- THE NEXT LEAP -

From Labour Market Programmes to Active Labour Market Policy

REPORT

On behalf of

UHM

Research by Economists
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Executive Summary

Statistics show that the skills of the Maltese labour force are inferior to the average of the EU27. Indeed, even though the employment ratio of Malta will continue to converge with the average of the EU27, this will not bring the standard of living of Malta at a par with theirs.

Thus far, efforts to increase the influx of labour into the labour market have produced optimistic results. A case in point would be the surge in female employment witnessed over the past few years. Without disregarding the socioeconomic benefits accruing from this measure, it must be highlighted that an increase in the labour supply does not automatically translate into productivity gains. Indeed, productivity gains are secured through training and education that enhance the basket of skills of a workforce.

Presently, in Malta, 55 per cent of the labour force holds a secondary level (ISCED 0-2) of education at most. In contrast, just around 20 per cent of the EU27 labour force owns a secondary level (ISCED 0-2) of education. On a positive note, government efforts to address 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 qualification (ISCED 5-6). In the EU27, workers with medium qualifications (ISCED 3-4) account for half of the workforce. Moreover, workers with a tertiary level of education (ISCED 5-6) in the EU27 amount to nearly one-third of the total workforce. Consequently, the enrichment of skills of the Maltese labour force will be the next leap towards a higher standard of living.

Active Labour Market Policy (ALMP) is a basket of long-term labour market policies that addresses the shortcomings of the labour market. The major attributes of ALMP include the activation of idle human resources, the development of skills and curbing down of unemployment. Case-study analyses for Denmark, Sweden and Germany (amongst others) substantiate the effectiveness of ALMP on activation, skills and unemployment.

In order to maximise the returns on a skilful workforce, efforts must be directed to activate the inactive as well. The activation of the inactive population will increase the stock of the labour force that is subject to training and education. In turn, this will translate into an increase in the stock of the Maltese human capital.

ALMP should be considered as a means to an end to other social and economic issues in Malta a well. Due to the ageing factor, the Maltese workforce 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. Furthermore, the development of human capital is a very effective way of curbing down precarious jobs and to enhance the bargaining power of employees during wage negotiations.

Currently, there is determined effort by many European governments to implement tough labour market reforms that will spearhead 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 and living standards at stake.

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Introduction

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

As portrayed by persistent high rates of unemployment, the plan to global recovery did not produce the desired economic outcome. In a way, financial interventions embraced by governments on a global scale have simply shifted the debt-burden from the private to the public sector. In turn, this exercise triggered massive levels of debt, especially across European Member States.

In Malta, economic shortcomings during the global recession originated from subdued demand for Maltese exports. Yet, although the shortfall in foreign demand for local products has left a negative effect on production and profits, the macroeconomic impact has not been endured to its fullest. In part, most short-term financial losses were absorbed by private firms in order to minimize their impact on redundancies[1]. Moreover, a timely and effective intervention by the state in support of the 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 in a policy that enhances the macroeconomic resilience of Malta. In contrast to a quick-fix demand-side policy, supply-side policy fuels the productive capacity of an economy through the accumulation of capital. In the coming years, the function of supply-side policy will be evermore accentuated as the intensification of global trade will definitely have an influence on local prices, costs and eventually wages. Consequently, intense competition from abroad is expected to trigger more unemployment, stagnant wages, a higher share of working poor and social inequality.

Active Labour Market Policy (ALMP) is a supply-side policy endeavoured by many European countries. In simple terms, ALMP embraces a basket of labour market policies that addresses the activation of the inactive, unemployment and the quality of labour skills (Carcillio & Grubb, 2006). Active Labour Market Policies are disaggregated into three categories. Depending on both context and target group each of the subcategories of ALMP addresses labour market shortcomings. The three major types of ALMP include:-

i) *the provision of information and job placement services to the unemployed actively looking for work;*

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

ii) *the implementation of partial wage subsidisation encouraging private firms to take-up employment of targeted groups;*

iii) *the engagement of training and education to enhance the skills of workers* (Chapple, 1999).

The aim of this research is to put forward a pragmatic ALMP to address the present shortcomings of the Maltese labour market. In turn, this measure will translate into higher employment, productivity gains and a more resilient economy.

The paper is structured as follows. Section 2 provides an overview on the labour market policy strategy of the European Union (EU) in terms of the 'European Employment Strategy' and 'New Skills for New Jobs'. Section 3 is dedicated to theoretical concepts pertaining to ALMP whilst section 4 refers to six case-study evaluations of ALMP. Section 5 applies and supports with empirical evidence labour market theory within the Maltese context, while section 6 illustrates previous, current and upcoming developments to the local labour market. In section 7, the paper describes different labour market policies and programmes currently engaged in Malta. Section 8 provides an overview on the profiling of the inactive population of Malta. Policy recommendations are laid out in section 9 and concluding remarks are documented in section 10.

History of Employment Strategies in the EU

1.1 European Employment Strategy

In line with Kluve (2005) this section provides an insight on the developments of labour market policies in Europe. In 1990, the European economy registered persistent levels of intensive unemployment, particularly of a long-term nature. These observations shed light on the serious shortcomings of the European labour market. Back then, effective measures to counter macroeconomic shocks and acute unemployment were not as yet ratified by the European Union (EU). In 1997, in reaction to the sluggish performance of the European labour market, the European Commission launched the Luxembourg Process at the Luxembourg Jobs summit. Moreover, the Amsterdam Treaty defined high employment as one of the priorities in the agenda for the promotion of stability and growth in the EU. To this day, the Amsterdam Treaty is considered as a pioneer towards the development of the European Employment Strategy (EES).

In March 2000, the Lisbon European Council stipulated that the EU was to regain control of full-employment conditions. More specifically, the Council expressed that Europe was to become the most competitive and dynamic knowledge-based economy in the world, with the ability to address sustainable economic growth and create more and better jobs. During this council, it was concluded that the employment rate in the EU was to be raised to 70 per cent whilst the average female employment rate was to be raised to more than 60 per cent. In March 2001, intermediate employment goals were established at the Monaco council – an overall employment rate of 67 per cent by 2005 and an employment rate of 57 per cent for women. Moreover, the Barcelona Council held in March 2002 reiterated the long-term goal to full employment in the EU. The council further emphasised the scope for a more cohesive Employment Strategy across the EU to embrace the Lisbon targets. In February 2005, in response to a drop in economic performance, the EU overhauled the Lisbon strategy for the creation of more and better jobs. Although employment targets as set by the Lisbon European Council (2000) had not been met, noticeable gradual achievements were recorded in the EU labour market, up to 2008 and 2009.

Employment repercussions brought about by the financial crisis of 2008-9, to an extent countered optimistic employment results from previous years. However, as highlighted by the OECD (2010), the resilience of the European labour market to the financial crisis outperformed the US in coping with employment repercussions.

The ever increasing role of ALMP has had positive benefits on the performance of the European labour market in the past decade. Originally, the European Commission had established a framework where European Member States were encouraged to endorse some form of ALMP policy measure. Over time, ALMP came at the forefront of the European Employment Strategy (EES). The EES is the Commission's answer for the creation of more and better jobs in the EU. In part this strategy caters

for the targets established by the European 2020 goals[2]. These actions were clearly outlined in 'An Agenda, for new skills and jobs'.

Through the 'Open Method of Co-ordination' Member States regularly meet to share, discuss and co-ordinate employment policies in accordance with the actions suggested by the Commission. This method enables Member States to learn more about best practices in labour market policy. On a yearly basis, national governments together with the European Commission establish employment recommendations that contain guidelines for national employment policies, an assessment of national employment reports on the attainment of EU targets and if necessary recommendations to Member States where labour policy performance leaves much to be desired (European Commission, 2012).

1.2 New Skills for New Jobs

In 2008, in reaction to the Great Recession, the European Commission set up a new agenda titled "*New Skills for New Jobs - Anticipating and matching labour market and skills needs"* (Council of the European Union, 2009). The new agenda was set to develop the labour market in the EU and establish higher employment ratios. The highlights of the document include the adoption of relevant education and training programmes for the enhancement of working skills together with a more comprehensive forecasting exercise of future demand for skills. In the agenda it is stressed that both labour market policy tools are essential for the accomplishment of the 2020 goals.

The agenda on the promotion of new skills and new jobs forms part of a wider framework i.e. the European Economic Recovery Plan. The European Commission is on a mission to set a mechanism to re-launch redundant workers back into the labour market. In line with the European Commission (2008), it is acknowledged that activation, upgrading of skills and retraining are policy measures that promote more job opportunities, higher productivity, more flexibility, non-discriminating job opportunities and the reinforcement of social cohesion. Indeed, these objectives shall in turn counter the macroeconomic challenges posed by globalisation pressures and an ageing European population, amongst others.

In order to make ends meet, the European Centre for the Development of Vocational Training (CEDEFOP) is cooperating with the European Commission and Member States to promote proactive vocational training (VET) schemes. As part of a proactive framework, CEDEFOP projects future demand for skills. The methodological approach applied for the forecasts involves:

i) an input-output model which identifies the link between economic sectors;

ii) translation of increased employment opportunities from (i) into occupational needs;

iii) modifications to the educational requirements are set in line with the results in (ii).

[2]Europe 2020 goals vis-à-vis the EES are i) 75 per cent of people aged 20-64 in work; ii) school drop-out rates below 10 per cent; at least 40 per cent of 30-34 year olds completing third level education and iii) at least 20 million fewer people in or at risk of poverty and social exclusion (European Commission – Employment, Social Affairs and Inclusion).

Compared to the US and China, the EU spends much less resources on projections of skills. As highlighted by the European Commission (2008), in 2008, the EU spent no more than €0.25 million in contrast to the $6 million dollars allocated by the US.

In line with the latest results of CEDEFOP, it is estimated that by 2020 there will be some 83 million job opportunities in the European Union, 75 of which are expected to arise due to job movements or retirement. The remaining job opportunities (8 million) are expected to materialize due to modest improvements in demand for goods and services. Furthermore, it is foreseen that the extent of job polarisation will intensify as both low and high skill segments are expected to grow. Another interesting point raised by CEDEFOP is that despite recent extensive unemployment rates, there is evidence of skill shortages in life-sciences and healthcare professions at present.

CEDEFOP research further shows that there is concern of underemployment arising from over education. This is not arising from job mismatch but rather skills mismatch, meaning that the required skills (e.g. science, technology and mathematics) do not coincide with what students are opting for in their education. In line with CEDEFOP (2012), on the premise that skill mismatches can be very costly, extensive vocational training and counselling services should become top priority in the EU.

Historical Background of ALMP

2.1 Overview

The evolution of ALMP is well documented by Bonoli (2010). As suggested by the author, ALMP measures vary across time, depending on the macroeconomic contexts and requirements at each point in time. As subsequently documented, three distinct types of ALMP have been embraced over time. In the 1950s and 1960s, in reaction to labour market shortages, the key role of ALMP was to invest in the development of human capital. Economic priorities shifted after the oil shock of 1973-75, where persistent levels of high unemployment across the board were recorded. In this macroeconomic context, the priority of ALMP was the promotion of occupations i.e. the provision of jobs to minimize redundancies. The third type of ALMP was enacted from the mid-90s onwards where employment services were engaged to encourage and facilitate job (re)entry. Recent ALMP measures include the New Deal Programme (1997) in the UK and the Hartz Proposal (2002) in Germany.

2.2 Post-War Era

Vigorous economic development and modernisation in the post war era triggered strong demand for advanced skills. In reaction to the requirements of the labour market, ALMP reinvigorated idle human capital and sustained a steady flow into the labour market.

ALMP originated in the early 1950s when Sweden was first to consider and enact an active approach to labour market policy thanks to the well-known Rehn-Meidner model. This model as established by two trade union economists, Gosta Rehn and Rudolf Meidner embraced equality in the wage distribution, sustainable full-employment and the development of the Swedish industry. Equal wage distribution however had repercussions on wages. Indeed, lower wages were revised upwards thus exerting pressure on productivity enhancements across the industries. As less competitive firms were driven out of the market, unemployment levels increased. This was the driving motive behind the establishment of ALMP in the first place as the redundant had to be trained and skilled in order to cater for the requirements of highly productive industries[3].

The prominent role of ALMP became ever more evident as other countries in the process of modernisation endorsed such a revolutionary measure. In southern Italy, during the 1950s and 1960s, a surplus of unemployed in the southern part of Italy were trained and redeployed to cater for labour demand in the northern part of Italy. Similar approaches had been adopted by France in 1963 when the Gaullist party embraced easier access to training or re-training of the unemployed.

[3] See for instance Swenson 2002: 275; Benner and Vad 2000:401; Mabbet 1995: 141ff.;Anxo and Niklasson 2006.

Germany adopted the same approach in 1969 through the 'Employment Promotion Act'. In simple terms, this act envisaged the development of skills to cater for specific technological requirements in demand.

2.3 Post Oil-Shock Era

The oil shocks of 1973-75 and the economic crisis which followed soon after led to a new economic scenario. This time around, it was not a matter of training redundant human resources to cater for modern untapped sectors. Mass unemployment spanned across all the sectors and there was no room to reallocate human resources towards more productive sectors. In this context, the function of ALMP shifted from training to occupation, i.e. to keep human resources occupied and retard the degradation of unemployed human capital.

In Sweden, from 1970 onwards, ALMP engaged job creation programmes[4]. Moreover, the Swedish policy-makers endorsed a strict employment protection law (Emmenegger, 2009). In the case of Germany, the Employment Promotion Act of 1969 shifted the role of ALMP away from developing human capital towards the retention of employment. In 1984, the French adopted an array of programmes[5] as well to cater for both job occupation as well as social inclusion.

2.4 Mid-1990s

The 1990s marked a new economic scenario during which countries witnessed strong economic recovery. During this period, registered unemployment was no longer a matter of firm closures but rather excess supply of unskilled workers. Due to low wages for this segment of the labour market, unskilled workers were caught in a vicious circle where unemployment benefits became more attractive than the market wage rate. This made it ever more challenging for policy-makers to restrict excess supply of low or unskilled workers. Consequently, ALMP adapted to such labour market circumstances by emphasising more on work incentives and employment assistance.

Denmark was one of the first countries to endorse such a measure. An array of reforms to the Danish unemployment benefits was endorsed by the Social democratic government in 1993. Moreover, in 1994, a limit of seven years was imposed on entitlement to unemployment benefits. In the same year, it was no longer possible to regain entitlement to unemployment insurance through participation in labour market programmes. Furthermore, work availability prerequisites were also re-enforced. Decentralization of employment services was another measure which was embraced by the Danish government. Assistance entitlement periods were limited to five years in 1996 and further restricted to four and a half years in 1998. The 'passive' phase was also limited to two years and to six months for unemployed persons under 25. Once past this threshold, unemployed were obliged to participate in labour market programmes. Further reforms towards activation policy were endorsed in 1998. Work incentives and human capital investment for the young unemployed were

[4] See Anxo and Niklasson 2006:360.
[5] For instance, in 1984 Travauxd'utilite' publique; In 1986 Programmes d'insertion locale to cater for the long-term unemployed.

taken to a new level as well. Another type of activation reform embraced more inclusive policy measures such as flex jobs, the role of which served to subsidise up to two thirds of labour costs.

To a similar extent, the drastic reforms imposed in the Danish labour market were transposed in the New Deal programme of the newly elected British Labour government. The programme introduced various incentive reforms that included lower unemployment benefits[6]. In addition, employment assistance programmes have been taken on board as well in conjunction with other incentive reinforcements since the mid 1990s. A good example was the tax credit programme endorsed in 1998[7].

The Swedish scenario embraced the modernisation of ALMP measures at a slower pace than Denmark. Since the late 1990s, Sweden launched a series of incentive reinforcement and employment assistance measures. For instance, it became obligatory for persons still unemployed after 100 days of job search to accept a job irrespective of the location and a wage up to 10 per cent lower than unemployment benefit[8]. In 2001, the unemployment insurance reform restricted the renewal of entitlement to unemployment insurance when participating in labour market programmes. Moreover, the reform put more emphasis on long-term unemployed or those on the verge of becoming long-term unemployed by implementing programmes aimed towards re-employment (Timonen, 2004).

In the case of Germany, reforms to the labour market policy were taken on board in the mid-1990s. One of the predominant reforms in the labour market policy of Germany was the 'Job Aqtiv Act' which embraced tighter supervision of job search, contracts to reintegrate the unemployed and subsidisation of wages and profiling of unemployed persons (Clasen, 2005). Yet, the introduction of this reform was met with scepticism. A few months later, in reaction to the scandal of the inflated figures pertaining to the success rate of Public Employment Agencies, Peter Hartz was instructed to revamp the labour market policy measures.

2.5 Profiling of ALMP

In broad terms, the role of ALMP is to counter labour market failures[9] that impede the efficient operation of the labour market. Moreover, the implementation of successful ALMP consents for more active participation in the labour market, thus reinforcing social cohesion. The term 'ALMP' is an aggregation of an array of labour market activities. Different studies on ALMP apply different profiling methods. Some authors for instance distinguish between labour market policies that improve human capital and other labour market policies that promote negative incentive schemes.

In Torfing (1999), ALMP is profiled with respect to 'offensive' and 'defensive' workfare policies. Offensive policies refer to the enhancement of skills whereas defensive policies reflect sanctions and benefit reductions. In his research on ALMP, Barbier (2001 & 2004) refers to work incentives, conditions of receiving benefits and the application of sanctions as 'liberal activation' measures. On

[6] See Atkinson and Micklewright (1989); King (1995).
[7] See Clasen (2005).
[8] See Clasen (2000).
[9] Labour market failure involves mismatches between labour demand and labour supply that hinder full-employment.

the other hand, the author refers to human capital investment as a 'universalistic activation' labour market policy.

Clegg (2005) applies yet another distinct profile to ALMP. The author embraces two different policy measures of job activation, namely circulation and activation policies. Circulation measures, such as placement services are engaged to increase the chances of communication between an unemployed person and a prospective employer. Integration instruments, such as controlled benefit entitlements and protected employment are direct policy tools that enhance employability prospects. Bonoli (2010) adopts the following tabular distinction to ALMP measures.

Type	Objective	Tools
Incentive reinforcement	Strengthen positive and negative work incentives for people on benefit	Tax credits, in work benefits; time limits on recipiency, benefit reductions, benefit conditionality; sanctions
Employment assistance	Remove obstacle to employment and facilitate (re) entry into the labour market	Placement services; job subsidies; counselling, job search programs
Occupation	Keep jobless people occupied; limit human capital depletion during unemployment	Job creation schemes in the public sector; non-employment related training programs
Human Capital Investment	Improve the chances of finding employment by up-skilling jobless people	Basic education; vocational training

Table 1: Profiling of ALMP Bonoli (2010)

In line with Bonoli (2010), incentive reinforcement motivates benefit recipients to enter the regular employment market. Incentive reinforcement may be either in the form of absolute restriction from passive benefits or else with respect to applicable rates and periods of eligibility. Benefits can be based on conditionality i.e. benefits become receivable subject to participation in programmes or work schemes.

Another type of ALMP measure entails employment assistance, where policies assist individuals to beat market obstacles. Placement services, job subsidies, job counselling and job search programmes are categorised under the service of employment assistance. This specific type of ALMP is generally targeted towards persons who have been out of the labour market for long and persons who have never worked before.

A third type of ALMP involves occupation measures, the purpose of which is to ensure that the jobless remain active, thus reducing the negative influence of unemployment on human capital. In this particular measure, the public sector plays a predominant role as it is responsible together with other non-profit organizations for the creation of new job placements. The fourth type of ALMP reflects measures that provide basic education and vocational training. This particular form of ALMP is targeted to cater for persons with no basic education skills as well as persons whose skills have become obsolete in time.

Economic Theory of ALMP

3.1 An Overview

Apart from the enhancement of employment prospects, ALMP produces other positive spill-over effects. However, economic benefits come at a cost which is by no means insignificant to the national budget (Estevão, 2003). In the current macroeconomic scenario where European Member States are under constant pressure to reduce debt-levels it is imperative to embrace cost-efficient and effective ALMP. In order to be in a position to evaluate the efficiency and effectiveness of ALMP it is pertinent to comprehend the corresponding microeconomic background. Consequently, this section provides an insight on the economic concepts commonly associated with ALMP. In this chapter, economic implications of ALMP are documented as cited in Calmfors (1994).

3.2 The Nickell-Layard Model

Prior to the foundation of the Nickell-Layard Model[10] the Phillips curve was mainstream theory to the development of labour market policies. Yet, the trade-off between inflation and unemployment was highly criticised by Calmfors (1994). The author argues that the Phillips curve overlooks the origin of the natural rate of unemployment.

The Nickell-Layard model portrays the labour market equilibrium in terms of the real wage and the level of employment. As shown in figure 1, the employment schedule is a downward sloping curve showing the relationship between the real wage and employment as a percentage of the labour force. This schedule represents the labour demand function of an economy. The wage-setting schedule represented by the upward sloping curve in figure 1 conveys that the higher aggregate employment, the higher the inflationary influence on real wages[11]. As shown in figure 1, the labour market equilibrium is set at the intersecting point between the two curves. The vertical line in figure 1 represents full-employment. The extent of involuntary unemployment[12] in the economy (s0) is depicted by the horizontal distance between the full employment line and the equilibrium point.

At this point, a clear distinction is made between regular and irregular employment. Whilst regular employment entails the occupation of vacancies created in a free market framework, irregular employment refers to the creation of jobs by ALMP programmes that would not have been created in a free market scenario. Hence, the term 'open unemployment' refers to the unemployed excluding participants in ALMP programmes. In order to take all of the above into consideration, figure 1, portrays a modified version of the Nickell-Layard model (See Calmfors, 1994, 11).

[10]Refer to Layard and Nickell (1986), Johnson and Layard (1986) and Layard, Nickell&Jackman (1991).
[11]From an employer's perspective, high employment translates into a much more restricted pool of skilled human resources, thus exerting upward pressure on the real wage. Moreover, the wage-setting schedule conveys that at higher rates of regular employment, it becomes easier for unions to promote demand for higher wages as it is relatively easier for laid-off employees to find a new job.
[12]Involuntary unemployment is made up of frictional and structural unemployment.

In figure 1, the vertical line 'full-employment 2' consists of the conventional full employment measurement excluding those individuals undertaking an active labour market programme. Thus it follows that 'r0'[13] represents the extent of labour participation in active labour market programmes as a percentage of the labour force. Open unemployment in figure 1 is represented by 'u0'[14].

