

¹ Due to a restricted pool of labour supply, hire-and-fire costs in Malta are expensive.

- i) Public Employment Services,
- ii) Training and education programmes,
- iii) Private-employment subsidies,
- iv) Direct job creation in the public-sector².

ALMP - Historical Developments & Evaluations

Over time, policy-makers have embraced different types of ALMP to accommodate the corresponding economic challenges. During the 1950s and 1960s for instance, ALMP embraced the development of human capital³. At a time when demand for skilled labour was high, ALMP shifted the surplus of low-skilled unemployed to the higher tier of the labour market.

In reaction to the economic collapse following the oil shock era of 1973-75, ALMP addressed the persistent levels of high unemployment registered across all the economic sectors. In this macroeconomic scenario, the priority of ALMP was the provision of jobs to slow down the degradation of skills.

From the mid-90s onwards, employment services together with private-employment subsidy schemes were engaged to encourage and facilitate job (re)entry of low-skilled workers. Recent examples include the New Deal Programme (1997) in the UK and the Hartz Proposal (2002) in Germany.

A Quantitative and Qualitative Assessment of the Maltese Labour Force

ALMP does not address the overall level of employment on its own but further stimulates the skills of the workforce, which in turn increase profits and wage income. In order to engage an effective and efficient ALMP, one must take into account economic and labour market developments.

Figure 1 shows that in the past decade the employment ratio for Malta was far off from the EU27 average. Yet, it is evident that Malta is gradually catching up with the rest of the EU. This is especially true from 2009 onwards. By 2020, it is estimated that the employment ratio of Malta will reach 69.0 per cent – 3.1 percentage points less than the EU27.

² Initiatives are listed in descending order with respect to economic benefits.

³ Human capital refers to accumulated knowledge in terms of skills.

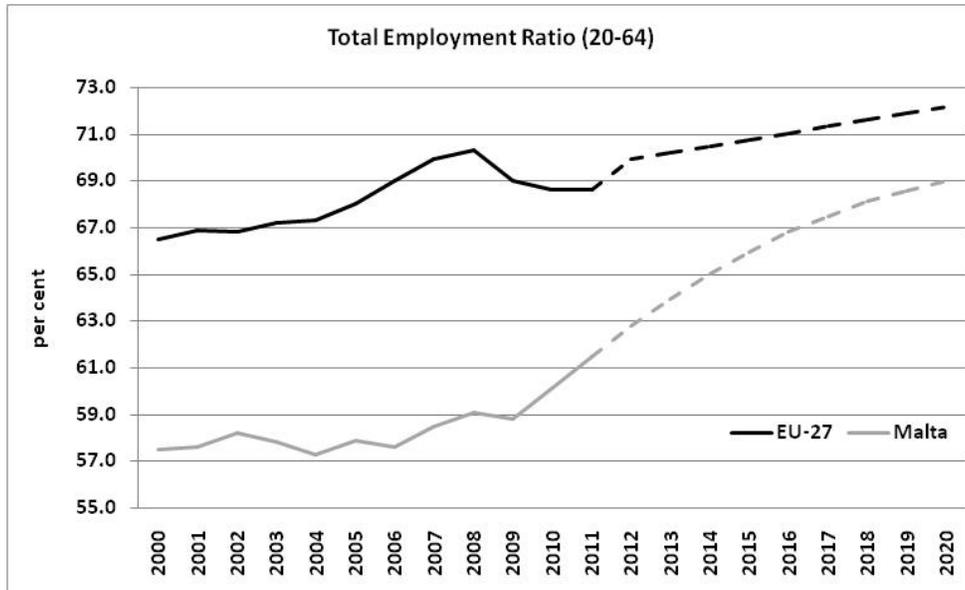


Figure 1: Labour market developments – Malta and the EU27 (authors' calculation)

Over the years, the employment rate of males in Malta has endured an extensive setback due to a number of early retirement schemes and extensive restructuring measures. Consequently, in 2008 the male employment ratio of the EU27 nearly caught up with Malta's. However, since 2010 the male employment ratio of Malta started to recover. In contrast, the female participation rate of Malta experienced a rapid surge over the past decade, following the introduction of family-friendly measures and government tax-credit incentives to females returning back to work. These optimistic developments are expected to persist in the coming years.