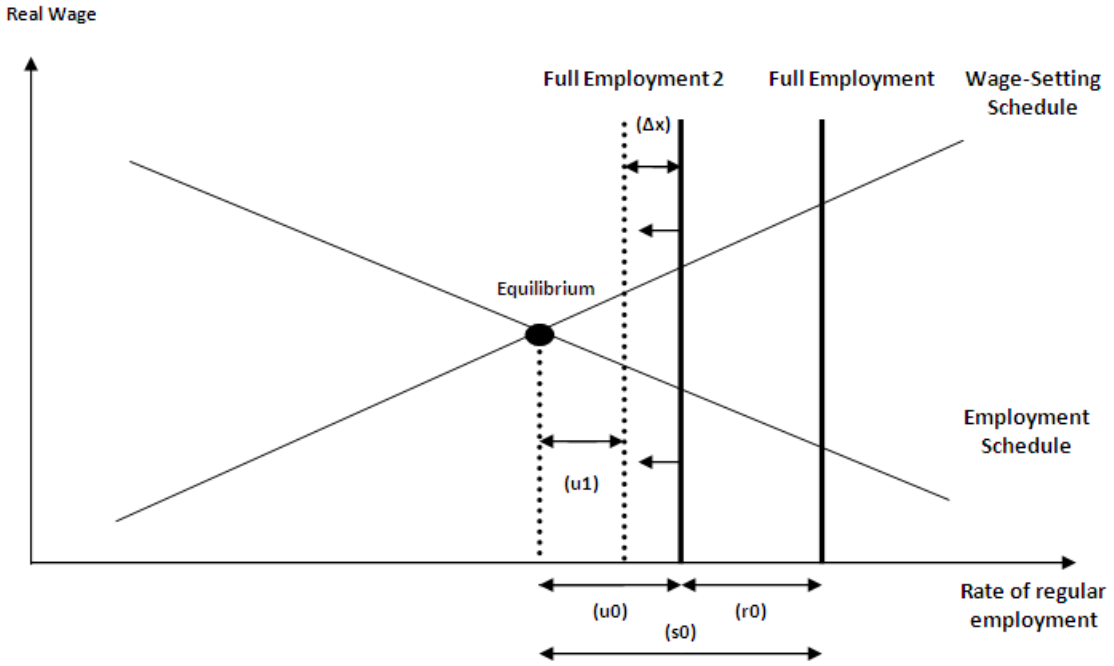


Figure 1: Modified Nickell-Layard Model

A shift in the degree of labour market programmes translates into a shift of the 'full employment 2' vertical line (Δx), which in turn triggers revisions to the extent of openly unemployed. In a scenario where labour market programmes are expanded, the 'full-employment 2' line shifts to the left implying a lower level of openly unemployed from 'u0' to 'u1' and a higher level of participants in active labour market programmes i.e. a higher 'r0'. Yet, the effects of active labour market programmes on the labour market as portrayed in figure 1 overlook indirect effects that may arise in the process. What follows is a thorough analysis of indirect effects of ALMPs and their influence on the labour market.

In the subsequent analysis the following assumptions are taken into account:

i) ceteris Paribus assumption (keeping all other factors unchanged);

ii) the application of ALMP is on a permanent basis;

iii) ALMP is introduced into the labour market for the first time.

[13]It is worked out as the difference between full employment and the extent of unemployed not participating in active labour market programmes.
[14]It is calculated as the difference between the equilibrium point and the vertical line 'full employment 2'.

3.3 Effects of ALMP on the Labour Market

3.3.1 Effects on the Matching Process

ALMP enhances the matching process of the labour market by means of the following:-

i) the coordination between qualifications and skills in demand;

ii) a more active approach to job-searching;

iii) enhancement of employability.

The efficiency of the matching process of a particular labour market is represented by the Beveridge Curve[15]. As shown in figure 2, the Beveridge curve portrays a negative relationship between the rate of vacancies and unemployment. Moreover, the Beveridge curve illustrates the matching process of the labour market when taking into consideration macroeconomic fluctuations. In recessionary periods high unemployment rates and low vacancy rates lead to point X. Conversely, in economic booms, low unemployment rates and high vacancy rates lead to point Y. It follows that the unemployment rate portrayed in figure 2 is equal to the unemployment rate established in the adjusted Nickell-Layard model (see figure 1).

For the sake of the analysis of ALMP, the original Beveridge curve must undergo slight modifications as well. Indeed, a clear distinction must be made between participants in ALMPs and regular employment. In figure 2, the unemployment rate represents both the openly unemployed as well as the participants in ALMP. In addition, the vacancy rate on the y-axis represents vacancies for regular jobs i.e. excluding jobs related to ALMP. In this framework, two assumptions hold. Firstly, it is conjectured that both the openly unemployed as well as the stock of programme participants qualify as candidates for vacancies at each point in time. Secondly, it is assumed that the matching process of participants in programmes is much simpler and more rapid as authorities usually place unemployed persons in various programmes without posting vacancies.

[15]Refer to Pissarides (1985, 1990), Blanchard & Diamond (1989).

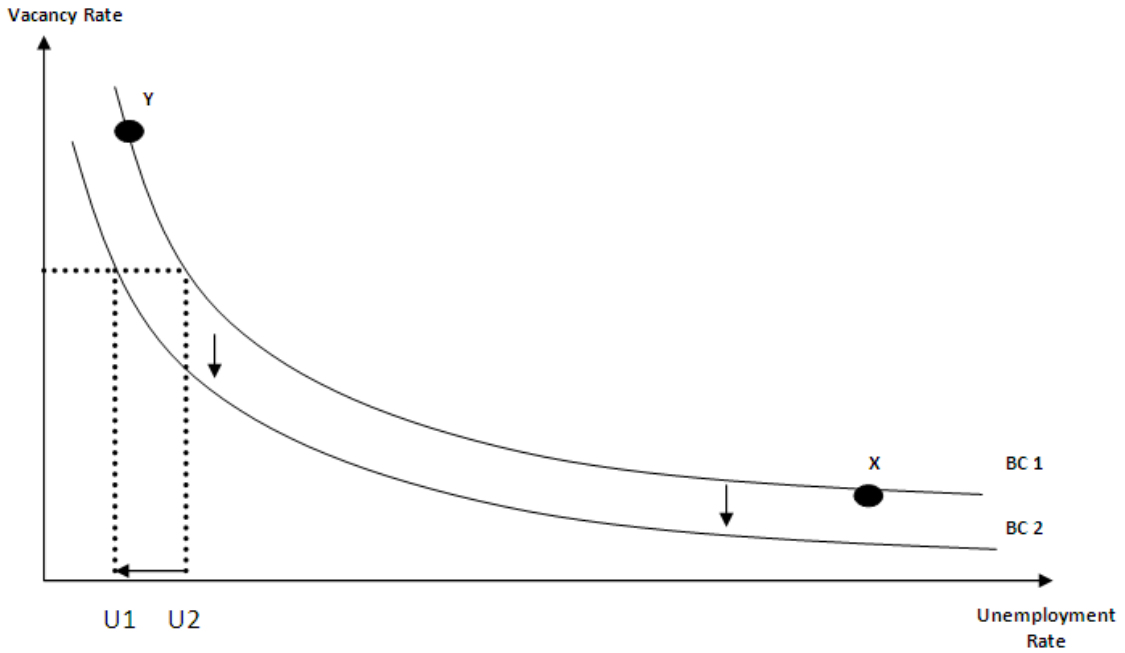


Figure 2: The Modified Beveridge Curve

The introduction of ALMPs in the labour market has positive connotations on the matching process. Indeed, ALMP increases the efficiency of the matching process as the number of job searchers for a given number of vacancies decreases due to the flow of participants in ALMP programmes. Hence, the Beveridge curve shifts downwards from 'BC1' to BC2' towards a lower unemployment rate at an unchanged vacancy rates.

In terms of the Nickell-Layard model portrayed in figure 3, improvements in the matching process shift the labour market equilibrium from 'equilibrium 1' to 'equilibrium2'. With reference to the employment schedule, an improvement in the matching process increases the rate at which vacancies are filled. In turn, this has an expansionary effect on the rate of vacancies generated as it becomes less expensive for the private sector to publish and fill vacancies. Accordingly, the employment schedule in figure 3 shifts to the right (Calmfors& Land, 1993). From the perspective of the wage-setting schedule, as the number of job vacancies rises, employers do not have the incentive to offer high relative wages. Hence, the increase in efficiency of the matching process is illustrated as a downward shift of the wage-setting curve (Johnson & Layard, 1986). As evident, the aggregate effect of an improved matching process of the labour market translates into an increase in regular employment (from X to Y). Yet, the overall effect on the real-wage is ambiguous, depending on the extent of the shift of both curves.

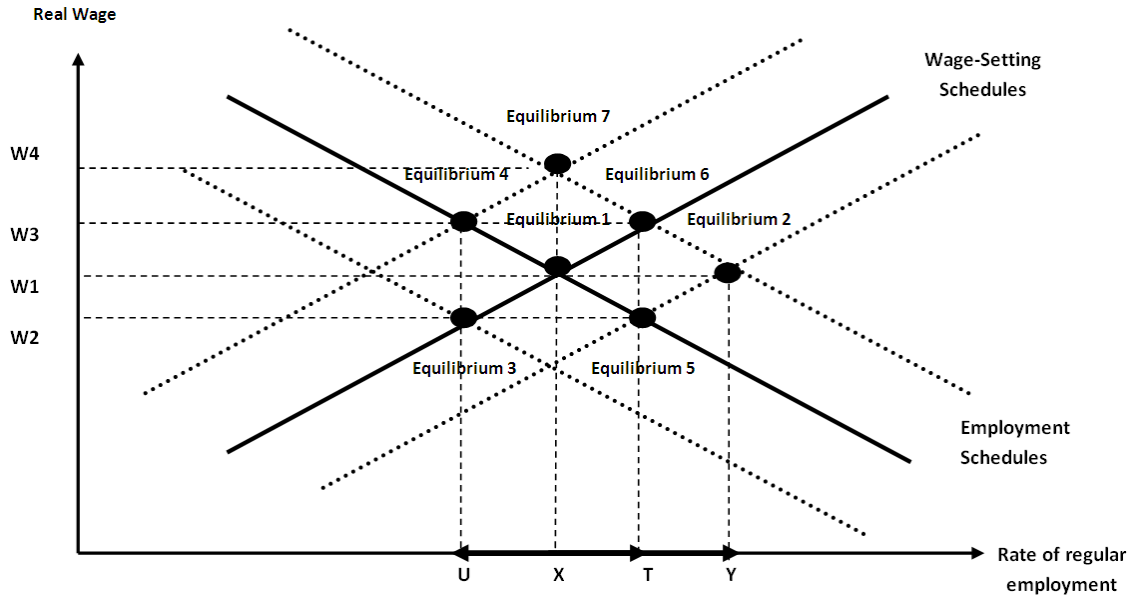


Figure 3: Labour Market Adjustments

One of the processes leading to a more efficient matching process involves placement services where unemployed persons are engaged in training or temporary job schemes. Although there is consensus that ALMP produces positive results, it is however counteracted by negative effects as well. For instance, when engaged in an ALMP, studies[16] show that participants tend to reduce the intensity of job-searching. Such an attitude may enter in place once the candidate becomes aware of his placement in a particular programme, well before the initialisation period.

Accordingly, when assessing the feasibility of job matching, it is necessary to take into account the net effect of job matching activities on the labour market i.e. the difference between the locking-in effects[17] during participation in ALMP schemes and the treatment effects after the programme comes to an end. Thus, feasibility studies of ALMP on the matching process should be handled with caution as locking-in effects are not always taken into account in the evaluation process of job-search activities. Consequently, evaluations could be misleading.

3.3.2 Effects on the Labour Force

In cases of long-term unemployment, the labour force shrinks as workers become too discouraged to search and apply for vacancies. Discouraged worker effect is common amongst the elder strata of the unemployed. What is worse is that early retirement schemes enacted by the state tend to aggravate inactivity. As a consequence, potential entrants to the labour market could be negatively

[16] Edin (1989), Holmlund (1990) and Edin&Holmlund (1991) have carried out studies on Swedish relief work schemes.
[17] 'Locking-in' is the inability of an ALMPparticipant to search for work due to time constraints arising from participation in an ALMP programme.

influenced as well. On these lines, the role of ALMP is to expand the labour force by stimulating the participation[18] of the inactive.

In figure 3, each wage rate corresponds to a particular proportion of employment[19]. Thus, the activation of the inactive increases the stock of the labour force. In turn the proportion of persons employed as a ratio of a larger labour force lowers the proportion of employment at each wage level.

On the other hand, the increase in labour supply will enhance the competitiveness between job-seekers as the number of available jobs remains unchanged. In turn, an excess supply of labour puts downward pressure on market wages. Accordingly, this implies a leftward shift of the employment schedule in figure 3 (ceteris paribus) leading to a lower rate of regular employment. A new market equilibrium is established at 'equilibrium 3'.

On one hand, the labour market is worse off following the introduction of the ALMP as a lower proportion of the labour force is regularly employed (from X to U). However, on the other hand, it is true that the real wage rate drops from 'W1' to 'W2' and thus, more jobs are created. Hence it follows that a larger proportion of the population is employed following the introduction of ALMP. In summary, the activation of the inactive triggers a lower rate of regular employment and at the same time increases the number of jobs created thanks to a drop in the real wage rate.

3.3.3 Deadweight and Displacement Effects

Implementation of poorly planned labour market policies is associated with the deadweight-loss effect. Indeed, both resource misallocation and wastage translate into deadweight-loss for the society as a whole. Deadweight-loss in the context of ALMP arises when labour market policy measures providing government-subsidised jobs attract the 'wrong candidates' i.e. competent persons that would originally have been able to find regular employment on their own initiative in the absence of ALMP.

When taking into account resource wastage associated with ALMP the displacement effect should not be neglected either. The displacement effect arises in cases when wage subsidisation triggers a positive effect on employment for one party to the detriment of employment pertaining to another party. The displacement effect can arise in terms of the following:

i) **Intra-firm displacement** – A firm is inclined to substitute some of the workforce with new subsidised labour.

ii) **Inter-firm displacement** – An artificial competitive disadvantage is created between new entrants to the market and well-established firms in the market operating at subsidized labour costs.

iii) **Inter-temporal displacement** – A temporary wage subsidy could instigate higher employment at present at the expense of future employment.

[18] See Wadensjo (1993).
[19] Employed persons as a percentage of the labour force.

Notwithstanding the prevalent exhibition of displacement effects in the private sector, displacement issues are evident as well across education and training of the unskilled, job placements, information subsidies to the unemployed participating in a matching process, and in direct public job creation[20].

As portrayed by expression (1), ALMP encompasses positive and negative effects on the number of jobs created. In line with Chapple (1999), expression (1) evaluates the net number of jobs created by an ALMP scheme when taking into account both deadweight and displacement effects.

$$(1)\quad N = G - (L + D)$$

Where:-

N= net job creation

G= gross job creation

L= deadweight loss

D= displacement

The evaluation of the inefficiency of an ALMP is calculated by the following expression:-

$$(2)\quad \text{Inefficiency of ALMP} = (L + D) / G$$

In expression (2), a ratio that is equal to 1 shows that the sum of both displacement and deadweight loss effects is equal to the gross jobs created by the ALMP. This implies that the number of jobs created by ALMP would have originally been created as well in its absence. Conversely, the smaller the result, the more efficient the ALMP.

In figure 3, deadweight and displacement effects translate into a leftward shift of the employment schedule from 'equilibrium 1' to 'equilibrium 3' triggering a reduction in both regular employment and the real wage rate. Hence, the original drop in open unemployment (see section 3.1) emanating from ALMP is to an extent countered by deadweight and displacement effects on unemployment.

3.3.4 Crowding-Out Effects

One of the predominant roles of ALMP is to minimise welfare losses of unemployment[21]. Consequently, welfare gains accruing to ALMP participants as opposed to the openly unemployed exert insider pressure for higher wages. As cited by Calmfors (1994), this process is in line with the union wage-bargaining models where it is inferred that unions give priority to wage increases of employed persons at the expense of welfare losses incurred by laid off persons.

[20] Displacement effects are discussed at length by Dr. Simon Chapple in 'Displacement effects of active labour market policy, 1999'.

[21] ALMP schemes can reduce welfare loss of the unemployed by offering higher compensation than unemployment benefits. Another factor that could reduce welfare losses relies in the fact that a programme can reduce the risk of future unemployment or increase the probability of favourable wage developments.

The same process is at place in the case of efficiency-wage models where higher wages are paid by employers to elicit productivity from the part of the employees to the detriment of those made redundant. Furthermore, it has been shown that higher remuneration locks in ideal candidates at times when welfare losses of people without regular work increase due to the activation of ALMP[22].

Eventually, insider pressure on wages leads to the crowding-out effect of ALMP[23]. An original drop in the openly unemployed originating from ALMP (see section 3.1) is countered by an upward shift in the wage setting schedule (from 'equilibrium 1' to 'equilibrium 4') in figure 3. In the end, this triggers a lower rate of regular employment (from X to U) and an increase in the wage rate (from W1 to W3).

3.3.5 Influence of Competition on Insiders

ALMP target groups involve both outsiders (long-term unemployed) as well as insiders (short-term unemployed). In part, the redeployment of the short-term unemployed into the labour market minimises the risk of long-term unemployment (see Calmfors& Land, 1993). Yet, when the target group is composed of outsiders, it is inferred that ALMP elicits more positive results upon the labour force participation. Moreover, when addressing outsiders ALMP triggers a downward pressure on wages due to extensive competition between insiders and outsiders.

This outcome has been confirmed by Layard (1986, 1989, 1990), Layard et al. (1991) and Calmfors & Land (1993). This effect is based on the hypothesis that insiders (e.g. employed and short-term unemployed) prevail in the determination of the market wage[24]. However, an increase in the competitiveness emanating from outsiders reduces the wage bargaining power of insiders. Consequently, the wage-setting schedule shifts downwards implying a higher rate of regular employment (from X to T) at the expense of a lower real wage rate (W1 to W2) i.e. a movement from 'equilibrium 1' to 'equilibrium 5'.

3.3.6 Work-test Effects

Another role of ALMP is to monitor entitlement to benefit schemes. Indeed, a mandatory participation in labour market programmes exposes the real interests of benefit recipients. As highlighted by OECD (1991) and Grubb (1993), abusive recipients of unemployment benefits tend to forego unemployment benefits rather than participate in employment programmes.

3.3.7 Productivity Effects

As implied by the array of research papers on employment and productivity[25], it transpires that unemployment has negative implications on productivity. This occurs as the unemployed are no longer trained. The deterioration of human capital and the negative repercussions on productivity

[22] See for instance Shapiro and Stiglitz (1984), Johnson & Layard (1986).
[23] See for instance Calmfors & Forslund, (1990, 1991), Calmfors & Nymoen, (1990), Holmlund (1990).
[24] See for instance Gottfries& Horn, (1987)
[25] See Phelps, 1972.

become more pronounced when unemployment is of a long-term nature (see for example Pissarides, 1990). On these lines, another function of ALMP is to enhance or preserve productivity levels amongst the unemployed.

Job participation schemes are specific types of ALMP that endorse the development of training and skills amongst the unemployed. From a theoretical perspective, an increase in the marginal productivity acquired from job participation schemes translates into a rightward shift of the employment schedule in Figure 3. As a result, the labour market equilibrium shifts from 'equilibrium 1' to 'equilibrium 6' eventually increasing regular employment from 'X' to 'T'. Yet, in practice, the outcome of enhanced labour productivity on regular employment is vague. All in all, the outcome of productivity effects on regular employment depends on the business strategy adopted by the enterprise. Indeed, in reaction to a more productive labour force and lower productivity costs, a firm may decide to expand its operations and employ more persons (the scale effect). Nevertheless, an increase in the productivity of labour may instigate a firm to trim down demand for labour as it is now in a position to produce the same output as before with relatively less human resources (the substitution effect). In reality, the scale effect becomes more pronounced than the substitution effect when the labour demand curve is elastic.

The same ambiguity arises in respect to the responsiveness of wages to productivity gains or losses. Empirical research on the relationship between wages and productivity is ambiguous. As highlighted by some of the research[26], the high unemployment rate registered across OECD countries in the seventies was related to the rigidity of downward wage adjustments in response to the shortfall in productivity. However, in a second strand of research, it is highlighted that the missing trend in the unemployment rate is clear indication that wage adjustments reflect productivity gains/losses[27].

When the responsiveness of wages to productivity is flexible, productivity gains or losses are not reflected through employment. In such cases, the employment schedule shifts to the right whilst the wage adjustment function shifts to the left, leaving unemployment unaltered. As a consequence there is a shift in the market equilibrium from 'equilibrium 1' to 'equilibrium 7'. Employment-wise, the increase in productivity does not cause any effect[28]. However, higher wages reflect higher levels of productivity.

When wages are not flexible, an increase in productivity shifts both the employment schedule as well as the wage-setting schedules to the right, leaving the wage rates unchanged (W1). Yet, the rate of regular employment in this case would increase from 'X' to 'Y'. Equilibrium in this case would shift from 'equilibrium 1' to 'equilibrium 2'.

3.3.8 Tax Effects

ALMP measures have an indirect impact on taxation as well. In turn taxes can amplify or counter the employment effects of ALMP measures. At this point, a clear distinction must be made between the

[26] Grubb et al., 1982, 1983; Bruno & Sachs, 1985; Sachs, 1987.
[27] Bean et al.,1986; Blanchard & Summers, 1986; Bean, 1992.
[28] If the labour market were to react in this manner, then the role of ALMPs as a source to increase employment would fail. Yet, it would be a mistake to overlook other positive externalities of productivity-enhancing ALMPs. Indeed, such ALMPs serve to increase aggregate output of an economy through productivity gains whilst at the same time reduce open unemployment.

real wage of an employee[29] and the real product wage payable by the employer[30]. An original increase in regular employment arising from ALMP schemes translates into a larger tax base. Moreover, more employment should reduce the extent of resources absorbed from unemployment benefits and labour programmes. Consequently, ALMP should reduce taxes and in turn increase the real wage of employees and reduce the real product wage payable by employers.

In figure 3, it follows that lower taxes arising from higher employment reduce the real product wage (cost of employment) payable by an employer. Accordingly, the employment schedule shifts to the right from 'equilibrium 1' to 'equilibrium 6'. By substituting the vertical axis in figure 3 with the real consumption wage it follows that a downward revision of the tax rate - due to higher employment from ALMP schemes - triggers an upward shift of the wage-setting schedule. This occurs as the real consumption wage is now higher at the same regular employment rate. Consequently, a new equilibrium is established from 'equilibrium 6' to 'equilibrium 7' where the rate of regular employment drops.

In turn, the partial drop in regular employment (from T to somewhere between X and T)[31]triggers an increase in unemployment benefits and programmes which in turn reduce the tax base once again. Therefore, it stands out that an increase in employment originating from ALMP triggers a drop in the tax rates in the first round which is partly countered by an increase in the tax rates in the second round. Moreover, expansionary effects of ALMP on employment are in part countered in the second round of a tax effect.

3.3.9 Training Effects

Apart from the activation of the inactive population, ALMP promotes the development of skills of the current labour force as well. In line with Katz (1993), ALMP associated with training reduces the redundancy rate of workers operating across low-productive sectors. The redeployment mechanism of human resources from the unskilled to the skilled sectors is portrayed in figure 4.

[29]This is the after-tax real wage receivable by an employee.
[30]This is the real wage cost (including payroll taxes) payable by an employer.
[31]Depends on the extent of the shift in the wage-adjustment function.

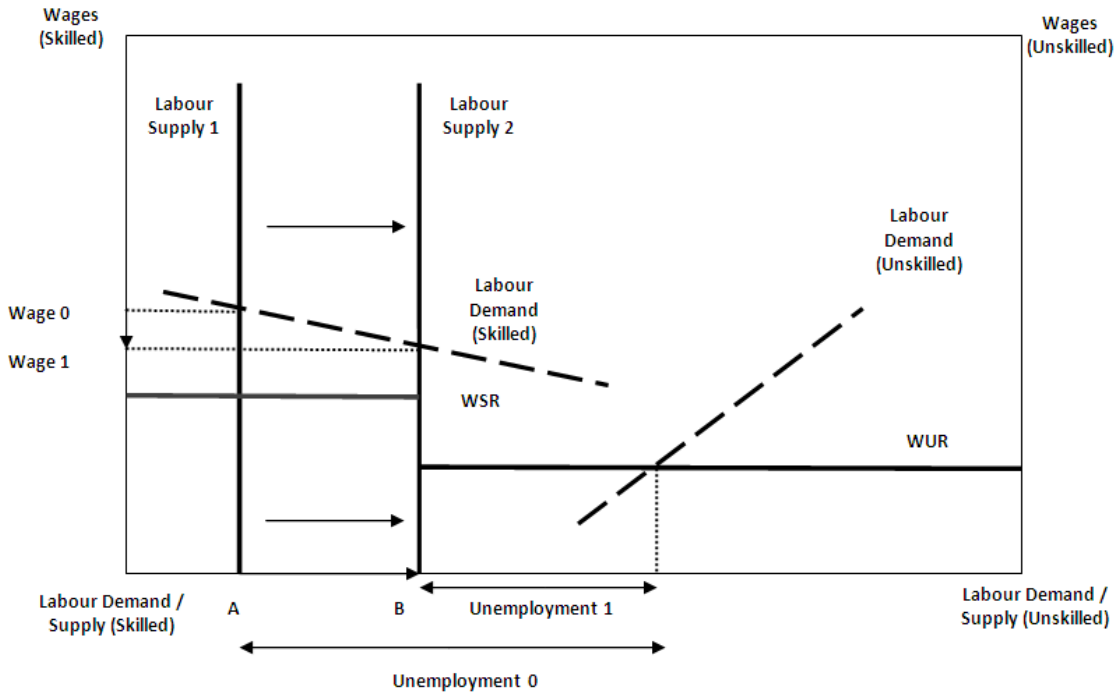


Figure 4: Development of Unskilled Labour Force

As shown above, the horizontal schedules WSR and WUR illustrate the reservation wages for skilled and unskilled labour respectively. In simple terms, the reservation wage is the remuneration that just covers the opportunity cost of foregone leisure time. In other words, the reservation wage represents the minimum wage level required to motivate work. In line with this explanation, it follows that the reservation wage expressed by skilled individuals is relatively higher than that for unskilled workers. Indeed, skilled workers demand a higher wage premium in compensation for a higher quality of human capital. In figure 4, the demand schedule for skilled workers is more elastic relative to that for the unskilled as labour demand for the former group is stronger than that for the latter. When referring to the supply curve, a perfectly horizontal curve represents the supply of labour inclusive of the unemployed willing to work whilst a perfectly vertical supply curve reflects a situation of full employment.

As shown in figure 4, training programmes can reduce the unemployment rate of unskilled persons by shifting more workers up-market. Eventually, the unskilled unemployed fill in the empty vacancies left unfilled by previously unskilled (now skilled) workers. Thanks to the implementation of training programmes, more workers join the market for skilled labour and subsequently the supply curve shifts from supply curve 1 to supply curve 2 to the right. In turn, the shift triggers a rise in the total number of persons in employment whilst both the number of unemployed and the unemployment rate drop (from unemployment 0 to unemployment 1). In addition, the resulting economic benefits are not exclusively confined to employment but further boost economic output, lower wage inflationary pressures, higher competitiveness and lower income inequality.

It must be highlighted that an increased supply of skilled workers in an economy is conducive with more high-end products in the value chain which in turn is expected to render higher profit margins and more investment.

As shown in figure 4, the influx of additional skilled workers shifts the supply curve to the right, thus exerting downward pressure on wages. Lower wage inflationary pressures are a must to the enhancement of a country's competitiveness in the international market. Another positive outcome emanating from an increase in the skilled labour force is the containment of income inequality. Thanks to the drop in the surplus of redundant unskilled workers as described before, the wage rate pertaining to the unskilled tends to be more stable as there is less room for wage abuses arising from the glut of the market.

3.3.10 Conclusion

From this section, it can be concluded that although the original intention of ALMP is to improve the labour market situation, this may not always be the case. Indeed, economic theory conveys that there are external factors at play. Moreover, it has been shown that although some of the indirect effects of ALMP can enhance the overall effect on the labour market, other factors can work against the development of the labour market. Hence, it transpires that a pragmatic evaluation of ALMP should take into account all effects of ALMP on the labour market.

The next section takes into account different case-studies pertaining to several Member States, referring to their corresponding failures and successes of ALMP measures. This shall provide an insight on the appropriateness of specific ALMP to the context of the Maltese labour market.

Case-Studies of ALMP

4.1 Denmark

In 1993, Denmark engaged the first step to overhaul its labour market policy. In the early 90s, "*the unemployment rate reached 10 per cent, and the fraction of the age group 15-66 receiving public transfers increased from about 10 per cent in 1970 to 30 per cent two decades later",* (Andersen and Svarer, 2007). The re-election of a minority Social democratic government in 1993 brought about a fair balance between duties and rights of citizens (Jensen, 1999).

4.1.1 Reform

In Denmark, the transition from passive to more active benefits was gradual. Both a lack of skilled labour and the changing structure of the economy imposed the necessity of a new socio-economic policy. Despite sound macroeconomic policies – the commitment to a fixed exchange rate policy and reigning in the deficit – the economy struggled with a staggering structural unemployment rate of 8-9 per cent. At that point, it was evident that this was a supply-side issue as despite high rates of unemployment, wages increased at 9 per cent for a year or two (Andersen and Svarer, 2007).

To this end, government came up with a series of reforms to boost the employment rate. The major measures were: i) the shortening of the benefit period, ii) eligibility for benefits could no longer be re-gained by participation in activation measures (an end to the carousel effect), and iii) an implementation of activation measures both in the unemployment insurance scheme and in the social assistance scheme (Andersen and Svarer, 2007). This radical change however did not lower benefits; it simply implied a much more aggressive attempt in getting people back into the labour market (Torfing, 1999).

Under this reform, unemployment benefits could last no more than 7 years. Eventually this was further reduced to four and a half years. During the first year, an activation programme sets in where the individual is enrolled in a subsidised job with the private sector, or is enrolled in public sector job related to the environment, culture or day care. Job creation in the public sector, however, was applicable to a limited extent. In addition to the efforts made by Danish authorities, special attention was given to persons below 25 years of age and without any basic level of education. Such individuals who have been unemployed for more than 6 months were required to undergo an 18 month education programme (Jensen, 1999).

4.1.2 Education and Training

Unlike other countries, in Denmark, there is a long tradition for public labour market education and training. This situation arises because of the relative small size of this Scandinavian economy. The predominance of small and medium size firms and the high level of job-mobility are noteworthy (Madsen, 1999). "*On average 25-35 per cent of the Danish workforce change their jobs each year, equating to circa 800,000 of all wage earners. The average job duration is eight years, which is among the lowest in the OECD countries. Research shows that mobility exists in both low and high-status jobs. A global view of the Danish labour market indicates that regardless of the type of employee, industry sector or size of enterprise, overall mobility in the Danish labour market is high*", (Hendeliowitz, 2008).

In this environment firms have lower incentives and lack resources for extensive training of employees. Consequently, this "market failure" led towards a public provision of labour market training and education to upgrade both vocational and personal skills of the workforce. Thus the Danish education and training policy is not limited to the unemployed but caters for individuals who are employed as well. This is evident from the fact that the unemployed constitute about a quarter of participants in public labour market education and training (Madsen, 1999).

A new education and life-long learning system was introduced in 2000. The goal of this reform was to guarantee access to education opportunities across all tiers of society. Government delivered education and skills development to low-productive individuals whereas the private sector was responsible to educate and develop the skills of more educated tiers (Plougmann and Madsen, 2002). As corroborated by Madsen (1999), in line with the Danish tradition for close involvement of the social partners in the formation of labour market policy, this reform was spearheaded by the social partners themselves. To implement this strategy, the social partners' committee was initially entitled to a yearly transfer of €383 million from the government (Plougmann and Madsen, 2002).

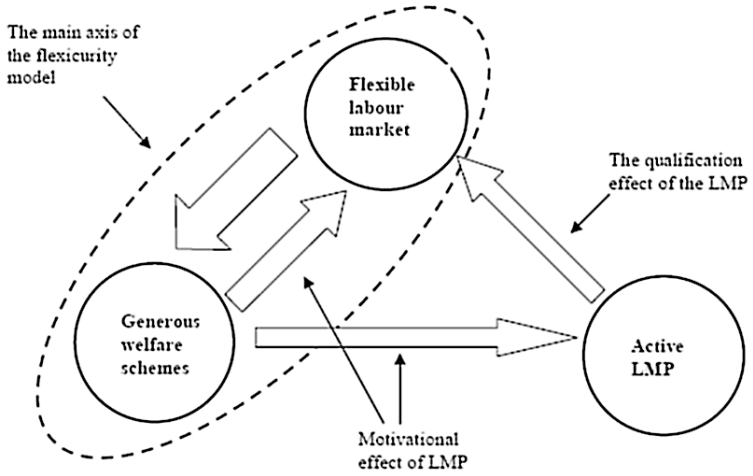
4.1.3 The Flexicurity Model

The flexicurity concept was established in Denmark. A couple of years ago this labour market concept found its way in the European Commission's employment strategy diction. Influenced by the Danish labour market experience, the European Commission encourages other Member States to analyse and embrace the model to boost employment rates.

Despite its recent connotation, Andersen and Svarer (2007), express that the flexicurity concept is a misnomer. The 'flexibility' and 'security' elements of the Danish labour market had already been in place since the 1970s. Labour laws were already the most flexible in the continent. Moreover, by OECD standards, benefit generosity was and still is one of the most generous. Nevertheless, Denmark still witnessed double digit unemployment rates during the 1980s. During this period, Denmark's labour market experience was similar to that of other continental economies. In part, this implies that lax labour market rules are no guarantee of low unemployment rates.

Indeed, Denmark's unemployment rate contracted through ALMP. In a country where 20 per cent of the workforce experiences unemployment on an annual basis (Hendeliowitz, 2008), it is essential to continuously enhance the skills of workforce. The flexibility to adapt and the security to find a job

are guaranteed by a multitude of activation policies. In addition to this and contrary to the situation in other Member States, jobseekers are supported by very generous welfare benefits. The efficacy of their active labour market policy stems from strict and well planned sanctions that prevent the benefit trap.



The diagram above shows how the Danish flexicurity model is applied. As indicated, the integration of flexicurity and ALMP embraces a holistic policy that addresses the development of the labour market.

4.1.4 Overall Evaluation

Denmark is one of the few European countries where evaluations are not so scarce. In part, this may be attributable to both a long tradition of ALMP as well as due to the extensive amount of resources spent on such policies. Overall, Danish evaluations convey positive outcomes of ALMP. Using Kalman filtering to eliminate statistical disturbances and allow for external cyclical effects, Baadsgaard (2001), estimates that the Danish structural unemployment declined by circa 6 percentage points between 1994 and 2000. Christensen (2010), remarks how unemployment was drastically reduced from 12.4 per cent or almost 300,000 unemployed in the 90s to just 1.5 per cent or 44,000 individuals in the mid-2008.

Christensen (2010) finds that private-employment subsidies have positive effects on employment and earnings, much more than training or other forms of intervention. Nonetheless, he concludes his study by recognising that further research is required to disentangle economic inefficiencies such as substitution and displacement effects.

Blache (2011) obtains similar conclusions as Christensen's but gives more detailed results. According to his findings, the probability of an unemployed individual to retain a job after benefitting from the

private employment wage subsidisation policy rises from 26.0 per cent to 61.3 per cent. Furthermore the probability of remaining in the job for at least two years is 80.2 per cent.

The effectiveness of education and training activation methods ranks in second place. The probability of an individual getting a job after activation increases from 30.6 per cent to 39.5 per cent. If an individual successfully gets into a job, then there is a probability of 75.7 per cent that s/he will be still in employment after two years. Limited gains are registered for candidates participating in public sector jobs. The probability of finding a job after participation increased from 22.8 per cent to 30.7 per cent. This low success rate in part may be attributed to cream skimming[32]. It is only the hard-to-place that enrol in such programmes. Hence, it follows that success rates are inferior to individuals who own better skills.

Holm (2004) and Andersen and Svarer (2007), explain how more rigorous sanctions improve the take-up of work among jobseekers and reduce the unemployment spell. Holm (2004) estimates that the reform triggered a 10 per cent reduction in unemployment spells. Andersen and Svarer (2007) make reference to a number of studies carried out after the year 2000. It is conveyed that the more lax the unemployment insurance rules, the more likely it is for beneficiaries to continue on prolonging their current state.

Positive effects of ALMP on wages were also registered at the micro and macro level. Holm (2001) and Andersen and Svarer (2007), point out that real wages for ALMP participants improve in the long-run. More important than that, it transpires that real wage inflation slowed down as a result of ALMP. Mild wage inflation is desirable for economic stability and competitiveness.

4.2 Sweden

4.2.1 Overview

ALMP has been embedded into the labour market of Sweden since the early 1950s. Back then, ALMP was considered appropriate to achieve low inflation, full employment and stable wages. Two trade union economists, Gosta Rehn and Rudolf Meidner embraced retraining and other mobility enhancing schemes to shift workers from low-productive sectors to high-productive sectors.

In the 1960-1990 period, the orientation of ALMP shifted towards the elimination of all types of unemployment. As claimed by Meidner (1969), selective job programmes were engaged to address the remaining scattered pools of unemployment. Over time, ALMP became highly relevant to contain unemployment during recessions.

In the early 1990s, Sweden witnessed its worst recession in the post-war period. Between 1990 and 1994, regular employment dropped by 13 per cent. In such circumstances, placement services became top priority to counter the surge in open unemployment. ALMP was also embraced due to

[32]The selection of the most 'employable' unemployed.

its relevance to social-policy objectives, such as the provision of income support to unemployed persons.

4.2.2 Reform

During the 1990s, an extensive array of new programmes was engaged. The following is a non-exhaustive insight on some of the programmes that have been launched in Sweden.

In Sweden, labour market training was originally very similar to vocational training. Over time however, labour market training embraced more and more preparatory courses. More recently, training programmes involved computer activity centres and IT training programmes. Between 1980 and early 2000, training programme candidates were eligible for the renewal of unemployment insurance (UI) benefits. Eligibility to UI benefits was however cancelled later on due to the Swedish reform to the UI system.

In 1981, subsidised employment schemes were provided in the form of relief job programmes. These programmes consisted of temporary job placements (around 6 months) in the public sector and to a lower extent in the private sector. During the 1990s, relief jobs were replaced by work experience schemes where participants were placed into jobs that would not have existed in the absence of this scheme. In turn, this eliminates the crowding effect of relief jobs. In 1998 recruitment subsidies were replaced by employment subsidies. The major difference between both programmes is that the new programme caters for the long-term unemployed by a larger extent. The self-employment grant scheme is another form of subsidised employment scheme that encourages unemployed persons to start their own businesses. In turn, participants are entitled to an unemployment benefit for up to six months. Entrepreneurial training is also available for interested participants.

In 1991, Trainee replacement schemes were launched. In this particular scheme, unemployed persons temporarily replaced employed persons on leave for education. This programme provides a win-win situation for both parties (firm and the unemployed). The goal of this particular scheme is twofold as it promotes higher qualification of employees whilst at the same time provides temporary job placements.

Work practice programmes embrace a dual activity of work and training. Participants are eligible to a transfer that is equivalent to their level of UI benefit. Other programmes targeted toward youth (youth teams, schooling-in slots, youth practice, municipality youth programmes, youth guarantee) are part of this programme. Practice programmes have also been engaged to address other categories of society – immigrants and unemployed school graduates. Gradually, most practice programmes have been replaced by a broad work placement programme.

In 1997, the concept of resource jobs was introduced in Sweden. The programme subsidises employers to employ redundant workers on a temporary basis. With a wage rate capped at 90 per cent of the previous wage, employees are provided with training and work experience.

A new kind of programme – Activity Guarantee – was launched in 2000. This particular scheme caters for both redundant subjects taking part in Public Employment Services (PES) at risk of long-term unemployed as well as unemployed persons with expiring UI benefit eligibility. Participation in

this particular scheme must be on a full time basis. In this scheme, participants are entitled to a transfer equivalent to UI benefits. In this scheme, participants are required to search for a job, participate regularly in a labour market programme or attend some form of training programme. In cases when a participant: finds a regular job that lasts for at least six months, participates in regular education or leaves the labour force, he may leave the guarantee.

In February 2001, Sweden launched a series of reforms to the original UI system. Participants in labour market programmes for instance are no longer entitled to a renewed UI benefit. In cases where an unemployed person does not find a job during the 14 months of UI benefit, the PES officer decides whether the unemployed person should be transferred to the activity guarantee or not. If an unemployed person has good chances of finding a job, then he becomes automatically eligible to another period (14 months) of UI benefits. Following two successive periods of UI benefit entitlement, an unemployed person is transferred to the activity guarantee.

In 2005, a Sabbatical Year system was engaged where employees are granted the opportunity to take a break or start their own business or education. Concurrently, unemployed individuals are granted the opportunity to act as substitutes in the labour market.

4.2.3 Recent Reforms to ALMP in Sweden

After the 2006 general elections, a number of labour market policy reforms have been engaged. The most essential revisions entail the unemployment insurance programme. Firstly, benefit replacement rates have been lowered from 80 per cent to 70 per cent following the first 200 days of unemployment. Secondly, the cap on daily benefits which was higher during the first 100 days has now been removed such that the daily benefit remains constant throughout the period of unemployment. Moreover, the possibility of UI entitlement for more than one period (14 months) has been abolished. Previously, the entitlement period to UI or compensation did not take into account the time spend in programme participation. This is no longer the case as a maximum length of 14 months is granted irrespective of one's participation in programmes or not.

Another reform embraced a shift from 'activity guarantee' to 'job and development guarantee'. Recipients are now entitled to 65 per cent of the UI benefit. When entitlement to UI benefits expires (after 14 months), candidates are required to enter into the job and development guarantee at once.

Employment subsidy programmes have now been replaced by the "New-start jobs" programme. Employers are granted a tax subsidy of 33.42 per cent on payroll tax to hire eligible workers. This particular scheme caters for individuals on long-term unemployment, sickness absence or unemployed workers entitled to social assistance. The granted subsidy is in line with the time spent in unemployment by a participant.

Some adjustments have been directed towards youth programmes as well. Firstly, the Swedish community has halved the payroll taxes for all young workers below the age of 25. Secondly, the new programme *Job Guarantee for Youth* is administered by the National Labour Market Board rather than municipalities as was the case in the past.

4.2.4 Overall Evaluation

Policy evaluations in Sweden have become more pronounced between the late 1990s and early 2000s. Most of the evaluation studies take into account, before, during and after recession periods. Moreover, evaluations compare different ALMP measures and their corresponding outcomes on employment. Unlike other countries, datasets of employed, unemployed and ALMP participants are available in the case of Sweden. However, evaluation literature is not yet available for the recent reforms engaged in 2006. Thus, the following literature relates to more dated ALMP programmes.

Labour market training has been evaluated by various authors. Calmfors et al. (2002) for instance, convey positive effects of training on earnings and employability. This effect is also reported by Andren and Gustafson (2002) during the period 1984-1985. Regner (2002), however reports that training programmes had no positive effects during the period of the Great Depression (early 1990s). Thus, it seems that the basket of training measures that were effective in low-unemployment periods (1980s) were no longer successful when applied during periods of high-redundancies (1990s). In part this can be attributed to the fact that during times of high unemployment the administration of extensive large-scale programmes may have prevented the efficient management of resources.

The research by Richardson and Van den Berg (2001) documents a significant effect of vocational training on the transition rate from unemployment to employment. However, this effect diminishes as time goes by. When taking into account from the beginning of the programme, the resulting impact is zero implying a strong element of lock-in effects during participation. In his research, Larsson (2002) addresses the impact of youth training programmes on employment and earnings for the cohort 20 to 24. It transpires that labour market training has negative short-term (1 year after programme starts) effects on earnings and employability of youths. In the long-term (2 years and more) this effect becomes insignificant.

With reference to job creation programmes, Calmfors et al. (2002) report positive returns on schemes that are closer to regular employment relation such as recruitment subsidies or self-employment grants. Yet, positive employment effects of job creation programmes are in part countered by crowding-out effects of participants.

In the 1990's relief job schemes were no longer popular in Sweden. Korpi (1994) finds positive effects of relief jobs on the duration of employment of youth in the 1980's. Other studies have compared this particular scheme with others. Sianesi (2002) conveys that recruitment subsidies and trainee replacement schemes produce better results as opposed to relief jobs.

Most of the literature on the evaluation of ALMP in Sweden compares the effectiveness of different programmes. Yet, it disregards the treatment effect of ALMP on participants as opposed to non-participants. Overall, evaluation literature shows that recruitment subsidies, trainee replacement schemes and work placement schemes are preferred to relief jobs. Moreover, it is conveyed that programmes that promote subsidised work experiences provided by private firms are more effective than education.

4.3 Netherlands

4.3.1 Overview

Over a span of thirty years (1970-2000) the Dutch population grew by 3 million, from 13 million to 16 million inhabitants. With an increase in the population, the structure of the Dutch demography shifted as well. The share of individuals between the age of 15 and 64 increased from 62.6 per cent in 1970 to 67.8 per cent in 2000. During the 1970s and early 1980s there was a rampant increase in benefit recipients from 14 per cent to 37 per cent. In the 1990s active labour market policies were introduced in order to counter the surge in benefit recipients and low economic growth.

Up to 2009, labour market participation in the Netherlands increased thanks to the economic success as well as the availability of more flexible schemes for working parents. Moreover, unemployment rates dropped substantially, especially for women and elder workers. In general, long-term unemployment rates dropped during the period under review with the exception of the age groups 55 to 59 and 60 to 64.

During the financial crisis, the Dutch labour market performed relatively well thanks to the combination of labour market deregulation, flexibility, more students staying in education as well as the impact of government intervention. Indeed, the Dutch economy incurred a negligible increase in unemployment of 1 per cent in 2009 – one of the lowest rates in Europe.

4.3.2 Flexicurity

The concept of flexicurity was introduced in the Netherlands by the father of flexicurity thinking in Europe, Ton Wilthagen. The Flexibility and Security act of 1999 ("Flexwet") was engaged to encourage both flexibility and security in the Dutch labour market. In case of the Netherlands, social partners are a crucial part of the policy-making procedure. The Dutch government describes the concept of flexicurity as an investment in employability that shifts from "job security" to "work security" through more training and "work to work" approaches.