Overall, the influx of females into the Maltese labour market has more than countered the downfall in the male participation rate. Furthermore, it is expected that in the coming years, this labour market phenomenon will persist and eventually contribute further to the convergence process between Malta and the EU27.

Employment rates take into account the quantitative aspect of the labour force. Yet, it is the qualitative aspect of the labour force that determines productivity levels. This is especially true for Malta where the resource of labour is very limited. The shrinking workforce arising from an ageing population must be taken into account as well. It is therefore through the development of a highly qualified human resource that Malta can eventually raise productivity levels.

When taking into account the qualitative aspect (skills) of the Maltese labour force, figure 2 illustrates major shortcomings. As shown, the skills of the Maltese Labour Force are on average at a par with Mediterranean countries and developing economies such as Slovenia. When compared to the developed economies of the United Kingdom, the Netherlands, Germany and France, Malta has some serious

catching up to do. Of course, the level of skills has direct implications on productivity levels.

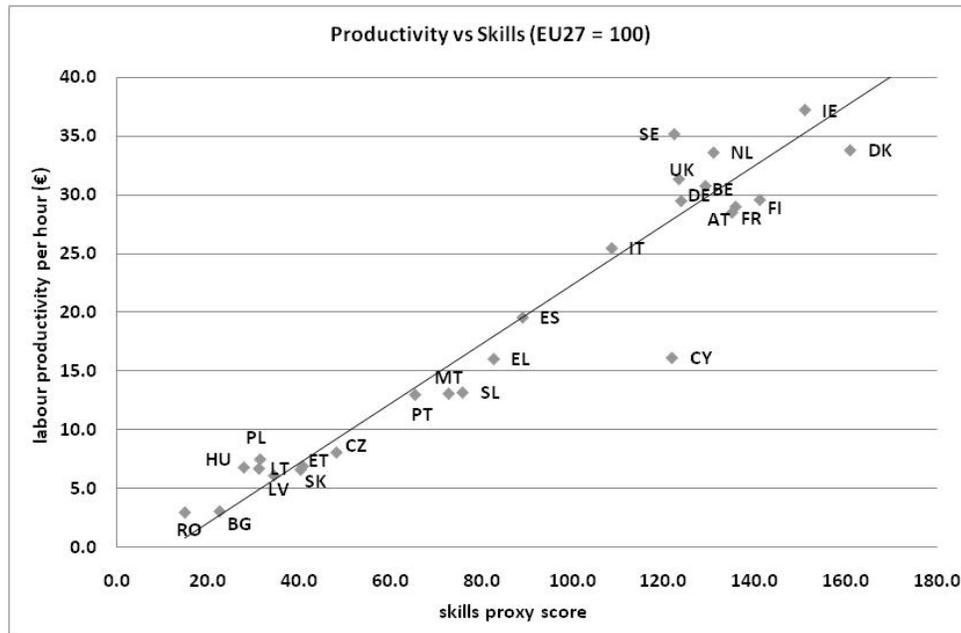


Figure 2: Hourly labour productivity Vs Skills proxy score (authors' calculation)

Workforce Composition by Level-of-Education

Presently, in Malta, 55 per cent of the labour force holds a secondary level (ISCED 0-2) of education at most. However, it must be highlighted that a secondary level of education at most (ISCED 0-2) has dropped substantially over the past ten years - down by 15 percentage points from 70 per cent in 2001. Government efforts to encourage education amongst the youths is paying off as the number of workers with post-secondary (ISCED 3-4) and tertiary (ISCED 5-6) qualifications is on the rise. Nevertheless, only a fifth of the currently employed are in possession of a tertiary level (ISCED 5-6) qualification.

In the EU27, the picture is completely opposite. Only a minority of workers – just around 20 per cent – own a secondary level of education at most (ISCED 0-2). Workers with medium qualifications (ISCED 3-4) account for half of the EU27 workforce – more than double the share of Maltese workers with an equivalent education level. Workers with a tertiary level (ISCED 5-6) of education in the EU27 amount to nearly one-third of the total workforce which is equivalent to one and half times that of Malta.

As implied in figure 3, there are serious shortcomings to the qualitative aspect of the local workforce. Although the gap in the skills level between Malta and the EU27 is narrowing down, a significant difference will persist by 2020. At this pace, it is

expected that the skills level of Malta will catch up with the EU27 average by 2045. On a positive note however, it is perceived that by 2020, the skills gap between Malta and the EU 27 will be almost halved compared to the year 2000.

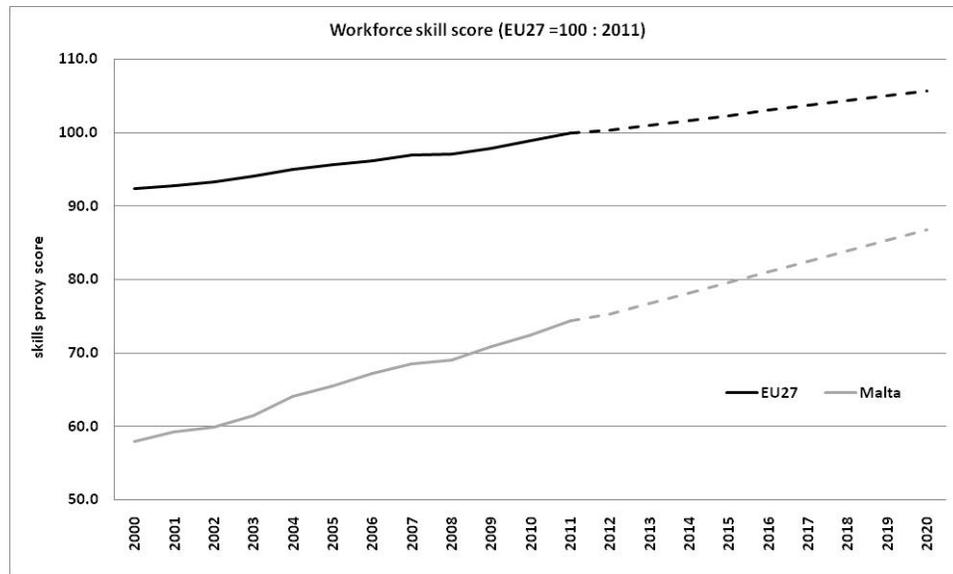


Figure 3: Skill score of the workforce – Malta & EU27 (authors' calculation)

The Inactive

Although Malta's rate of employment is converging with the average of the EU27, the absolute drop in the working age population will present a challenge for the Maltese labour market as the potential labour supply continues to shrink. Yet, figures show that there are still pockets of idle human resources that can be trained to (re)enter into employment. In 2011, there were no less than 9,000 individuals under 40 years of age who were long-term benefit dependants. On an optimistic note, there were another 5,000 females over forty years of age who expressed their willingness to work but were not actually looking for work.

Efforts to integrate the inactive into the labour market would not only favour the quantitative aspect of the labour force but also the standard of living of thousands of families. In-work-benefits, together with other schemes that address the high marginal effective tax rates (METR)⁴ on social benefits would surely activate more people into work.

⁴ The loss of benefits and tax incurred aggregated together when a social benefit dependant enters into work.