4.3.3 From Passive to Active Social Security Systems

Over time, the social security system of the Dutch became too expensive due to a high extent of individuals relying on passive income benefit schemes like the unemployment (WW) or disability insurance (WAO). Consequently, there have been a number of significant reforms and changes over the past twenty years. For instance, the replacement of the WAO by the "Work and Income Policy" led to tighter eligibility criteria and lower entitlement periods for benefits. Unemployment rules were revised as well as the maximum duration for benefits was lowered.

4.3.4 Active Labour Market Policy

One of the first active labour market policies in the Netherlands was in the form of counselling and monitoring of the unemployed. In the 1980s this particular ALMP was adopted ad hoc by the public insurance administration. In the 1990s this particular policy became standard practice.

Sanctions in the Netherlands come into practice when a particular individual registers insufficient job search effort, superfluous loss of a job, fraud or lack of interest to participate in training or school programmes. Usually, sanctions involve a temporary benefit reduction. Sanctioned individuals automatically qualify for much stricter monitoring processes. The duration of a sanction and the size of the reduction to one's benefit depend on the reason behind the initial warning. Whilst sanctions on unemployment insurance recipients exist since 1987, sanctions on welfare recipients were not imposed before 1992.

In order to qualify for a particular benefit programme, an individual undergoes a screening process. In cases when an individual loses a job unnecessarily, he/she receives a reduced benefit level during the first months. The screening process determines the eligibility for disability insurance depending on the medical condition of a person. The extent of a disability is linked with the potential earnings that are foregone due to the disability itself. However, disability insurance agencies also take into consideration whether enough efforts have been dedicated from the part of the employer and the disabled person in getting the worker back to work. Welfare benefits are means-tested with respect to a household's eligibility for other programmes and the income and wealth levels of the applicant and the other household members.

In the Netherlands an estimated 5 billion Euros was spent on ALMP in 2001. The Ministry of Social Affairs and Employment launched an exercise intended to provide guidance to the long-term unemployed (over 12 months). The same exercise was implemented for the youth generation as well. However, in the case of youth unemployed, guidance was provided just after a 6-month period of unemployment. Guidance services were in the form of job search services, language courses, training and work experience programmes. Depending on the priorities of each candidate, the relevant services were applied. When unemployment occurs, recipients of unemployment insurance benefits and welfare recipients are subdivided into four distinct categories.

i) Type I – Own adequate skills to find a job.

ii) Type II and III – Require basic assistance – training and schooling.

iii) Type IV – Most of the candidates are not required to search for a job.

Two organisations were originally responsible for individual programmes, namely, the nationwide public insurance administration for unemployment and disability insurances and the municipalities for welfare. Over time, there was a gradual shift from public provision of ALMPs towards a private provision. Hence, public entities subcontract ALMP services to the private sector. The disadvantage of a private provision of employment services arises from the fact that competition puts pressure on prices. In turn this could lead to inefficient employment services unless some form of evaluation is

taken on board. Another disadvantage of private employment services is the extent of cream-skimming.

Gerards et al. (2010), show that a purely private employment programme without cream-skimming is more effective at re-integrating the unemployed as opposed to a public provision of the service. Cream-skimming is avoided if the selection process is carefully set up to take into consideration those who actually need treatment.

Other ALMP measures include the introduction of day care centres for children to attract more females into the labour market. Policies engaged towards elder workers focus on the elimination of financial disincentives such as early retirement schemes. Additional schemes include the re-introduction of a measure that requires elder unemployed to apply for jobs and a shorter entitlement period to unemployment benefits (from five to three years and two months).

Other activation initiatives include private and public incentive schemes. As part of a scheme to make work pay, an employed individual in the Netherlands is eligible to an earned income tax credit of EUR 1,200 up to the age of 57. Elder workers are entitled to a higher earned income tax credit. Moreover, individuals with children are entitled to a maximum rate of earned income tax credit.

As part of on-going reforms, private and public employment programmes for low income workers (SPAK) were abolished after 2003. Subsidization programme schemes involved a lump-sum transfer to employers in the form of tax deductions. This programme covered workers that earned 115 per cent of the minimum wage rate at that time. From 2004 onwards, employers were no longer entitled for subsidies for employing long-term unemployed low-skilled individuals.

4.3.5 Overall Evaluation

In the Netherlands, many important programmes have never been assessed at all. Moreover, a private provision of distinct employment services makes it difficult to distinguish between particular programmes. Hence, due to the private nature of employment services, there is limited public knowledge on the effectiveness of programmes. What follows is an evaluation of some of the various ALMP measures adopted in the Netherlands. This analysis shall not be considered as exhaustive.

Gorter and Kalb (1996) infer that there is an uncertain and to an extent insignificant effect on the job finding hazard of individuals who originally held a permanent contract type of employment. Conversely, the same research conveys that a negative job finding hazard is at place for individuals who previously held a temporary type of contract. This anomaly arises as the programme aims to provide workers with a permanent contract job. Thus, it is much more difficult for individuals who were previously in temporary employment to find permanent employment. Moreover, it has been shown that counselling and monitoring increase the rate of job applications.

In a separate exercise to determine the effectiveness of counselling and monitoring services, Van den Berg and Van der Klaauw (2006) show a very small and negligible positive effect on the probability of finding a job.

The research of Abbring et al. (2005) addresses the effectiveness of sanctions on unemployment insurance recipients. The research infers that the effect of imposing sanctions increases employment prospects of workers. Moreover, it is shown that the transition rate from unemployment to employment is somewhat faster. In another research, Van den Berg et al. (2004) analyse the effects of sanctions on welfare recipients. It is shown that sanctions have a positive effect on the transition from welfare to work. Indeed, it has been evaluated that sanctions raise the exit rate to work by 140 per cent.

De Jong, Lindeboom and Van der Klaauw (2005) show that stricter screening of disability applicants reduces the number of disability insurance applications. Moreover, it is conveyed that through tighter screening processes, fewer workers report for sickness absenteeism. On a positive note, the drop in disability insurance applications did not increase the inflow of unemployment insurance beneficiaries.

Evaluation exercises show that counselling and monitoring services have not been so successful in the case study of the Netherlands. Conversely, it is inferred that sanctions are a powerful policy measure to hinder abuse and minimize unemployment. Lastly, it is proven that screening processes tend to reduce moral hazards associated with disability insurance programmes and welfare programmes.

4.4 Germany

4.4.1 Overview

Ironically, Germany, today's European powerhouse was dubbed as the 'Sick man of Europe' a decade ago. In 2005, the unemployment rate in Germany peaked at 11.3 per cent with more than 4.6 million jobseekers. This labour market slack was attributed to a sluggish period as between 1991 and 2003 the German economy grew by just 18 per cent. In contrast, the UK and the Netherlands grew by 35 and 34 per cent respectively (Jacobi & Kluve, 2006). The German economy was deteriorating rapidly as in just three years, between 2001 and 2004, the gainfully occupied population dropped by 3.1 per cent, amounting to 1.1 million workers less in employment.

According to Empter (2002), the poor performance of the German labour market was triggered by the following developments:

i) *"restrictive labour market regulation, especially protection against individual dismissals and restrictions on fixed-term contracts,*

ii) *a heavy burden of taxes and social insurance contributions on labour both on average and at the margin that renders – in particular – less productive jobs in the service sector too expensive for potential employers and reduces work incentives for low-skilled workers,*

iii) a partially inefficient and ineffective active labour market policy not giving priority to integration into regular employment through support tailored to the individual situation of the unemployed,

iv) a relatively low level of public investment in education, especially in the tertiary sector, and a significant deficit in job-related further training,

v) an underdeveloped infrastructure for child care inhibiting labour market participation of mother beyond part-time employment with rather few hours."

4.4.2 Hartz Reform

Taking advantage of a national scandal involving the federal employment office, the then Social-democratic Chancellor Gerhard Schroeder set in motion a commission to come up with recommendations intended to revamp the obsolete system. These recommendations eventually became known as the Hartz reforms, named after the commission's director Peter Hartz. The Hartz commission put forward a series of proposals to overcome most of the labour market shortcomings which were subsequently implemented between 2002 and 2005. The reforms were coalesced under the following three main headings:

i) "increasing effectiveness and efficiency of labour market services and policy measures,

ii) activating the unemployed and

iii) fostering employment demand by labour market deregulation."

(Jacobi & Kluve, 2006)

The following is a brief discussion on the course of actions taken to address the above-mentioned reforms. Some reference is also made to programme evaluations.

4.4.3 Increasing Effectiveness and Efficiency of Labour Market Services and Policy Measures

The scandal which triggered the reform concerned the PES. The PES was over-inflating the number of reported unemployed persons that were successfully being re-integrated into work which was not the case.

As part of the reform, PES agencies were allocated a set of quantitative goals. Moreover, the range of services offered by the jobcentres was extended. To increase service efficacy, the caseload per caseworker was reduced and every jobseeker was assigned a fixed caseworker over the whole term of the service (Jacobi & Kluve, 2006).

Another aspect of the reform was the introduction of quasi-markets in placement and training services. This part of the reform (similar to the one adopted in other Member States) was intended to enhance the quality of the service. Job seekers in return were allocated vouchers with which they could shop around for placement and training services. Placement agencies were entrusted to train jobseekers during periods of inactivity and thereafter had to provide a permanent placement to participants. Following a 6 weeks employment period, the placement agency received a lump sum fee for its services and a final payment followed as soon as 6 months elapsed from the first day of work. According to Bruttel (2005) however, the system was not so successful due to the limited number of PSAs. Moreover asymmetric information between provider and clients had a minor influence as well.

Enhancement of targeting measures according to the requirements of participants was engaged to improve the effectiveness and efficiency of labour market services. Clients were firstly profiled and thereafter categorised according to the type of activation measures required. In all, there are four categories:

i) 'market clients', with the highest chances of finding employment;

ii) 'clients for counselling and activation' requiring some job search help;

iii) 'clients for counselling and support' which require additional help and programme (training) participation;

iv) 'clients in need of supervision' which are the hardest-to-place.

The second and third categories benefit from active labour market programmes, while those falling under fourth category are transferred to public workfare schemes (the so called 1 Euro Jobs – which is paid over and above the unemployment benefit).

To maximise training gains, only the second and third categories of clients are eligible to training vouchers. The selection process is based on the probability of a client of finding a job. If the probability is 70 per cent or higher, then the individual qualifies for the voucher. Accordingly, PSAs have to obtain a minimum success rate of 70 per cent in order to attract more contracts. One problem with this approach is that the German labour market is non-homogenous. Hence, success rates vary between districts. As conveyed by Bruttel (2005), in the past, success rates varied from a high 75 per cent in a Bavarian district to a low 36 per cent in a North-Eastern district (Bruttel, 2005).

Last but not least, effectiveness and efficiency gains can only be traced if proper evaluation studies are carried out on programme initiatives. In fact, the Hartz reform was the major catalyst in embracing a change in German culture as regards evaluations. Indeed, evaluation studies enable policy makers to maximize the returns on resources based on past programme experiences.

4.4.4 Activating the unemployed

Rights and duties are at the core of the Hartz reform. Benefits are only disbursed on condition that a person is able to work 15 hours a week (Jacobi & Kluve, 2006). Only those who are not capable of working due to sickness, disability or have care responsibilities are eligible to receive means tested

benefits. Moreover, the reform addresses the issue of geographic immobility. If work is available in other cities, the jobseeker is obliged to move elsewhere otherwise his benefits are terminated.

To facilitate the transition of hard-to-place individuals into employment, the federal government offers subsidies to employers to compensate for the productivity losses. Similar schemes are also offered to firms that employ workers over 55 years of age. These firms are exempt from contributing to the unemployment security systems for these workers.

More generous in-work-benefits that make work pay were also addressed by the reform. Instead of revising high marginal taxes on people who leave benefits to take-up work, the reform introduced new forms of wage subsidies or modified existing ones. In case of workers above 50 years of age, they were encouraged to take-up jobs even though the pay was inferior to their previous job. To make it viable for these people to accept such offers, government pays a 'wage subsidy' amounting to 50 per cent of the difference between the old wage and new wage.

Other in-work-benefits include total or partial exemption from social security contributions for people who hold minijobs or midijobs. Minijob holders must earn below €400 per month and are totally exempt from social security. On the other hand midijob holders can earn between €401 and €800 per month. This tier pays social security contributions in a gradual way until full contributions becomes payable at a monthly wage of €800. Results by RWI et al. (2005) portray that within just a few months of the introduction of this particular reform the number of employees in minijobs and midijobs shot up by 1,800,000 and 125,000 respectively.

4.4.5 Fostering Employment Demand by Labour Market Deregulation

As part of the reform, labour market deregulation watered down existing restrictions. The Hartz reforms abolished restrictions on synchronisation, re-assignment, fixed-term contracts and the maximum duration of temporary employment. A new rule was introduced to ensure fair treatment for workers, where temporary agencies had to guarantee equal pay and equal treatment for temporary workers or else had to join a collective bargaining agreement with unions (Jacobi &Kluve, 2006).

The reform also reduced the age of fixed-term renewals without justification from the age of 58 to 52. Furthermore, exemptions from dismissal protection were raised to cover firms employing 10 workers or less; beforehand exemptions covered firms employing 5 workers or less.

4.4.6 Overall Evaluation

All in all, the Hartz reform has contributed to a better functioning of the German labour market. Many studies have been published since the launch of the reform. Fitzenberger and Speckesser (2005) concentrate on specific vocational training programmes, while Lechner et al. (2005) focus on different training courses and evaluate them according to duration. These studies portray short-run negative employment effects attributed to locking-in but eventually pay-off in the long-run. The same studies hint at both short-run and long-run positive effects on earnings. On the other hand,

Hujer, Thomsen and Zeiss (2004) find that the effects of short duration courses are insignificant in the long-term but the effects on employment of courses of long duration are negative.

Referring to a study by ZET, IAB and IAT (2005), Jacobi and Kluve (2006), report that private employment subsidies increase the probability of employment for individuals who were unemployed for not more than 6 months by 2 percentage points. This low probability arises because results were significantly positive only for East Germany, while for West Germany, statistics were insignificant. Results were more encouraging for actual beneficiaries of wage subsidies. It transpires that unemployed individuals who take-up wage-subsidised jobs have between 20 to 50 percentage points more probability to remain in employment compared to unemployed individuals who take-up non-subsidised jobs.

Results, as in other active labour market evaluations also depend on whether the assessment takes into consideration the short-run or long-run effects. Nevertheless, according to Eurostat data (2012a), since 2005 the Germany economy added a net of 3.1 million jobs or slightly more than half of all jobs created in the EU27. In addition unemployment declined by 2.1 million persons over a six year period and reached the 2.5 million mark in 2011.

4.5 United Kingdom

4.5.1 Overview

In 1979, the election of the Conservative government of Ms. Margaret Thatcher embraced the political philosophy to reduce intervention of the state. Under the administration of Ms. Thatcher, reforms addressed the rigidity of the labour market. Indeed, market liberalisation and tax reductions translated into a growth of 20 per cent till the beginning of the 90s. However, economic gains were made at the expense of high unemployment rates. "*Ominously the proportion of the long-term unemployed out of total unemployed doubled, rising from 20 per cent to 40 per cent",* (Beaudry, 2002). Non-adaptive individuals were made redundant, leading to a high demand for flexible skilled labour. Despite all social upheaval, the Tory government opposed pressures to act as an employer of last resort. It was only in 1996, when John Mayor introduced 'Project Work' - a short-lived scheme for the long-term unemployed that government accepted social responsibility of the unemployed (Barbier, 2000).

In 1997, the Conservatives, Labour and the Liberal Democrats, pledged in their manifestos for the introduction of a 'welfare-to-work' policy. The approach of this 'work first' policy was a hybrid of the American workfare system and the Swedish active labour market policy (Beaudry, 2002). As Labour was elected, employment figures stood at around a million gainfully occupied less than in 1990 (Labour Market Statistics, UK ONS). To reactivate the redundant, the Labour government launched the 'New Deal' – a reform inspired from the Temporary Assistance for Needy Families legislated under President Clinton.

4.5.2 New Deal

Initially, the New Deal programme consisted of four main areas, namely: i) New Deal for Young People (18-24), ii) New Deal for the Long-Term Unemployed, iii) New Deal for Lone Parents and iv) New Deal for the Disabled. The major effort was directed towards the first programme, the NDYP, as the government was committed to reduce youth unemployment. The latter two programmes were on a voluntary basis.

The New Deal for Young People was mandatory and applied to all those who have been on the Job Seeker's Allowance for more than six months. During the first four months – the initial stage (Gateway) – the individual is involved in a number of informal sessions with the personal advisor. After this stage, the 'Option Period' sets in. During this period, social benefits eligibility was validated if the individual was either in a subsidised job for a maximum of 6 months, or was full-time receiving some form of education or training which lasted for at least a year. These programmes were not intended to provide permanent employment and if the individual fails to secure a job, the 'Follow-trough' stage sets in where the adviser will continue to help the jobseeker find work.

A study published by the National Institute for Economic and Social Research shows that "*in less than two years the New Deal had reduced unemployment by some 45,000 and increased employment by 25,000 among those younger than 25 year of age",* (Layard, 2001). Due to the programme, in 2002, the economy and overall employment expanded by a modest 0.1 per cent each (Beaudry, 2002; Riley and Young, 2001). Circa 60 per cent of the amount spent to sustain the programme was recovered in benefit savings and tax receipts. When taking into account the extent of economic welfare generated, it transpires that aggregate benefits exceeded aggregate costs of the New Deal Programme.

The Lone Parents New Deal started on a positive note, yet the outcome deteriorated year after year. According to the House of Commons library as reported by the Wilson (2007), "out of the 55,000 lone parents who left the scheme in 2000, 60 per cent remained in work. In 2004, the share of those who remained in employment declined to 42 per cent and the figure dropped again in 2005 to 32 per cent. In 2006, only 26,020 or 21.6 per cent managed to stay in a job for more than 13 weeks."

4.5.3 Training

The British active labour market policy between 1997 and 2003 was geared towards the placement of individuals into work. The focus on training was more evident in the second wave of the active labour market policy (Johnson, 2004). In parallel with the New Deal, a 'Skills Strategy' was launched in 2003 because of labour and skills shortages. Employers were encouraged to identify and define future necessary skills and report them to the Jobcentre Plus. Meager (2009) points out that even though the training budget represents slightly less than half of active labour market policy expenditure, it is still less than 0.1 per cent of GDP. This is because ALMP expenditure in the UK is very limited since passive benefits guarantee mere subsistence living.

In a study on life-long learning and employer provided training, Van Elk and Gelderblom (2005) highlight two best practices of training originating from the UK. The first training programme is the 'Employer Training Pilots' (ETP). The ETP successfully encouraged employers to provide low-skilled

employees paid time off to take free training courses. It is the employers who decide which type of vocational or basic skills training courses their employees require. Moreover, training provision is work-based and demand-led. In this way, employers benefit from productivity improvements, whilst employees benefit from higher earnings as well. The second best practice is the 'University for Industry' (UfI). UfI is supported by government and provides employers with innovative learning opportunities. It helps people to acquire ICT skills and provides advice on 700,000 courses from external infrastructures.

4.5.4 Overall Evaluation

Although training promotes the enrichment of human capital, empirical evidence suggests that labour market private-employment subsidies are far more effective than training in placing a person into a stable job. These findings hold at least for people who have a basic level of education. "*Private subsidised employment is much more effective than full-time education and training, whereas the voluntary service and environmental work of the NDYP are roughly as effective as educational measures",* (Wolfgang, 2005). Wolfgang claims that except for 'work first policies', all other forms of activation have locking-in effects on participants. Moreover, he adds that 'work first schemes' are more effective for males than females. In a ministerial publication, the Department for Work and Pensions (2006) notes that thanks to New Deal, youth unemployment declined by 90 per cent over 1997. It also adds that thanks in part to New Deal, there were 2.3 million people more in employment in 2006 compared to 1997.

As training is concerned, Meager (2009) notes that "*evidence also suggests that it was the smaller scale schemes, targeted on particular disadvantaged groups, and/or particular skills and occupations which had the most impact, particularly where the training was customised to the specific needs of employers, rather than being general in nature, and where the training was delivered in conjunction with practical work experience."* Meager refers to the *Employment Training* (ET) programme for the long-term unemployed as one of the most successful schemes as training was linked to a work placement with a private sector employer.

While it is undisputable that more people entered into employment and unemployment caseloads declined, it emerges that expenditure on claimants of incapacity benefits shot up. The Economist (8th March, 2007), conveys how part of the drop in unemployment benefits simply shifted towards another part of the welfare system. Daguerre and Etherington (2009) concur, and point out that the Department of Work and Pensions is now being more rigid on such claims. Thus, in a nutshell, it transpires that once active labour market policies are introduced there should be tightening of loopholes elsewhere in the system as otherwise activation efforts would be less effective.

4.6 France

4.6.1 Overview

In the 1970s, unemployment in France, especially youth unemployment stood very high in contrast to other European countries. In reaction, the French administration launched a series of labour market reforms during the 1980s and 90s. In 1986, a broad emergency plan for the youth unemployed *(Plan d'urgence pour l'Emploi des Jeunes)* was launched to encourage the intervention of the private sector through the provision of training facilities. Joint training schemes both in terms of on-the-job training and classroom oriented training were embraced. Candidates in the age cohort of 16 to 25 qualified for this particular training programme.

In 2001, in line with the *'Plan d'aide au retour a l'emploi'* (PARE) a more generous benefit system was integrated whilst counselling services to the unemployed were intensified. Yet, as part of the activation process, the maximum duration of unemployment benefits was lowered.

4.6.2 Active Labour Market Policies

Since 1974, more than 50 ALMP measures have been integrated into the French labour market system. At present, only ten ALMPs are in place. Due to persistent youth unemployment rates, ALMPs in France are mostly targeted towards the younger generation.

4.6.2.1 Training

In France, training programmes involve a hybrid of part-time work in private firms and part-time training in public centres. With an average duration of two years, the apprenticeship caters for the age cohort between 16 and 25 years of age. Candidates with no diploma or formal education can obtain a national diploma during the course of the training programme. The apprentice is paid a fraction of the minimum wage during the course. At the end of the contract, the apprentice qualifies for a post under a fixed term labour contract.

The *'Contract de Qualification' (CQ)* is a fixed term contract lasting from 6 to 24 months which is very similar to the apprenticeship contract. Yet, this programme caters for unskilled or long-term unemployed adults. Participants are paid a fraction of the minimum wage. The pay depends on both age and job tenancy. As a reward for their collaboration, private firms are exempted from social security contributions and apprenticeship tax.

The *'Contract d'Adaptation'* is a fixed term contract spanning from 6 to 12 months aimed for skilled unemployed youths. Firms engaged in trade, industry and handcraft provide on-the-job training. The wage payable by the employer should at least be equivalent to the legal minimum wage. Employers are exempt from apprenticeship taxes but liable for social security contributions.

Programmes for insertion and training *'Action d'insertion et de formation, AIF'* provide training courses to facilitate social and professional integration of young individuals that are not in possession of a diploma or qualification. Over the years, the target group of this particular course has gradually shifted towards the long-term unemployed.

The *'Contrats Initiative Emploi'* is another training programme that targets the long-term unemployed, benefit recipients and elder employees.

The role of the *'Conversion de Convention'* is to improve labour market prospects and avoid long-term unemployment of displaced. The target group embraces individuals up to the age of 57 with a minimum tenancy of two years in their former jobs. Spanning over 6 months, this particular training programme grants a specific allowance amounting to 83 per cent of the former wage, which is reduced to 70 per cent over the remaining four month period.

4.6.2.2 Private Sector Schemes

The role of the private sector to ALMP is limited to apprenticeship. Firms that do not hold an apprenticeship contract are not exempt from apprenticeship tax. For some measures, firms with an apprenticeship contract are also exempt from social security contributions.

4.6.2.3 Public Sector Employment Schemes

The community job programme *'Contrat Emploi Solidarite''* is a public sector employment scheme catering for low-skilled youths aged 16 to 21, long-term unemployed in the age cohort of 22 to 25 and adults with low prospects to employment. Local administrations, public institutions and non-profit associations provide temporary (3 to 12 months), renewable (two to three times), part-time (20 hours a week) job placements. The legal hourly minimum wage is receivable by the corresponding recipients. Employers are exempt from social security contributions except for unemployment insurance contributions.

4.6.2.4 Employment Sanctions and Services

A one day 'skill assessment' exercise is held to assess the proficiency of candidates. This particular task was integrated as part of the reform in 2001. The project *'Bilan de competences approfondi'* is another skill assessment test that lasts 20 hours. This particular service applies wider circumstances of skill mismatches. In cases when a person intends to shift profession, he/she can resort to the *'Project Support'* programme. This particular programme lasts three months during which frequent meetings are organized between the participant and a personal advisor. On the same lines, the *'Job Search Support'* programme caters for individuals with higher skills. Lasting three months, this particular service provides personal assistance to unemployed persons.

4.6.3 Overall Evaluation

In line with the extensive engagement of ALMP to address the youth generation, most of the evaluation literature is related to this particular cohort.

Evaluation results are subdivided into three distinct time-frames. Evaluations pertaining to Bonnal, Fougere and Serandon (1997) focus on programmes that were embraced in the late 1980s. Cavaco, Fougere, and Pouget (2005) relate their analysis to programmes launched during the 1990's, whilst Brodaty, Crepon and Fougere (2002) take into account both periods under review.

Bonnal et al (1997) infer that training programmes had positive effects on the transition from unemployment to employment. Furthermore, research conveys that apprenticeship contracts and adaptation contracts are only beneficial to young men without a diploma. The argument holds for other training courses as well.

Brodaty et al. (2002) take into consideration two data-sets; one reflecting the period (1986-1988) and other relates to the period (1995–1998). Research shows that in the first period both short-term and long-term unemployed experienced higher rates of transition into the labour market. Yet, in the second period, programmes were less effective. This may be attributed to the fact that in the second period there was an influx of candidates.

Cavaco et al. (2005) evaluate the effect of retraining programmes for displaced workers. Research infers that participants in reintegration programmes have a higher probability of obtaining a permanent job. In fact, programme participants increased their probability of employment by 8 percentage points.

Bonnal et al. (1997) observe negative results on the transition rate to the labour market of young men with a technical school certificate. These results correspond to the target group of young men in property of a technical school certificate. No effects were recorded for young men without a diploma.

In terms of PES, Brodaty et al. (2002) recorded no effects for the first period under review (1986-1988). In the second period under consideration, research concludes that PES schemes have a negative influence on employability of participants. In their research, Crepon, Dejemeppe and Gurgand (2005) analyse the effects of counselling schemes. By analysing both the rate of transition from unemployment to employment as well as the time spent out employment, results convey positive returns in both instances. Schemes with no skills assessment exercise have some influence on both employment and duration of unemployment. Moreover, it is inferred that the highest returns arise from job-search support programmes. Lock-in effects have been recorded for project assessment and project support programmes.

In a separate analysis, Fougere, Pradel and Roger (2005) show evidence of a higher exit rate from unemployment due to frequent job contact arrivals by public employment services. This is especially true for low-educated and low-skilled workers.

As illustrated in the case of France, both training programmes and programmes for displaced workers translate into positive employment effects. Furthermore, it has been shown that job search activities have positive effects as well on the transition from unemployment to employment. On a

negative note, however, research shows that public employment schemes have had negative to no effects on employment.

4.7 Evaluation of ALMPs

In spite of the endorsement of various ALMP schemes amongst advanced economies, most of the published evaluation literature relates to the US and Canada (Martin, 2000). Nevertheless, concerned by the returns on investment in ALMP programmes, European countries have recently *(over the past 20 years)* started to carry out evaluation exercises. The results presented hereunder are at times contradicting. Inconsistent evaluation outcomes are a product of different target groups participating in a programme.

The deployment of ALMP programmes absorbs extensive resources that could have been utilised for alternative projects. That is why it is imperative to maximise the effectiveness and efficiency of such programmes. As a source of measure, the number of successful participants from a programme is commonly taken into account when addressing the feasibility of a particular programme. Success rates are measured with respect to job placements that last for eighteen months or more (Greve, 2006). What follows is an evaluation of different ALMP programmes based on different evaluation studies.

4.7.1 Distance to the labour market

Distance to the labour market varies from one participant to another. Simply put, distance to the labour market reflects the skills deficit of a particular individual when compared to the average level of skills in demand. Different target groups exhibit different extents of labour market distance. In part, this concept leads to different levels of success rates for a particular programme.

Some programmes with high success rates suffer from 'cream skimming' which is a process where employment agencies select participants with a high probability of job placement (Kluve, 2006).

4.7.2 Evaluation exercises

Evaluation studies of ALMP programmes can be segmented into two categories. The *''first type consists of studies that measure the impact of programme participation on individuals' employment and earnings after they have left the programme"* (Martin 2000). This outcome is benchmarked against a control group of non-participants. It is thus possible to identify the value added or effectiveness of a programme. *"This type of evaluation makes sense for those active programmes which attempt to make participants more productive and competitive in the open labour market",* (Martin, 2000). The second type of evaluation involves the study of programme efficiency, in terms of deadweight-loss, substitution and displacement effects. In short, these three economic concepts

quantify the amount of resources 'wasted' in creating opportunities that would have originally materialised even in the absence of the intervention (Martin, 2000).

4.7.3 Job-Search Assistance

Job-search assistance comprises many types of services ranging from profiling of job seekers, interviewing and counselling sessions during unemployment, job clubs and other services related to bridging the gap with the labour market (Martin, 2000). These services enhance the matching activity between demand and supply of labour services (Greve, 2006).

This particular labour market policy is deemed to be one of the most effective and efficient types of intervention as it typically has 'a massive impact for a relatively modest amount of money' (Greve, 2006). Several studies confirm this claim, including Dolton and O'Neill (2002), Cowling and Mitchell (2002), Corcoran (2002) and Kauppi (2004).

In his study Kluve (2006) refers to 73 studies on ALMP programmes from 17 different countries. The author claims that job search assistance also known as Public Employment Service (PES) is the most efficient policy in activating people. Out of 12 studies, 10 or 83 per cent show that job search improves the employability chances of jobseekers. Two studies convey a statistically insignificant outcome. However, none of the studies indicate that this measure worsens the chances of finding a job. Moreover, Kluve (2006) refers to sanctions and monitoring services. Again, out of 12 studies, two-thirds had a positive outcome whereas the rest were statistically insignificant. Like job searching, sanctions and monitoring had no negative impact on the chances to employability.

4.7.4 Training and Education Programmes

Undeniably, training and education are the most important elements of any labour market policy. Both Martin (2000) and Greve (2006) make reference to the fact that training absorbs the biggest chunk of resources budgeted for ALMP both in Europe and other OCED countries. As cited by Martin (2000) and Greve (2006), several studies highlight the significance of training to promote long-term employability and higher earnings. It stands to reason that the positive effects of training materialise over the long-run. Hence, this particular intervention is most appropriate for young tiers of society as the returns on the original investment span over a larger period (until retirement age).

The results documented by Kluve (2006) are based on 53 training and education programmes. Twenty-two or 41.5 per cent of the programmes had a positive result whilst 34 per cent were statistically insignificant. Mainly due to lock-in effects, 13 evaluation studies or 24.5 per cent resulted had negative results.

Andersen and Svarer (2007) highlight that in Denmark low-skilled jobseekers exhibit positive employment effects of educational training. However, the same conclusion does not hold for the highly educated. Card et al (2010) point out that educational training is very sensitive to the period when the evaluations are held. When evaluations are held over the short-to-medium term it is highly

likely that results are either negative or insignificant. However, they add that if the same evaluations had to be carried out 2 years later, results would have turned positive.

Jackman (1995) documents that "*programmes targeted on a small number of individuals, with a relatively high cost per head, often appear quite effective in improving the wage and employment prospects of at least some of the individuals involved. On the other hand, broader programmes covering a larger number of people at relatively low cost per head typically seem to have little if any effect on the prospects of participants."*

4.7.5 Subsidies to Private-Sector Employment

Following job searching activities, the most successful activation policy entails private-employment subsidies. Kluve (2006) notes how half of the twelve studies reviewed indicate a positive outcome. One-third of the studies show that the outcome was statistically insignificant while the rest had negative results. Citing Austrian, Danish and Slovak studies Greve (2006) suggests that private-sector employment subsidies are effective. It turns out that the success rate for the Austrian programme almost reached 64 per cent.

Martin and Grubb (2001) concur with the results. However, the authors suggest that the elements of deadweight loss, substitution and displacement effects can be as high as 90 per cent. This means that despite their effectiveness, private programmes may not address the correct target group.

4.7.6 Direct Job Creation in the Public-Sector

Job creation in the public sector is considered as the least effective option in increasing the employment probability of participants. In fact, in line with Kluve (2006), out of fourteen studies, only 35.7 per cent portray a favourable outcome. The same extent of studies conveys a statistically insignificant outcome whilst 28.6 per cent of the evaluations find that the probability of job placement actually suffers because of participation. From the meta-evaluations of Card et al. (2010), public-sector job creation is the least efficient in terms of expenditure and the least effective in improving employability prospects. Greve (2006) concurs and argues that direct job creation in the public-sector does not secure long-term improvements in employability prospects of jobseekers. Only public-sector programmes that resemble 'real' jobs have proven in part – to be successful.

4.7.7 Overall Evaluation

In summary, research shows that ALMP has a positive impact on a country's supply-side. In line with empirical evidence, countries that embrace ALMP suffer from lower extents of unemployment.

This section highlighted a list of the most effective and efficient ALMP programmes. As documented PES is the most successful and least costly activation measure. Moreover, it has been shown that employment subsidies and training and education programmes are successful too, but only through strict targeting of redundant groups. Empirical evidence shows that if not properly focused on

particular target groups, employment subsidies produce large economic inefficiencies. The same argument applies for training schemes. Research shows that training sessions are most effective when particular target groups are addressed. Moreover, when applied to the masses, training courses are more effective for low-skilled target groups.

General consensus prevails on the inadequateness of public-sector job creations. These programmes are deemed as both inefficient and ineffective. However, they work for hard-to-place individuals with low skills.

No reference was made to whether activation policies favour one gender as opposed to the other. While Card et al. (2010) indicate that there is no evidence that activation policies have some statistical differences between genders, Bergemann and Van den Berg (2006) express a different opinion. They claim that all activation policies, in particular training skill sessions, have a greater positive impact on females than males. This finding was stronger in economies were female participation was still low.

Pierre (1999) argues that contradictory evidence stems from poor targeting by certain countries. In addition, the author claims that on the premise that there is no unique method of evaluation, researchers come up with different conclusions. In order to mitigate this shortcoming, the author suggests that evaluations are to be held more frequently and through different methods. Moreover, in order to improve future outcomes, he suggests that evaluation paths should be agreed upon before the actual implementation of a programme. In turn, this will secure data availability for future analysis and concurrently improve the way monitoring is conducted.

Labour Market – Empirical Evidence

5.1 An Overview

The interaction between demand and supply in the goods and services market is also at place in the labour market. Yet, the labour market is considered as a derivative of the goods and services market as firms do not engage labour for its own sake (Smith, 40: 2003) but for the production of goods and services that are in demand. As in the goods and services market, the intersection of the demand and supply schedules yields the equilibrium rate of employment and the corresponding real market wage. What follows is a comparison between the theoretical underpinnings of labour market theory and some empirical evidence from Malta and the EU27.

Mainstream theory on labour market infers that the real wage rate is influenced by a combination of factors, namely: productivity, hours worked, unemployment and human capital (Smith, 84-98: 2003). Other factors such as trade and labour-to-capital price ratios have a direct impact on the cost of labour as well. However, for the sake of this research other factors are not taken into account. Consequently, a real wage function is expressed:

$$W/P = f\,(MPP, L, U, H)$$

Where:

W/P = real wage

MPP = productivity per employee

L = number of hours worked

U = unemployment

H = human capital (skills/education level)

The research compares developments to the real wage (W/P) of Malta and other Member States with respect to productivity developments, labour hours worked, unemployment rates and human capital.

5.2 Productivity of Labour

The downward sloping labour demand schedule portrays the marginal physical product (MPP) produced by each additional worker that is employed. Conventional microeconomic theory infers that in the short-run, MPP increases up to a certain point after which it starts to diminish at an increasing rate. This phenomenon is technically referred to as the law of diminishing marginal returns. The motive behind such observation holds in the short-run where only labour is variable. Accordingly, in a scenario of constant levels of capital, it is inferred that productivity per employee is inversely proportional to the number of people employed. On these lines, it thus follows that a profit-maximizing firm is willing to pay high wages to a limited amount of workers, ceteris paribus. Eventually, as the number of employees increases, employers are willing to pay a wage rate just equal to the MPP of the last worker employed.

By way of illustration, figure 5 shows the effects of a rise in wages. If wages were to shift from W_0 to W_1 with no corresponding shift in the MRP curve (equal to the MPP multiplied by the product price), employers reduce labour demand from L_0 to L_1 and the profit area would drop to 'B' from areas 'A, B, C'. If on the other hand as a result of an increase in wages, employees increase their productivity, the MRP curve shifts from MRP_0 to MRP_1, eventually leaving the demand for labour unaltered at L_0. This implies that ceteris paribus, real wages increase only if the total factor productivity increases as well. Accordingly, demand for higher real wages (not nominal wages) has to be substantiated by higher productivity levels. If not, it would only lead to labour-to-capital substitution in the long-run.

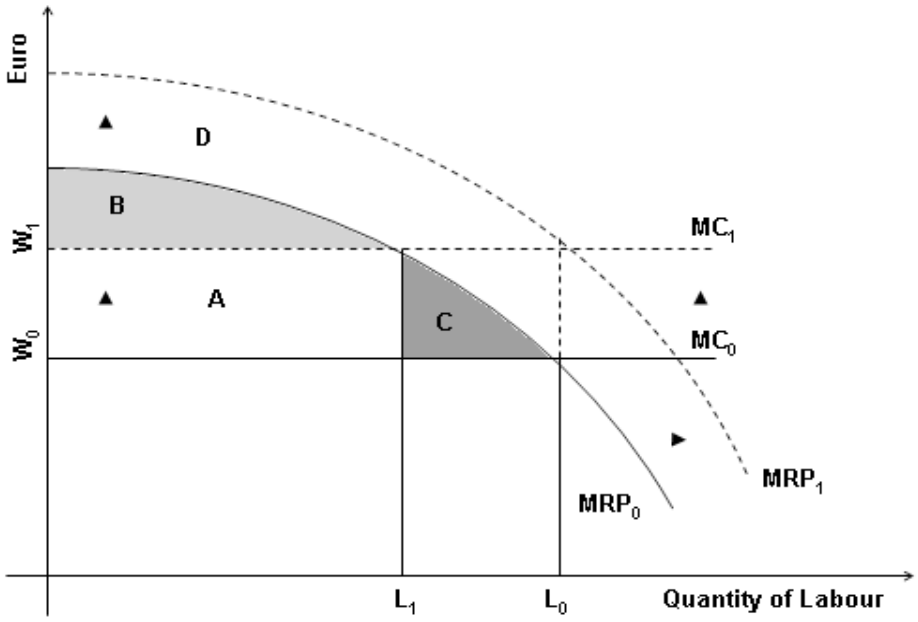


Figure 5: Marginal Revenue and Marginal Cost functions

Empirical evidence corroborates with the above. Figure 6 illustrates the relationship between the average change in the real wage rate (y-axis) as opposed to the average change in productivity per hour (x-axis). In order to minimise the influence of business-cycle fluctuations data comprises a ten-year period spanning from 2001 to 2011.

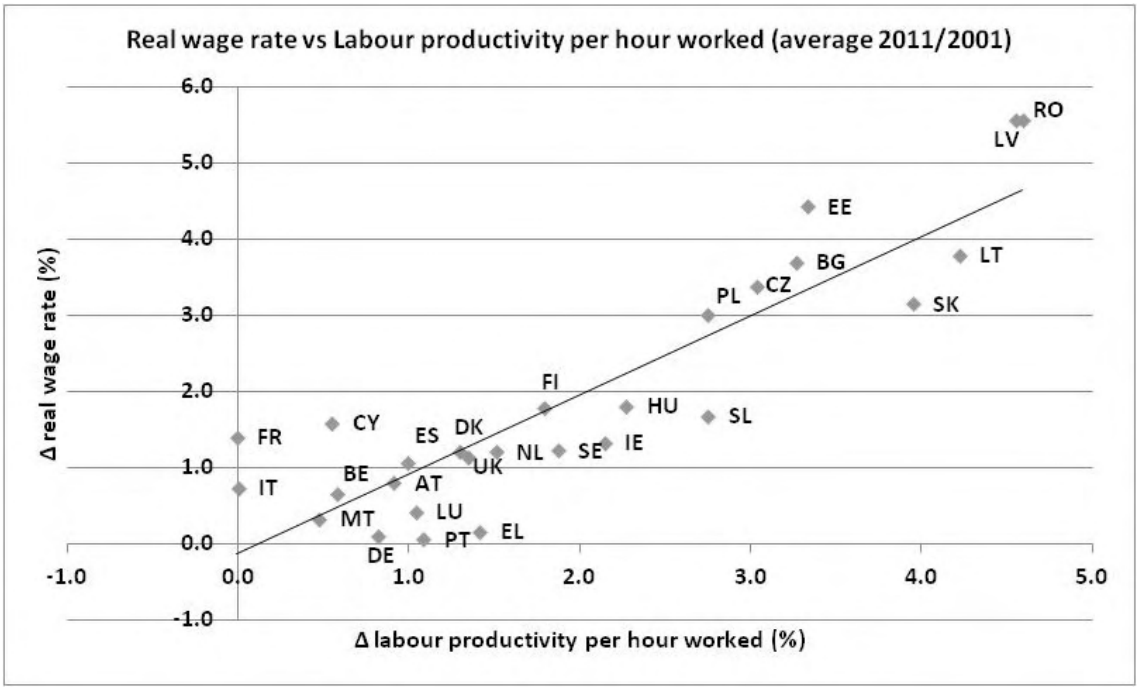


Figure 6: Scatter-diagram of the per cent change in real wages vs the per cent change in hourly productivity

The line of best fit in figure 6 illustrates the relationship between real wages and productivity. Simply put, the line of best fit conveys that the higher the change in productivity per hour of work, the higher the real wage rate. From figure 6, it stands out that Member States placing above the line of best fit are at risk of losing their competitive edge as real wages are rising faster than productivity. Conversely, countries below the line of best fit are competitively strong as productivity growth excess real wage growth. In line with the current European events, this chart substantiates the reason behind the success of the German economy. Indeed, during the period under review, German productivity grew at an annualised rate of 0.8 per cent while real wages increased by just 0.1 per cent. On the other hand, figure 6 shows why Italy is gasping to raise productivity. In the case of Italy, during the same period under review, real wages increased at annualised average rate of 0.7 per cent whilst productivity growth was nil. In Malta the increase in real wages was in line with the increase in marginal productivity. Furthermore, it must be highlighted that the increase in productivity in Malta ranked at the third place from the last amongst the EU27 Member States. It must be highlighted that Malta must increase productivity growth by a much higher level than 0.5 per cent in order to converge with the EU average GDP per capita.

5.3 Hours Worked

Real wage setting in the labour market is also influenced by changes in the supply curve. Labour supply entails the amount of labour services that workers are willing and able to offer universally expressed in terms of labour hours. If the number of hours available for work (labour hours supplied) exceeds the demand for labour hours, in theory, the real wage rate should go down. Hence, the relationship between labour hours and the real wage rate is inversely proportional.

For the period 2001-2011, figure 7 shows the average annual change in the real wage rate as opposed to the average annual change in the number of hours worked. In line with mainstream theory, the line of best fit conveys a negative relationship between the change in real wages and the change in the number of hours worked. It is clearly perceptible especially for mature economies that the higher the increase in total hours worked, the lower the increase in wages. During the past decade, Malta experienced the fourth highest increase in hours worked as the number of females taking up work increased exponentially. It is thus follows that annual changes in the real wages of Malta remained negligible.

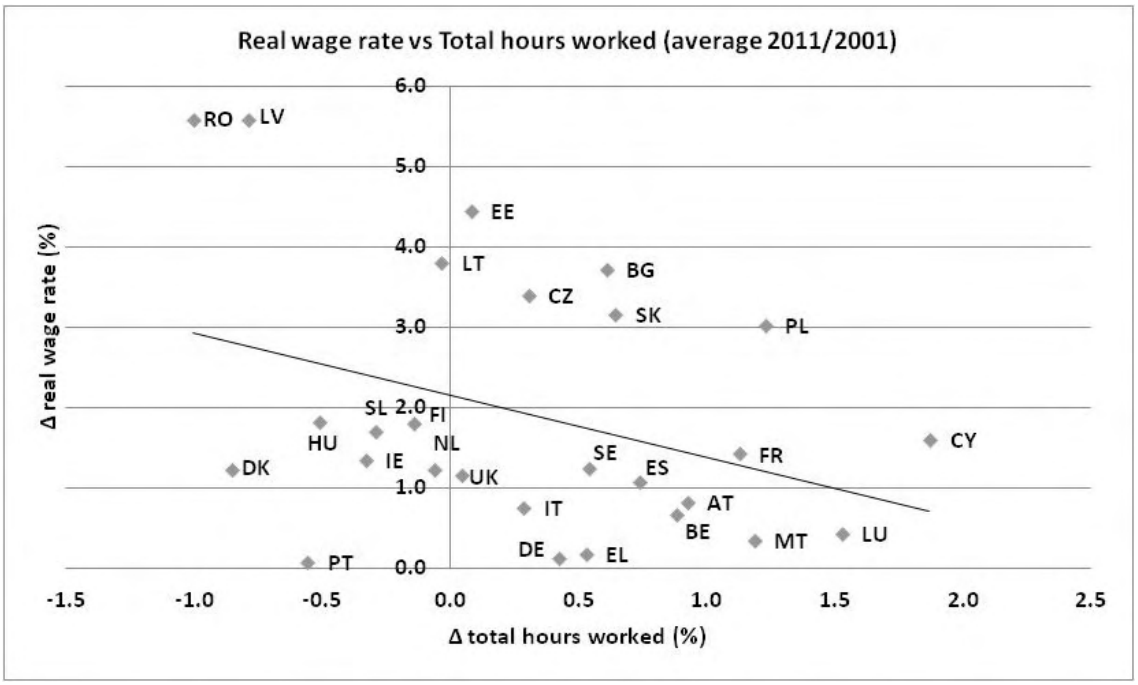


Figure 7: Scatter-diagram of the per cent change in real wages vs the per cent change in total hours worked

5.4 The Phillips Curve

In 1958, William Phillips wrote a seminal paper titled '*The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957'.* His work conjectured how money wage inflation was negatively related to the unemployment rate. In simple terms, Phillips showed how a low unemployment rate was responsible for a high increase in wages (Smith, 343: 2003).