Policy Recommendations for Malta

By 2020 the employment-ratio of Malta will have almost caught up with the EU27 average. Nevertheless, this accomplishment on its own will not bring our standard of living on a par with the EU27 as hourly labour productivity in Malta will still lag behind. Consequently, the following recommendations take into account the limitations of the Maltese labour market and provide a gradual but concise long-term plan to address these limitations.

Productivity shortcomings have to be dealt with at once through the re-allocation of resources for the development of skills. Skills development should be endorsed across all tiers of society – from the non-skilled to the highly-skilled. Moreover, development of skills should not be limited to the employed and unemployed. The inactive should be taken on board as well in order to minimise the extent of idle human resources. In order to produce skills in high demand, present human capital investment should anticipate future demand for skills. Accordingly, a 'Skills Council' must be set up in order to enhance the co-ordination between the education sector and future industrial developments.

Moreover, it is recommended that there is a shift from short-term labour market programmes towards the enactment of a long-term active labour market policy. Unfortunately, in Malta, positive attributes of labour market programmes are usually short-lived as schemes are frozen as soon as EU funds dry up. Furthermore, a strong interdependence of labour market programmes on EU funding leads to an ad hoc rather than a well-structured integration of labour market programmes. The endorsement of a solid, permanent ALMP, will address both issues. In order to ensure an efficient and effective ALMP, yearly expenditure on ALMP will have to gradually increase from 0.15 per cent of GDP at present to 0.7 per cent of GDP, in line with the EU27 average.

An efficient and effective ALMP requires the contribution of all social partners. It is therefore recommended that a 'Central Counselling and Implementation Team' is set up to manage the implementation process. This team should take on board government representatives, trade-unions, employers' representatives, education sector representatives, economists and political parties. Moreover, in order to maximise the returns from ALMP, it is recommended to update/revise ALMP measures on a regular basis in order to reflect economic developments. The 'Central Counselling and Implementation Team' should be directly accountable for this task.

Conclusion

Research shows that more than ever before, human capital is one of the most essential resources to growth. As conveyed, the quality of human capital is directly related to the skills of the workforce. Thus it follows that the higher the basket of skills, the higher the productivity and resilience of a particular economy.

The remarkable annual labour productivity gains of some Member States such as Denmark (1.3 per cent) and the Netherlands (1.5 per cent) over the past decade have not been replicated in Malta. Indeed, labour productivity gains over the past decade amounted to just 0.5 per cent in Malta. Meanwhile, the countries of Slovenia and the Czech Republic with a standard of living similar to Malta's, registered annual labour productivity gains of 2.7 and 3.0 per cent respectively over the same period.

Over the past decade, economic growth in Malta has been triggered by a growing workforce rather than through productivity gains. As highlighted earlier, if employment growth over the past seven years were to persist until 2020, then Malta would reach an employment ratio of 69.0 per cent. The increase in labour supply will to an extent generate additional wealth and economic growth. Nevertheless, this will not put the standard of living of Malta on a par with the EU27 average. As discussed, the discrepancy between living standards arises due to the gap in the quality of human capital as the European workforce is much more skilled compared to Malta's. Based on the current trend of skills development, Malta will not converge with the EU27 average before another 33 years.

The potential benefits stemming from ALMP are not limited to the labour market. Indeed, ALMP should be considered as a means to an end for other social and economic issues in Malta. Due to the ageing factor, the Maltese potential working-age population will continue to shrink in coming years. As a result, labour hourly productivity must increase in order to counter both the drop in the labour force and to sustain higher economic growth. One of the major functions of ALMP is to upgrade the skills of the workforce and thus contribute to higher productivity. The development of human capital is a very effective way of curbing down precarious jobs as well. Moreover, the upgrading of skills gives workers additional bargaining power when negotiating wages.

Currently, there is determined effort by many European governments to implement tough labour market reforms that will spearhead their future labour market competitiveness. In this scenario, Malta does not afford to ignore the endorsement of ALMP. At this point, a wrong decision or indecisiveness will put our competitiveness at stake.



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