Adapted from Phillips' work, figure 8 illustrates how changes in real wages across the EU27 react to changes in the unemployment rate. In line with the theory, a drop in the unemployment rate has a positive influence on the change in real wages. The line of best fit confirms this relationship.

Member States with an average annual reduction of 5 per cent in the unemployment rate experienced higher real wage inflation compared to Member States with annual increases in

unemployment. Hence, labour scarcity has a positive effect on real wage inflation. In Malta, the change in the rate of unemployment has negligible effects on the Maltese real wages as the annual changes of both variables are negligible.

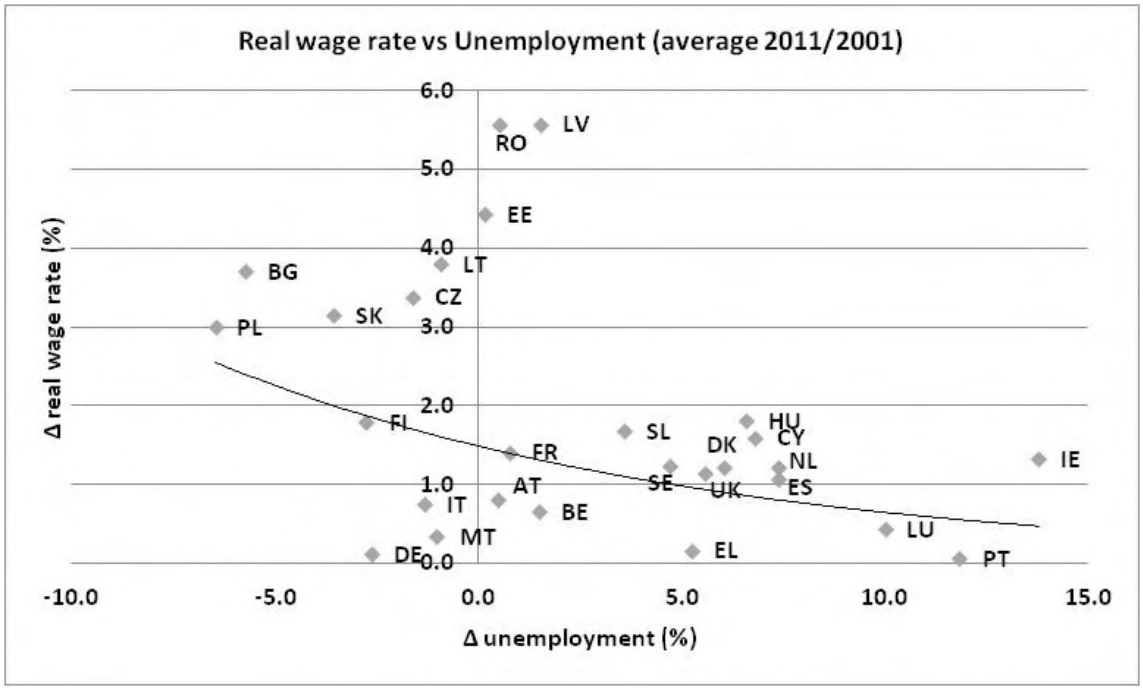


Figure 8: Scatter-diagram of the per cent change in real wages vs the per cent change in unemployment (The Phillips Curve)

5.5 Human Capital

In economics, resources can either be consumed today or else invested to generate higher consumption levels in the future. Production theory conjectures that investment can be expressed either in terms of physical capital or as training and education to enhance the professional capabilities of human resources (Smith, 119: 2003). Workers investing in their education today do so in anticipation of higher future earnings (Borjas, 243: 2007). Hence, different levels of skills yield different wage levels in line with the productivity associated with each particular skill.

On the premise that wages are a good proxy of skills and productivity levels, an exercise was carried out to establish the level of human capital pertaining to each Member State. Accordingly, a skills proxy score has been worked out for each Member State. Wage levels corresponding to each Member State have been split according to ISCED[33] code and benchmarked with the highest level of education (ISCED 5-6) in the EU27[34]. As expected, results convey a strong relationship between productivity and skills. Figure 9 shows how Western European Member States register higher

[33] European Classification of education levels.
[34] A similar method was adopted by Mourre Gilles (2009) in 'What explains the differences in income and labour utilisation and drives labour and economic growth in Europe? A GDP accounting perspective.

productivity levels as their workforce is more skilled than Malta's as indicated by the skills proxy score.

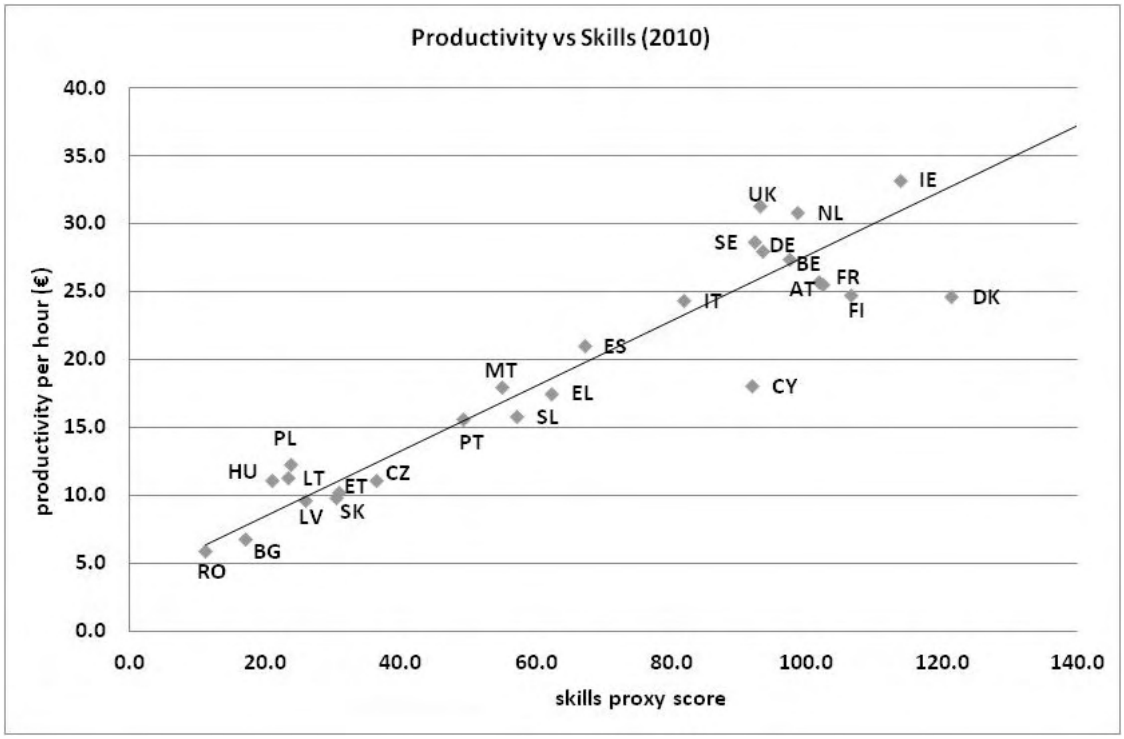


Figure 9: Hourly productivity vs Skills Proxy Score

In contrast with other Member States, the skills proxy score for Malta is moderate due to the extensive influence of low skilled workers. Presently in Malta, out of every 100 employees, 55 hold a maximum level of education up to secondary level (ISCED 0-2). Yet, ISCED 0-2 level of education dropped substantially over the past ten years - down by 15 percentage points from 70 per cent in 2001. Government efforts to encourage more youths to further their studies is ultimately paying off as the number of workers with ISCED 3-4 and ISCED 5-6 qualifications is on the rise. Nevertheless, only a fifth of the currently employed are in possession of a qualification level ISCED 5-6.

In the EU, the situation is completely opposite. Only a minority of workers – just around 20 per cent – have an ISCED 0-2 level of education. Workers with medium qualifications (ISCED 3-4) account for half of the EU workforce - more than double the share of Maltese workers with an equivalent education level. Moreover, workers with a tertiary level 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 evident from figures 10 and 11, projections for the levels of education in Malta and the EU27 express developments though not by the same extent. In Malta, it is expected that the share of workers in possession of medium and high education qualifications will increase by just 5 percentage points from 2011 to 2020. The slow increase in medium-to-high productive workers is attributed to a

drop in the flow of young workers into the labour market due to a declining fertility rate. Workers with lower skills will still represent half of the total workforce by 2020 as they are expected to stay longer in the labour market as the age to retirement continues to increase.

In the EU27, the share of employed with medium qualifications is expected to remain at around 50 per cent. The major developments across the EU27 relate to the highest and lowest skilled strata. Whereas the low-skilled workforce is expected to continue to shrink from 20 per cent at present to 13 per cent by 2020, the share of ISCED 5-6 level of education (highly skilled) is expected to increase by 7 percentage points to 37.5 per cent. This implies that the EU average medium to high skilled labour force will represent 87.5 per cent of the number of persons in employment by 2020; 37 percentage points higher than Malta's.

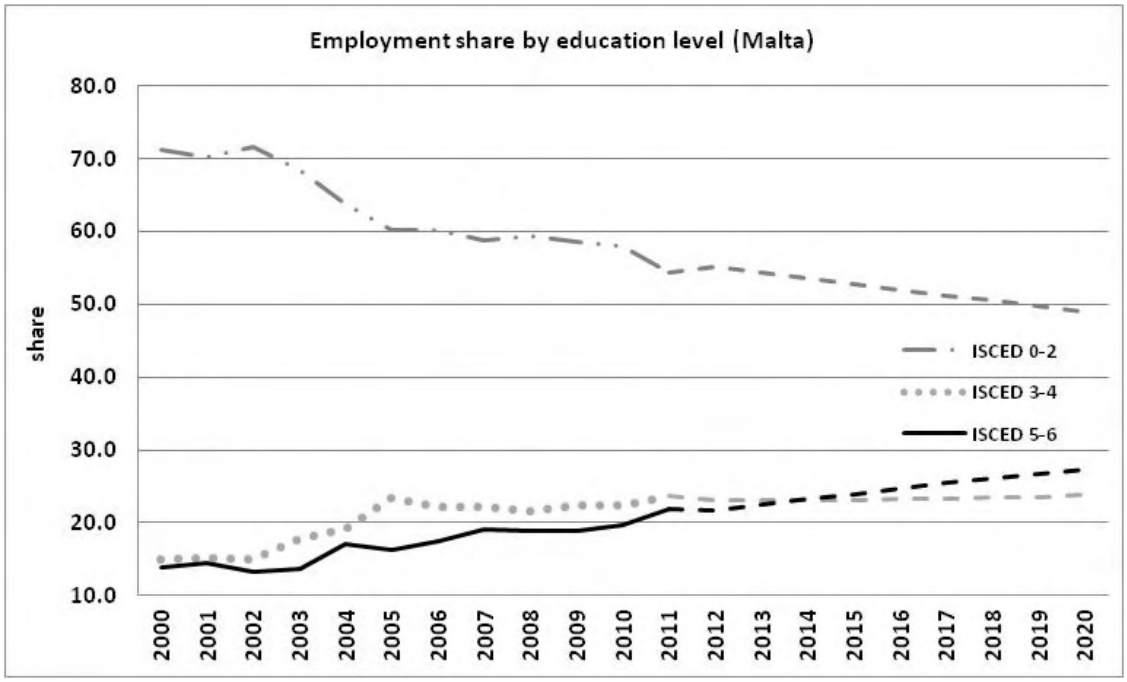


Figure 10: Employment-share by education level in Malta

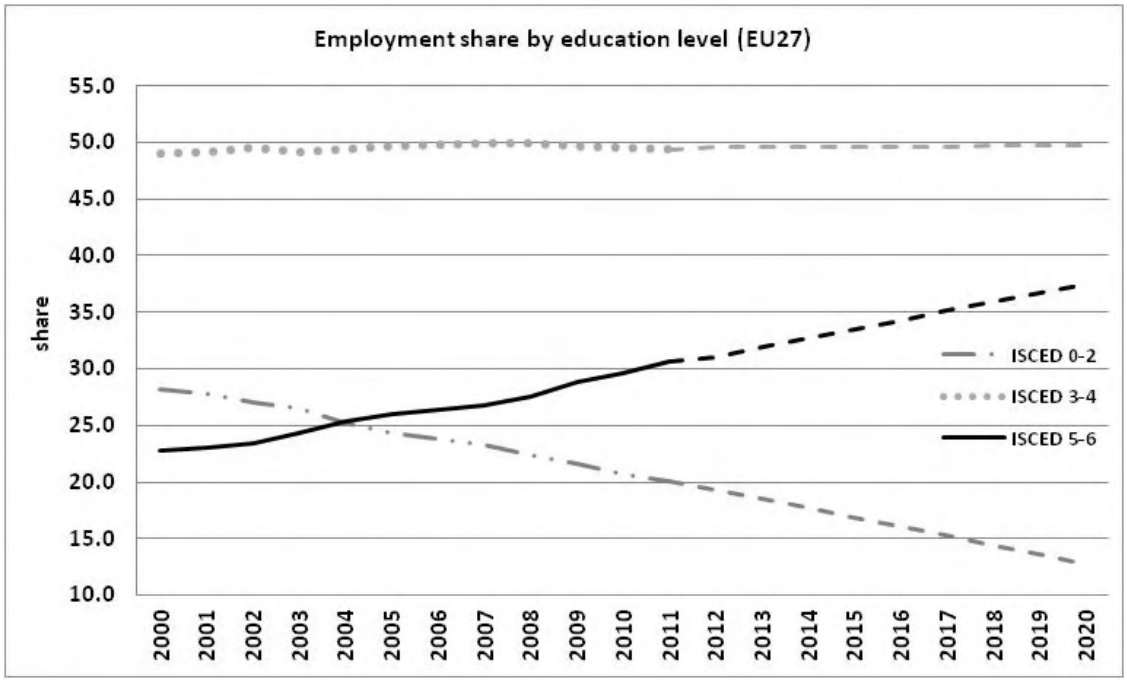


Figure 11: Employment-share by education level – EU 27

5.6 Seeing the Big Picture

Despite the fact that Malta's employment ratio will have almost converged with the EU27 average employment ratio by 2020, the real wage level will still lag behind. As expressed earlier, this shortcoming is attributable to the skills gap that is already evident at present. The deficiency in the level of skills between Malta and the EU27 is expected to persist in the future. As shown in figure 12, the skills gap that stood at 26.0 percentage points in 2000 will be almost halved by 2020 at an estimated level of 14.3 percentage points.

Yet, the shortcoming of skills will persist beyond 2020. Projections show that if Malta ignores the development of skills, it will not catch up with the EU27 before 2045. Of course, this will have direct repercussions on the convergence process of productivity and living standards of Malta with the EU27. If on the other hand, there is general consensus to address this issue, then this will speed up the process to catch up with the EU27 in terms of skills, productivity and standard of living.

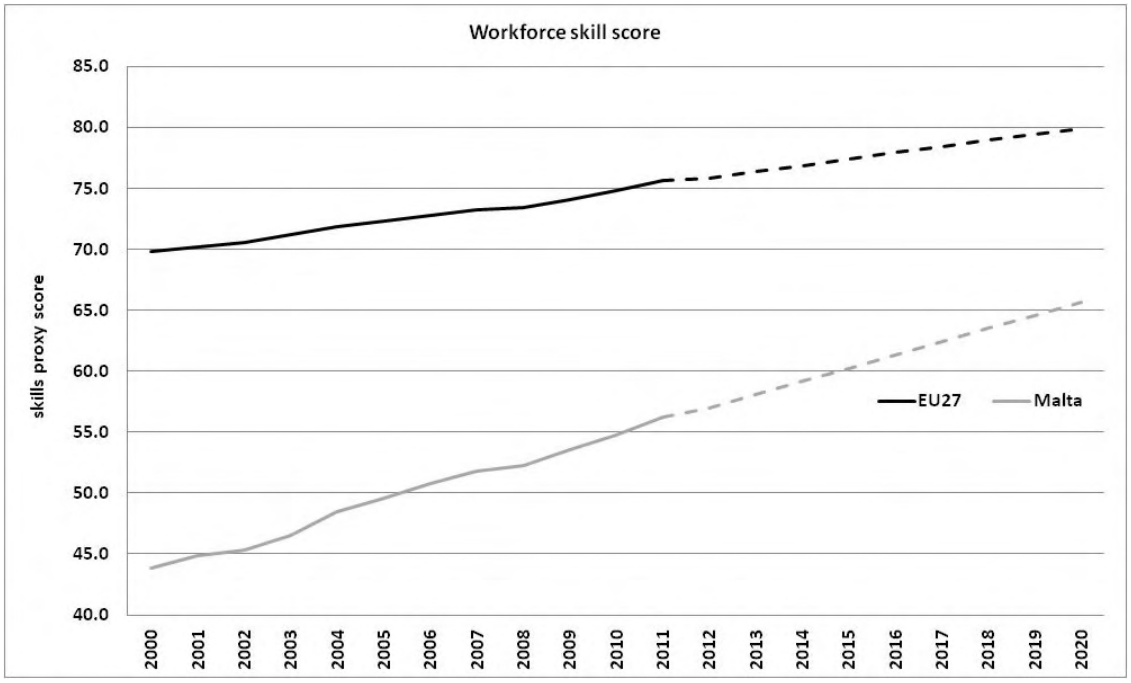


Figure 12: Workforce skill score

In this section, the characteristics of the Maltese labour market have been compared with the EU27. Some interesting, yet disconcerting conclusions are conveyed. In the next section, the research explores into more detail employment developments in Malta and the EU27 over time. Labour market segmentation by gender and age cohort will in part provide a more thorough perspective on the pitfalls and advantages of the Maltese labour market. Hence, this will provide a clear perspective for the development of efficient and effective ALMP measures.

Labour Market Developments in Malta

6.1 Methodological Framework

The following is a comprehensive analysis pertaining to the development of the labour market of Malta over the years. For the sake of this analysis the performance of the local labour market is benchmarked with labour developments across the EU27.

In order to be in a position to assess the performance of the domestic labour market, the employment ratio indicator is taken into account. In simple terms, this indicator portrays the extent of employed persons as a ratio of the total labour force or the aggregate labour supply of an economy for a particular age group. For the sake of this research, labour market developments spanning over the course of the past eleven years (2000-2011) are taken into account. In line with the past labour market trend, a linear forecast is applied to project the position of Malta vis-a-vis the EU27 by 2020.

On a side note, it must be highlighted that in Malta, permanent pro-employment policies (e.g. tax-credits) were not engaged before 2005. Hence, in order to take into account the years during which pro-employment policies were integrated, it was deemed as rational to forecast employment ratios in line with labour market developments between 2005 and 2011.

The same presupposition does not hold for the forecast exercise for the EU27. In the case of the EU27 it is presumed that labour market policies were integrated sporadically over the years (2000-2011). This makes sense as the timing of the integration of labour market policies differs across different Member States. Furthermore, opting for a wider time-frame for the EU27 forecast allows for a more prudent analysis as well. Undeniably, the narrower the time-frame taken into account, the higher the impact of the 2009 recession on the projected labour market developments in the EU27. In turn, this would inflate the performance of the local labour market vis-à-vis the EU27 as employment levels in Malta suffered to a much lower extent during the recession. In line with these arguments, the forecasting exercise pertaining to the employment ratio of the EU27 takes into account labour market developments spanning from 2000 to 2011.

Employment ratios for Malta and the EU27 are disaggregated with respect to gender and ten distinct cohorts. Indeed, such distinctions allow for a more exhaustive analysis of the labour market and further help to highlight deficiencies or advantages pertaining to a specific cohort or gender. In turn, this exercise promotes more effective and efficient labour market policies.

6.2 Aggregate Labour Market Scenario

As shown in figure 13 there is an evident gap between the Maltese and the EU27 employment ratios for the cohort 20-64 (see Appendix A for more detail). Yet, figure 13 shows that over time, the Maltese labour market is gradually catching up with the EU27. Over the period 2000 to 2009, the labour market of Malta underwent a series of fluctuations. As illustrated, before the recession of 2009 the local employment ratio stood at 59.1 per cent. Although, the recessionary wind of 2009 brought about a drop in employment, the negative trend was more than reversed with the exceptional performance of the local employment ratio in 2010 and 2011. In turn, the employment ratio for Malta is expected to reach 69.0 per cent by 2020, eventually closing the gap further between Malta and the EU27.

Figure 13: Labour market developments – Malta and the EU27 (20-64)

With reference to the developments in the employment ratio of the EU27, figure 13 portrays a positive trend up to 2008. Yet, the recovery in employment following the shortfall in 2009 has not as yet been offset to this day. Indeed, current employment ratios in the EU27 are close to the ratios registered in 2005. In line with past labour market developments, the projected employment ratio for the EU27 portrays a slow gradual recovery over the next nine years (2012-2020).

From the perspective of different age cohorts, results convey distinct conclusions. In the context of age cohort (20-24) for instance, results show similar diminishing trends both for Malta as well as the EU27. In the context of age cohort 25 to 29, it is evident that between 2000 and 2011, the divergence between employment ratios for Malta and the EU27 increased in favour of Malta. By 2020, the gap between the local employment ratio and the EU27 is expected to diminish, though by a low extent. From the perspective of age cohort 30 to 34 results portray an outstanding catch-up

process of the local employment ratio in contrast to the EU27 between 2000 and 2011. By 2020, forecasted figures for the same age cohort illustrate that the Maltese employment ratio is expected to surpass the EU27 by a large extent (ceteris paribus) and will stabilize by the year 2016.

With respect to age cohorts 35-39, 40-44, 45-49, 50-54, 55-59, and 60-64 Malta is still in the process of catching up. Yet, as shown by the forecasts, it is clear that the gap in between the Maltese and EU27 employment ratio is expected to shrink by 2020.

For the sake of this research, the domestic labour market has been segregated with respect to gender as well. In turn this allows for a distinction between labour developments pertaining to males and females. Accordingly, what follows is a detailed breakdown (by gender and age cohort) and analysis of local labour market developments with respect to the EU27.

6.3 Labour Market Developments (Males)

Figure 14 depicts the employment ratio of the male category in the cohort of 20 to 64. The graphical representation indicates that as a whole the employment ratio has been on a rapid descent since 2001. Yet, this trend was reversed in the years 2010 and 2011. Projected developments to the domestic employment ratio of males (20-64) show that the rapid recovery will persist in the coming years.

Figure 14: Labour market developments – Malta and the EU27 (MALES 20-64)

In the EU27, the employment ratio of males aged between 20 and 64 adopts a particularly cyclical pattern. The employment ratio peaked just before the recession in 2008 and eventually, by the year

2011 dropped below the level registered in 2000. Forecasts illustrate a slight recovery by the year 2012 which is expected to increase at a very moderate rate by 2020. When comparing illustrations for Malta and the EU27, it is evident that the original discrepancy of 5.8 percentage points in favour of the Maltese labour market has eventually shrunk to 3.8 percentage points by 2011. Projected developments to the Maltese labour market for the male cohort 20 to 64 show that an upward trend as registered from 2010 onwards will persist beyond 2020. Conversely, the male labour market corresponding to the EU27 is expected to increase negligibly over the same period.

In case of age cohorts 20-24, 25-29, and 30-34, figures display similar behavioural patterns between Malta and the EU27. Over the years, actual and forecasted employment ratios pertaining to both Malta and the EU27 adopt a downward trend. The main factor attributable to such shortfalls is related to education. Indeed, over the years, it is becoming common practice for students in the age of 20 to 34 to complete their education in order to pursue a professional career. As a consequence, the employment ratio for this age bracket has dropped over time.

With respect to age cohorts 35 to 39 and 40 to 44, the graphical representations illustrate downward trends for Malta and the EU27. Moreover, it is also evident that the trend pertaining to the local labour market is much more fluctuating than the EU27. It must be highlighted that extensive labour market fluctuations in the case of Malta arise due to sampling restrictions brought about by a small population. In the case of age cohorts 35 to 39 and 40 to 44, forecasts show that by 2020, the EU27 employment ratio will eventually surpass Malta's. Indeed, for age cohort 35 to 39, Malta is expected to register a decline of 1.2 percentage points when compared to its original lead of 2.3 percentage points in 2000. When considering age cohort 40 to 44, figures show that Malta's lead over the EU27 in 2000 (2.6 percentage points) will eventually translate into a shortfall of 0.3 percentage points by 2020.

Early retirement schemes have left their mark on the developments of the local labour market concerning age cohorts 45 to 64. This is reflected by the slowdown in the employment ratio for age cohorts 45 to 49, 50 to 54, 55 to 59 and 60 to 64. Yet, this setback has been reversed across all age cohorts and by 2020 Malta is expected to retain its lead over the EU27 in terms of labour market employment ratios.

6.4 Labour Market Developments (Females)

At first glance, figure 15 illustrates positive developments to the female labour markets for Malta and the EU27. In the case of the EU27, the employment ratio for females has been on a steady increase up to 2008. This trend was however slowed in 2009 due to the global financial crisis. Forecasts for the female age cohort of 20 to 64 convey positive labour market developments in the coming decade.

The registered female labour market developments (20 to 64) across the EU27 are dwarfed by the rapid surge in female labour market participation in Malta. The underperformance witnessed during the first four years (2000-2004) under review has been more than reversed by the rapid surge in the local labour market participation of females. Such developments are expected to persist across the whole period under review (up to 2020). As also evident in figure 15, over the years, Malta has

managed to narrow the gap with the EU27 in terms of female employment. Indeed an original employment gap of 23.8 percentage points in favour of the EU27 is expected to shrink to 12.1 percentage points by 2020. Such positive developments to the local female labour market are attributable to the gradual introduction of financial incentive measures and efficient and effective policy measures catering for more job flexibility.

Figure 15: Labour market developments – Malta and the EU27 (FEMALES 20-64)

With reference to age cohort 20 to 24, it is evident that both Malta and the EU27 registered similar market trends over the period under review. However, the shortfall in the female employment ratio is more abrupt in the case of Malta. This phenomenon is again attributable to the education factor whereby more and more students both males and females are opting to complete a degree instead of working at an earlier age. In case of age cohorts 25 to 29 and 30 to 34, 35 to 39 and 40 to 44 results illustrate outstanding catch-up patterns from Malta's side. In all cohorts (except for the 40-44), Malta is expected to be in the lead by 2020.

Results for age cohorts 45 to 49 and 50 to 54 portray similar upward trends between the female employment ratios of Malta and the EU27. In this case Malta is expected to narrow the gap with the EU27 by a small extent by 2020. Yet, the same projection does not hold true in case of age cohort 50 to 54 as the gap in favour of the EU27 is expected to persist by 2020. As conveyed by the diagrams corresponding to age cohorts 55 to 59 and 60 to 64, Malta lags behind in both cases. Indeed the female employment ratio in the EU27 in both cases does not only exceed that of Malta at each point in time, but it is further presumed that the gap in favour of the EU27 will be extended by 2020. This result is clear evidence that life-long learning together with in-work-benefits in Malta should address this setback by increasing the female employment ratio for the respective age cohorts. Although

credit must be given to recent local initiatives and policies that promote life-long learning, more resources ought to be allocated to boost the employment ratios for both age cohorts in the coming years. This makes sense in view of the local ageing population.

Active Labour Market Policies in Malta

7.1 Historical Developments

Over the years, Malta witnessed a long history of colonial dominion by numerous military powers. Before gaining full control over its political and economic decisions (1964), Malta had been administered by the British Empire for over 164 years. In this era, the Maltese economy was fully dependent on the military exigencies of the British Empire. Apart from military activities, the British were not interested to develop other forms of economic activity in Malta. In part, this accommodated their financial interests as labour costs in Malta were negligible.

In the 1960s the British colony engaged into a gradual dismantling process of their naval base in Malta. Consequently, the scepticism that ruled Malta during these times led to a mass emigration process (Baldacchino, 1998). Several attempts had been engaged in 1959-1963, as well as during the mid-sixties and seventies to stimulate the local economy (Vella, 2007). However, the Maltese economy was not yet in a position to embrace a full independent economy especially due to skill shortages. It was in the 1970s when the Labour administration engaged into market protectionism where import-substitution policies and other trade protectionism measures helped the local industry start-off and eventually expand. As the British officially announced the closure of their naval base in Malta by 1979, job creation was more than ever on top of the agenda of the Labour government.

Protective measures were fruitful as eventually real economic growth in the late sixties ran at double digit rates. However, in 1971 and 1972, economic growth slumped to just 1 per cent (National Accounts, 1974). In order to absorb the high rate of unemployment, the newly elected Labour government created jobs and absorbed the high extent of labour surplus. By 1977, 7,360 workers had been integrated in labour corps (NP Information Department, 1981). Labour corps entailed publicly subsidised employment programmes as well as direct jobs created by the public sector.

The overhaul of the administration in 1987 triggered a shift in the economic philosophy and management of Malta. The Nationalist government practised a more liberal philosophy where state intervention was very limited. Yet, as inferred by the Employment and Training Corporation (ETC) records, public sector employment continued to increase up to the 1990s.

In 1990, the incumbent government approved a bill for the foundation of ETC. The primary duty of ETC entailed the delivery of Public Employment Services (PES). Employment services included reductions to labour market frictions and the flow of information between labour supply and labour demand. Other roles of ETC included restrictions to illegal practices as well as the provision of training courses to enhance the employability of a person. The following section describes developments to ETC services over the past twenty-years.

7.2 Employment and Training Corporation

During its first ten years of operation, ETC acted as an intermediary actor between the employer and employee. By facilitating the matching process, ETC reduced market frictions by a large extent. Furthermore, the Corporation provided basic training sessions to unskilled candidates.

Basic forms of PES together with the delivery of basic training sessions produced positive economic results during these years. Back then, labour market policy was rather rudimentary as no targets had been imposed on the levels of employment and skills.

In the subsequent ten years the Maltese economy underwent significant structural changes especially following its membership in the EU, in 2004. From that point onwards, the economy opened up its doors to trade and started to dismantle artificial barriers to foreign competition. Although this radical change triggered a wave of opportunities for people with the necessary skills it posed challenges for individuals who lacked basic skills.

Through its entry into the EU, Malta has opened up its doors to exogenous shocks more than ever before. The recent Great Recession that has triggered economic chaos across Western economies has had its impact on the Maltese economy. To this day, the slowdown in economy activity abroad is having deleterious effects on our economy. Thus it goes without saying that market flexibility has become pertinent more than ever before to counter the volatility of the current local economic scenario.

What follows is an overview and assessment of some of the programmes offered by ETC. The following list of programmes shall by no means be considered as exhaustive. Each of the programmes has been taken into account due to their high extents of beneficiaries.

7.2.1 Personal Action Plans

A personal action plan (PAP) is set when a person registers with the ETC on PART 1 of the unemployment register. When registered, the applicant is allocated a personal employment adviser (ETC, 2011). The candidate is regularly interviewed and accordingly a course of action is set in order to engage necessary training or actions. In 2009 and 2010, ETC registered a total of 20,492 and 24,786 PAPs in that order. These figures include both new and revised action plans. As conveyed by Parliamentary Question (PQ) 32554, ETC employs 27 persons in the PAP unit. During 2010 this unit produced a total of 49,229 hours in PAP services.

Since 2007, average ETC placements in notified vacancies stands at 4,000. Without disregarding the benefits of this result, PQ 34684 conveys that in 2010 and 2011, some 5,704 and 10,395 (respectively) notified vacancies remained unfilled. It is worth noting that only 25 per cent of the unfilled vacancies require a high level of skills. The remaining 75 per cent require elementary to medium skills.

Figure 16 portrays the Beveridge curve as at 2010 for Malta and the EU27 Member States. The Beveridge curve conveys a negative relationship between the vacancy rate and the unemployment

rate. Hence, it is inferred that the higher the vacancy rate, the lower the unemployment rate and vice-versa.

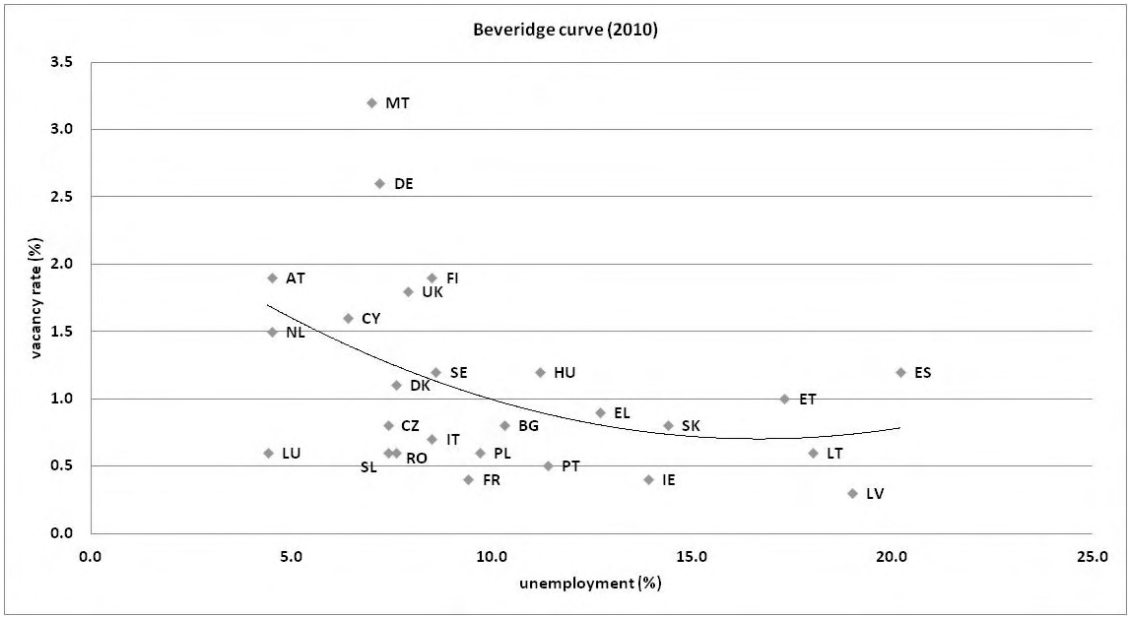


Figure 16: The Beveridge Curve – Malta and the EU27

In the case of Malta, figure 16 illustrates a substantial amount of friction in the labour market. This is implied by the divergence from the line of best fit. As shown above, the vacancy rate stands very high as opposed to the unemployment rate of Malta. In turn, this conveys serious shortcomings to the matching process of Malta. If the local matching process were to be improved by 50 per cent, the vacancy rate would drop to 1.6 per cent. In turn, this would generate an increase of €36.9 million in wages. Tax-wise, this translates into an increase of €9.3 million in direct revenue receivable by government.

7.2.1.1 Evaluation

As inferred by Kuddo (2012), the effectiveness of PES depends on the institutional capacity of the national employment service. An effective ratio between jobseekers and counselling advisers is deemed necessary "*to combine effectiveness in placing persons in the labour market and simultaneously reducing the overall spent*" (Greve, 2006). In line with the International Labour Organization (ILO), the annual caseload per counsellor should not exceed 100 (1:100). Yet, most of the Member States operate with a ratio of 1:150 (Kuddo, 2012). In the case of Malta, the counselling –advisers-to-jobseekers ratio stands at 1:235 when considering the number of persons registering under PART 1 of the unemployment register. Accordingly, in line with ILO recommendations, Malta should double the personnel operating in the PAP unit. In part, this will not only enhance the employment services offered by ETC but will further develop the matching process and reduce the level of unfilled vacancies.

7.2.2 Mainstream Courses

In 2010, participants attending training courses at ETC stood at 13,679, twice as much that in 2009. Out of the total participants, 54.9 per cent (7,507) were unemployed whilst 13.5 per cent (1,851) were inactive. The majority of participants (over 70 per cent) were males (PQ 32557). Employed persons attending mainstream courses stood at 4,321, slightly less than one third. Once again, the majority of participants (63 per cent) were males. Moreover, 60 per cent of all trainees were persons under 40 years of age.

7.2.2.1 Evaluation

The courses offered by ETC range from IT courses to hospitality, basic skills, office skills, acquisition of licences for traditional jobs as well as trade skills and courses in management and development. In line with the audit report produced by the National Audit Office (NAO) in 2006, it transpires that there is lack of motivation from the part of the participants to take part in such courses. Moreover, it was highlighted that participants were participating in mandatory courses as failure to attend these courses would trigger sanctions on benefits. Another important point raised by the report conveys that there was no formal assessment of the courses offered. Hence, the efficiency and value-added of training programmes to the prospects of employment are not evaluated. Indeed, as repeatedly inferred in the literature of ALMP, programme assessment is an integral element to ensure positive results.

7.2.3 Training Aid Framework

The Training Aid Framework (TAF) is a programme that supports private sector employment through direct subsidisation of the cost of training. TAF is set to boost labour market competiveness at the micro-level by promoting the development of skills. Three years after the launch of TAF, ETC received more than 3,500 applications. However, the scheme had been temporarily suspended after all funds had been committed (Di-ve.com, 2012).

TAF and other similar initiatives are welcome for the up-skilling of the Maltese workforce as the local share of workers that receive training is very low compared to other Member States. The European Working Conditions Survey (2012) for 2010 shows that less than a third of Maltese workers had received some form of training. This figure is preoccupying when compared to Danish (44.0 per cent) and Dutch (48.8 per cent) results.

7.2.4 Training and Employment Exposure Scheme

Training and Employment Exposure Scheme (TEES) was a programme co-financed by the European Social Fund (ESF). Launched in 2005, the target group of this programme consists of long-term unemployed over 40. A total of 460 persons have participated in this programme and the sum of €3.6 million was committed for the project.

The scheme was segregated across a 52 week period which was further subdivided into three phases. In the first four weeks, participants attended a core skills training programme on motivation, self-esteem and job inclination. In the subsequent 21 weeks participants were trained in a particular skill/trade in high demand. The remaining 26 weeks were dedicated to on-the-job training experiences (40 hour week).

By the end of the TEES programme there were 285 persons who were gainfully occupied amounting to a 62.0 per cent success rate. At present, there are still 202 persons out of the original 460 candidates in employment. This conveys a long-term success rate of 43.9 per cent (PQ 32556).

7.2.4.1 Evaluation

The TEES programme recorded a satisfactory success rate in line with other Member States. Undeniably, the economic and social welfare gains emanating from the TEES programme are extensive. Deadweight losses associated with this programme were negligible if not nil as it would have been difficult for persons aged 40 and over to find a job in absence of this programme. Displacements effects could have been manifested as in part the 285 persons occupying full-time placements may have substituted non-participants. Following this project, there were no such large scale programmes until the introduction of the Employment Aid Programme.

7.2.5 Work Trial Scheme

The Work Trial Scheme (WTS) was launched in 2009 and remains active to this day. Similar to the TEES the WTS is a smaller programme. Participants are provided with a 13-week on-the-job training. The target group of this scheme differs from TEES as it caters for a more extensive group. The target group for the WTS includes youths between 16-24 years of age who may be either new entrants into the labour market or employed but not operating in their field of preference. Other suitable candidates include graduates looking for a new job, persons who have been inactive for over a year and persons who have been unemployed for six months and over.

7.2.5.1 Evaluation

In 2010, there were 377 participants in this scheme from which 171 were still in employment by February 2012. Interestingly the majority (89) of successful participants were females (PQ 32555). This represents a success rate of 45.4 per cent - quite satisfactory by European standards.

7.2.6 Employment Aid Programme

The Employment Aid Programme (EAP) is another programme launched in 2009 which is co-financed by the (ESF). Through the provision of wage subsidies, this programme facilitates access to employment for the disadvantaged not in possession of work experience or who might have been

out of work for a long time (ETC, 2011)[35]. By March 2012, an average of €12.6 million had been spent, out of which €8.2 million were co-financed by the ESF.

The objectives of the EAP are nearly identical to the TEES. The major difference between both programmes is the target groups. In case of the EAP, eligibility is not restricted to the unemployed over forty years of age. As highlighted by PQ 32553, there were 2,383 participants up to the first week of March 2012. In terms of participants, the EAP is the most extensive 'employment incentive scheme' administered by ETC. Due to the extensive number of beneficiaries, in May 2012 this particular scheme was temporarily suspended as allocated funds had been used up (Di-ve.com 2012).

Profiling analysis of beneficiaries conveys that the majority of participants (55.9 per cent) were males. Moreover, analysis shows that the EAP attracted young age cohorts. Out of all participants the age cohort from 16-24 years of age represented 52.1 per cent, followed by the age cohort of 25-39 years of age (22.8 per cent). In turn, this conveys that only a quarter of the total participants were in their forties and over (PQ 32553).

7.2.6.1 Evaluation

The profiling analysis sheds light on a number of disconcerting facts. The high degree of youths with an ISCED 3 level of education or higher attending this scheme for instance goes against the scope of programme efficiency.

As portrayed by the profiling exercise for participants in the EAP programme, as much as 39.4 per cent or 940 participants were in possession of an ISCED 3 level of education or higher (PQ 34681, 32553). Out of these, 327 individuals were in possession of an ISCED 5[36] level of education or higher! In the EAP scheme, elder candidates (55+) who would have benefitted the most from the programme amounted to just 6.8 per cent. A low participation of not more than 23.0 per cent was also recorded for 40+ females. Currently, this particular cohort has a very limited presence in the labour market.

In case of the EAP programme, the deadweight loss runs very high. It is logical to assume that young candidates in possession of a relevant education level are in possession of adequate skills to find a job on their own initiative. Moreover, it is deemed that both substitution and displacement effects are at play as well due to the subsidisation of wages. When taking into account such indirect effects economic benefits emanating from this initiative drop by a large extent.

The extensive rate of youth participation (16-24) with ISCED 0-2 in this particular programme is disconcerting. Indeed, these were no less than 26.4 per cent of total participants in the EAP. In turn, this figure sheds light on the poor rate of return of education expenditure in Malta. As shown by the line of best fit in chart 17, the percentage of school-leavers in Malta should not exceed the level between 10 and 15 per cent with the current level of expenditure on education. However, the rate of school leavers in Malta is much higher than this threshold. Thus, education inefficiency is costing

[35] The EAP eligibility conditions are available from the ETC annual report of 2010.
[36] This is equivalent to a tertiary level of education.

us more than the education bill itself. Indeed, additional training programmes are financed to address the shortcomings of education on employability.

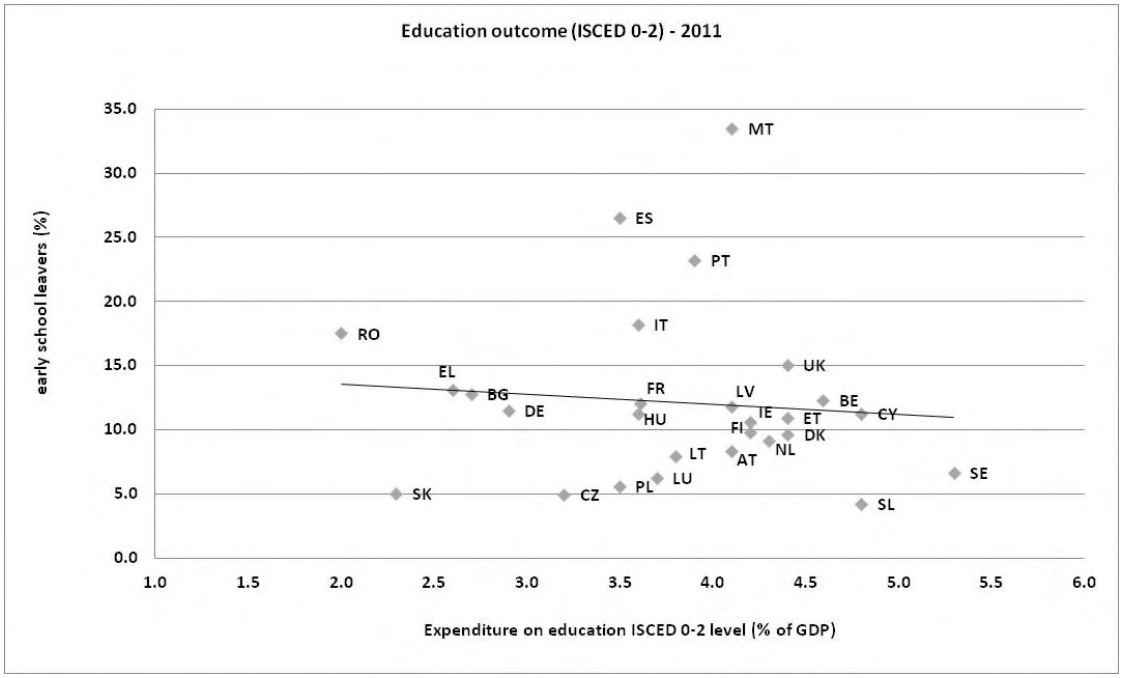


Figure 17: Education inefficiency

7.3 Concluding Remarks

As described above, various initiatives have been engaged to promote the development of the labour market. Yet, the major shortcoming in the case of Malta is that temporary programmes are adopted depending on the availability of funds. No attempts have been made to actually transform labour market programmes to concrete active labour market policies. As conveyed by Eurostat statistics (2012b), in 2010, Malta spent no more than €9.6 million on labour market policies. In terms of GDP, this amounts to a mere 0.15 per cent. In the EU27, average expenditure on labour market policies for the same year stood at 0.67 per cent of GDP or 3.25 times more than in Malta. In monetary values this implies that Malta fell short from the EU27 average expenditure on labour market programmes by €31.6 million.

The Inactive

8.1 How to Increase the Opportunity Cost of the Inactive

In line with the labour force survey questionnaire, the inactive population consists of ''*people without a job who have not actively sought work in the last four weeks and/or are not available to start work in the next two weeks* [from the date of interview]". As at 2011, the EU27 average inactivity rate for the 20 to 64 cohort stood at 24.3 per cent. When compared to the year 2000, the average inactivity rate dropped by 2.6 percentage points. Conversely, during the same year, Malta registered the highest rate of inactivity amongst all EU Member States. In Malta, the rate of inactivity stood at 34.8 per cent – translating into a drop of 4.7 percentage points in contrast to the year 2000. In reaction to these figures, the following is an exhaustive analysis of the inactive population of Malta.

8.2 Inactivity of Elder Women

As evident from Appendix A, there is a disproportionate occurrence of inactivity amongst females aged 40 or over. Eurostat (2012a) figures for 2011 show that in Malta the inactive female cohort between 20 to 59 stood at 53,200. From these, 47.7 per cent equivalent to 25,400 inactive females represented the 40 to 54 cohort.

Female inactivity in Malta has been addressed by a number of policies. One of the various initiatives engaged from the part of the government exempts females who have given birth from a full year of income-tax given that they resume work as soon as their maternity entitlement elapses. Eurostat (2012a) numbers speak for themselves. Indeed, this initiative increased female employment rates from a meagre annual average of 0.5 per cent between 2000 and 2005 to an annual average of 3.5 per cent between 2005 and 2011.

At this point, it is worth noting that the perception amongst inactive females is changing. Eurostat (2012a) figures convey that in 2011, about 4,800 females aged between 40 and 59 expressed their willingness to work. Yet, they were not actively looking for work. As portrayed by labour force survey results, family responsibility issues are still the major concern to the (re)entry of inactive females into the labour market. On a positive note however, this percentage dropped from 90 per cent in the early years of 2000 to slightly above 50 per cent in 2011.

As shown in figure 18, from 2006[37] onwards, nearly 10 per cent of females in the 40 to 59 cohort express '*looking after children or incapacitated adults'* as the main reason for inactivity. When joining the bits and pieces, this makes sense. Indeed, the incidence of young females willing to

[37]Before 2006 the percentage of females was statistically unreliable.

(re)enter into the labour market and thus benefit from government incentives schemes was triggered by the availability of mothers to handle the caring and bearing of children.

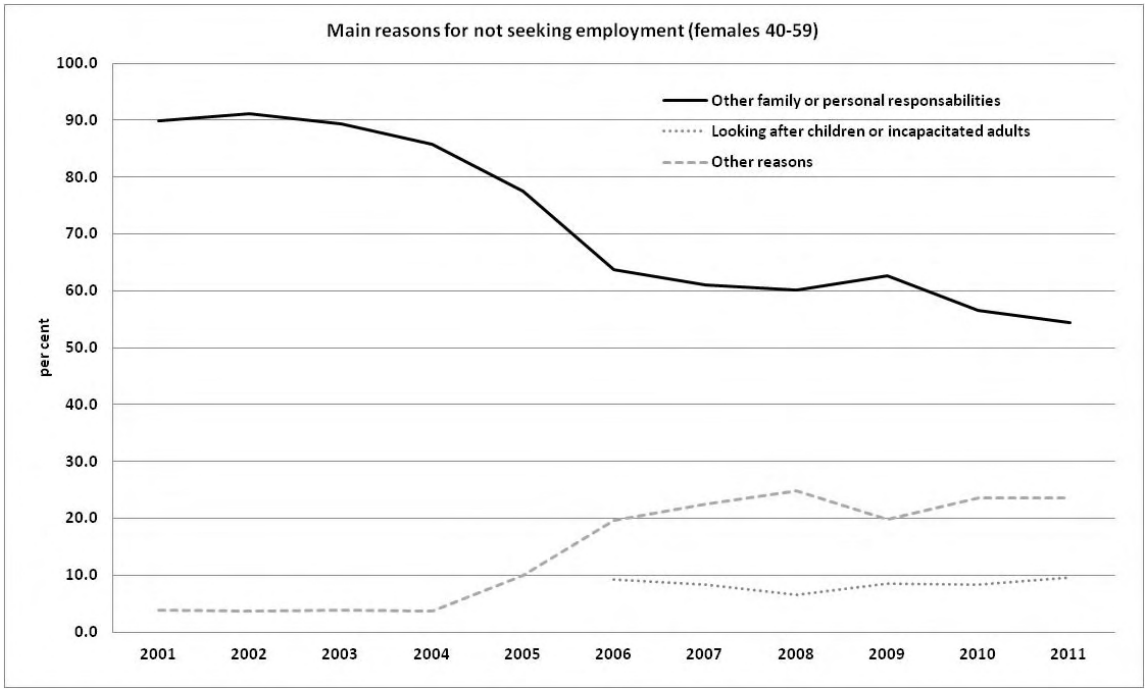


Figure 18: Inactive females

In another category of female inactivity, one particular factor, *'other reasons'* has been increasing over the years. The rise in this particular group is attributable to a drop in '*other family or personal responsibilities*' category. It seems that in this category, the main hurdle to employment is the level of education. In line with Eurostat figures (2012a), in 2012, 91.2 per cent of inactive females in this category had an education level of ISCED 2 or lower. It thus follows that for this particular category of female inactive, the opportunity cost to work is too high.

8.3 Inactive Welfare Dependants

Welfare dependency is most often associated with labour market reforms or poverty-related subjects. Unfortunately, due to the political sensitivity of this social issue, policy-makers are reluctant to address this limitation which is costing our country precious resources.

Social security benefits in Malta do not pass the generosity test when compared to similar benefits across continental Member States - especially with Nordic countries. In line with the at-risk-of-poverty indicator published by the National Statistics Office, it is conveyed that the majority of individuals that qualify to work but rely on social security benefits as their only source income are exposed to a higher risk-of-poverty (NSO, 2012). This observation sheds light on the fact that welfare traps in Malta are not raised by high social benefit rates but rather due to the fact that work does not pay. In the case of Malta, due to a very low discrepancy between the minimum hourly pay and benefit rate, the opportunity cost of being out of employment is negligible.

Over a decade, beneficiary statistics from the Department of Social Services (DSS) recorded an increase of 48.4 per cent in benefit recipients - from 11,551 persons in 2000 to 17,136 persons in 2011. Out of the total number of benefit recipients, 34.2 per cent are eligible for Unemployment Assistance (UA) due to long-term unemployment whilst 47.4 per cent are entitled to Social Assistance (SA). Social assistance entitlement for females is mainly attributable to separation whereas entitlement for males mainly arises due to health conditions. Single Unmarried Parents (SUP) make up 18.4 per cent out of the total benefit recipients.

Profiling of beneficiaries by cohort shows that recipients aged between 15 and 39 dropped from 57.2 per cent in 2000 to 53.4 per cent in 2011. Yet, in absolute terms, the number of relatively young on long-term benefits rose drastically from 6,603 in 2000 to 9,143 in 2011. The increase in benefits pertaining to UA, SA and SUP increased from €26.4 million to €64.8 million during the period under review. When expressed in terms of GDP, the total expenditure on UA, SA and SUP welfare benefits rose by 0.36 percentage points between 2000 and 2011, reaching 1.01 per cent of GDP in 2011. Expenditure on benefits pertaining to the age cohort 15 to 39 cost the country around 0.54 per cent of GDP in 2011.

8.4 Welfare Dependency in Malta

In line with DSS regulations, it is stipulated that a recipient entitled for either UA or SA benefits may opt for work and have his/her benefit deducted accordingly. However, in this case, the benefit accruing to a person is equal to the difference between the net amount earned and the benefit.

For a single unmarried parent (SUP) this applies as well, though he/she is entitled to maximum earnings of €54.53 per week (13.8 hours of work per week) before benefit reduction comes into play. The imposed limit on market earnings is set in line with the minimum wage during that same year.

Figure 19 portrays local income developments of social benefit recipients when they get engaged into the labour market. Moreover, figures 20 and 21 portray the marginal effective tax rate (METR) and the average effective tax rate (AETR) in that order.

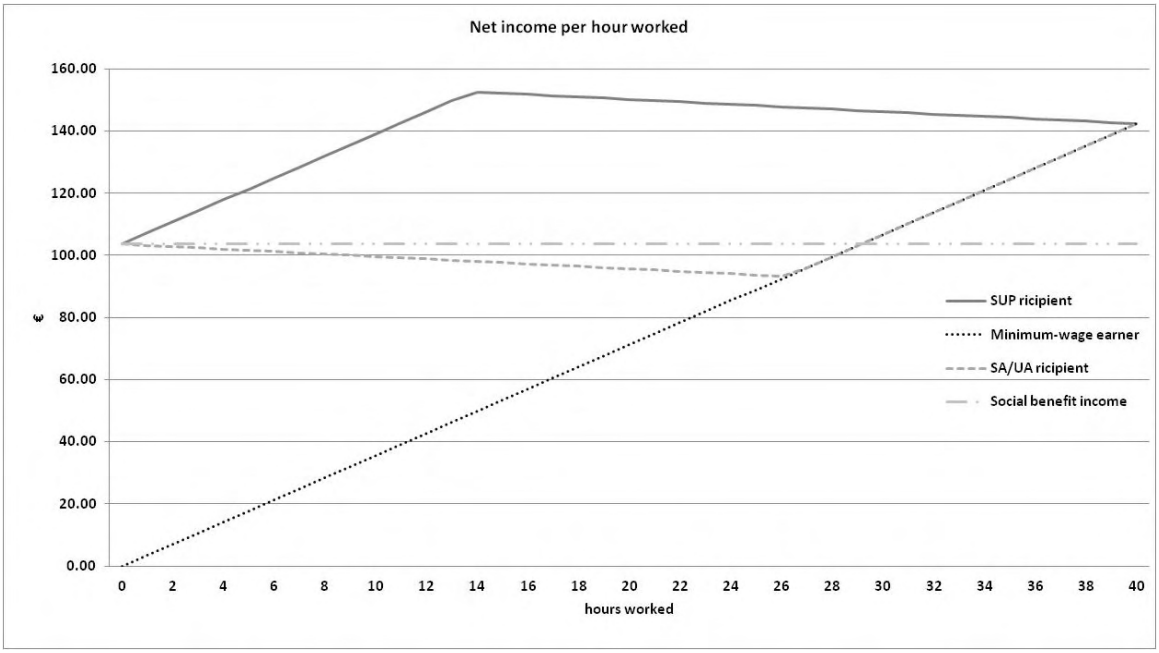


Figure 19: Hourly Net Income vs Hours Worked

As shown in figure 19, the net income for persons entitled to social benefits who opt to work a 40 hour week is equal to the minimum wage of €142.30 a week. In line with figure 19, recipients of both SA and UA are worse off from the first hour of employment in terms of their hourly net income. The downward trend persists up to the 26th hour of work. From the 27th hour of work onwards, SA and UA recipients are no longer entitled to such benefits and the hourly minimum wage rate takes over. In the case of SA and UA recipients it does not pay to work unless the job entails a minimum of 30 hours. Yet, the opportunity cost of not working is negligible at just €0.97 per hour or less if losses pertaining to other benefits such as Children's Allowance are factored in.

In the case of single unmarried persons, the opportunity cost of not working is relevant, up to the 14th hour of work. Eventually, from the 15th hour of work onwards, work does not pay because income earned is lost from social benefits. In the 40th hour the opportunity cost of not working is at '0' as the SUP benefit is equivalent to a 40-hour week (assuming a minimum wage rate).

As shown in figure 20, the METR[38] for Malta is ridiculously high reaching a rate of 110 per cent. A high METR is conducive with a low income gap between a person on benefits and a minimum-wage earner. The METR exceeds the 100 per cent threshold for the simple reason that in contrast to each €1 foregone in benefits, an employer on minimum wage is cashing in only €0.90. The remaining €0.10 goes into social security contributions. Consequently, it follows that benefit programmes are sending the wrong signal to benefit recipients. Rather than motivating work, the current benefit schemes make 'work pay less'.

[38]METR represents the benefit withdrawal amount and the tax paid on every Euro earned in market activity by a person on social benefits.

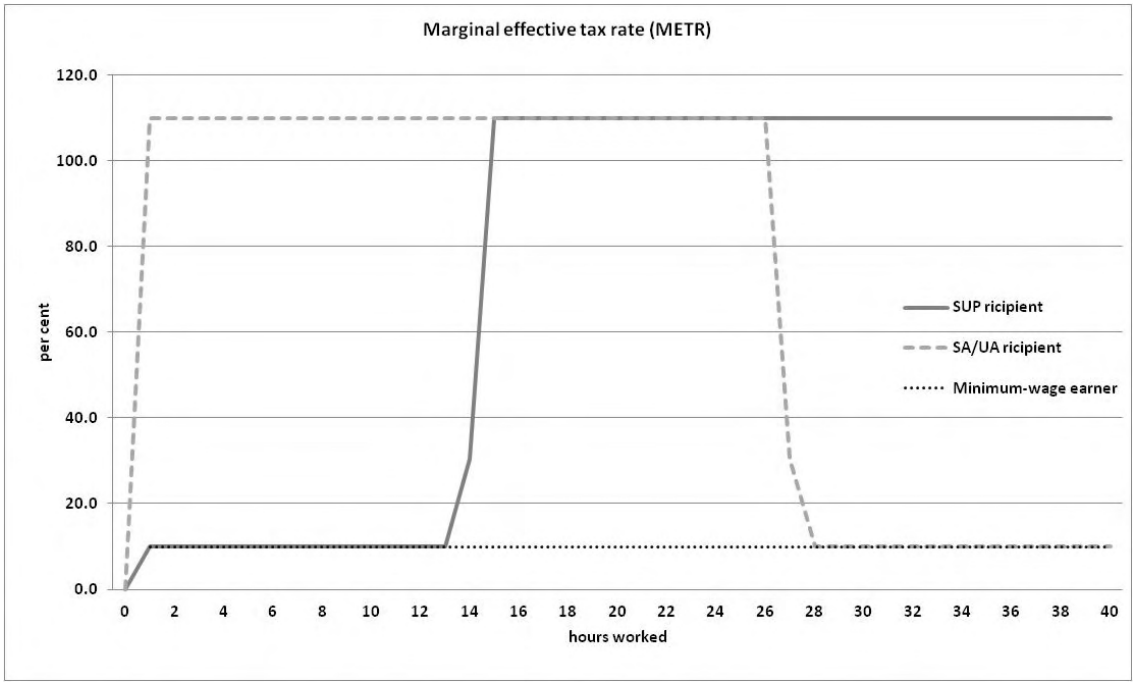


Figure 20: Marginal Effective Tax Rate (METR)

The welfare trap in Malta is also evident from figure 21. While a minimum-wage earner pays an AETR of 10 per cent[39], benefit recipients incur a higher AETR reaching up to 45 per cent when working for a 40 hour week. Such an extensive AETR discourages social benefit holders from work as the benefit trap is highly daunting at such high rates. The AETR is even higher than the highest tax band rate of 35 per cent.

Unless distortionary welfare schemes undergo extensive revisions, work will not pay for persons on social benefits. The net income gap must increase substantially in order to increase the opportunity cost of not being in work. Various policy recommendations are highlighted in the next chapter to address this pitfall.

[39] Only social security contributions are payable.

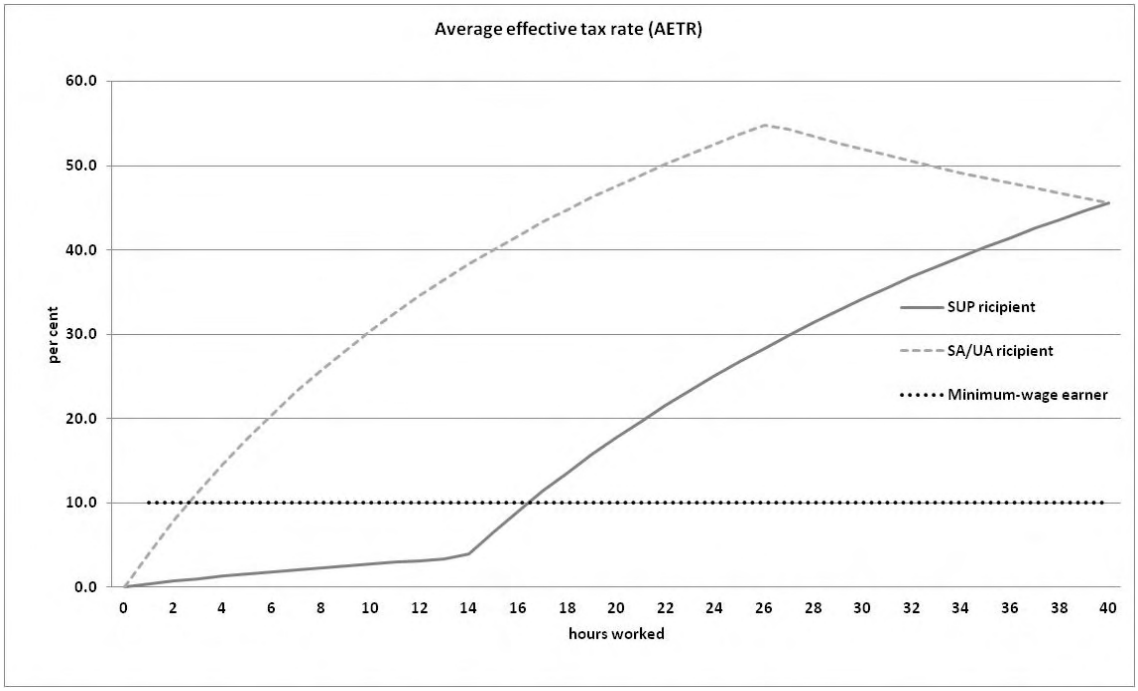


Figure 21: Average Effective Tax Rate (AETR)

8.5 In-Work-Benefits

One of the major setbacks that hinder inactive persons from taking up work is their low productivity level which is reflected by their low pay. As a result, the cost of leisure time is high enough to make work unattractive. It must be highlighted that this shortcoming to the Maltese labour market is highly common across many developed economies.

In order to counter this pitfall, many developed countries resorted to in-work-benefit policies (IWB), also termed as Earned Income Tax Credits (EITCs). In-work-benefits are cash transfers to individuals on low paid jobs (Immervoll et al., 2009).

Research shows that individuals on very low income levels incur the highest METRs as most of the earned income is forfeited through benefit withdrawal, income tax or social security contributions (Immervoll, 2004). In-work-benefits help reduce this shortcoming by lowering the marginal effective tax rates (METR). IWB, just like minimum wages, make employment more financially attractive for people with low skills. Unlike legal price floors imposed on employers, IWB are transfer payments financed by taxpayers.

"The appeal of IWB policies spans political divides, and governments of both the right and left have introduced or extended such policies in recent years. For example, it was left-of-centre governments in France and Hungary that introduced such a scheme, conservative governments in Sweden and broad-based coalition governments in Belgium, Denmark and the Netherlands... In both the United Kingdom and the United States, the two countries with the longest history of IWB schemes, support for such programmes has been bipartisan: the Heath, Wilson, Thatcher and Blair administrations increased expenditures on IWB schemes in the UK, as did the Reagan and Clinton administrations in

the US. The political attraction is that such policies appear to achieve both employment and distributional objectives at the same time, unlike some other alternative policies" (Immorvell et al., 2009).

Extensive support for IWB arises due to its positive effects on labour supply. Evers et al., (2005) and Immorvell et al., (2007) show that labour responsiveness for IWB, on average is 0.2 per cent. This implies that for every 1 per cent increase in the income gap between in-work and out-of-work activity, labour supply increases by 0.2 per cent. In order to establish an effective policy, countries take into account other variables when determining the level of IWB. These variables include the number of children in a family, the number of hours of work and the amount of income received from work (Immorvell et al., 2009).

Most of the evaluations of IWB originate from US EITC scheme. In the US, the success rate of EITC is mostly evident amongst single unmarried mothers. Meyer and Rosenbaum (2001) find that 60 per cent of the increase in employability for single unmarried mothers' between 1984 and 1996 was attributable to the EITC. In a separate research Grogger (2003) shows that 34 per cent of the increase in employment for the same category of persons occurred during 1993 and 1996. Engagement of lone mothers into the labour market due to IWB addresses both inequality as well as poverty amongst benefit recipients.

Similar results emerge from studies conducted on the UK's Working Families' Tax Credit (WFTC). Brewer et al., (2006) remark that three years after the introduction of the WFTC in 1999, direct employment amongst beneficiaries increased by 5 percentage points, from 50 per cent in 1999 to 55 per cent in 2002. The authors infer that most of the beneficiaries who opted for regular employment were lone mothers with young children. In line with Immorvell et al., (2009), IWB schemes registered positive outcomes in both Canada and France as well. A list of IWB in OECD countries is provided in Appendix B.

Thanks to their positive attributes to the labour market, IWB schemes are today part of mainstream policies across developed economies. On their own, however, IWB schemes do not resolve poverty. Indeed, IWBs should be considered as a stepping stone to the (re)introduction of people into employment. Higher incomes and lower poverty in the long-term can only be secured by the formation of human capital.

Policy Recommendations

Research shows that by 2020 the Maltese employment ratio will fall short from the EU27 average by just 3.1 percentage points. This is a remarkable achievement when taking into account an employment gap of 8.7 percentage points way back in 2000. Nevertheless, this accomplishment does not necessarily imply that our standard of living will be at par with the EU27 by 2020.

In reality, hourly productivity of Malta will not have caught up with the EU27 average by 2020. This is due to the fact that the degree of skills in Malta will lag behind the average of the EU27. By 2020 it is estimated that the average skills score in the EU27 will be 15 percentage points higher than Malta's. Under current circumstances, ceteris-paribus, Malta will close the skills gap by 2045.

Without disregarding the considerable efforts dedicated towards the enhancement of employment, there is still much room left for improvement. At present there are particular issues that continue to hinder employability prospects for specific cohorts. Inactivity amongst elder females and a high extent of welfare dependents impede higher employability. That is why it is imperative to engage sound policy measures that make work attractive.

Thirty-six policy recommendations are documented in the subsequent section. These policies will not only speed up Malta's catch up process with the rest of the EU, but will further contribute to the convergence of different tiers of Maltese society.

9.1 General Recommendations

1. In the coming years Malta's top priority should be to invest more resources into the skills of its workforce.

Over the last couple of years, efforts have been dedicated to improve the employment ratio of Malta. As a result, the employment rate in Malta increased by 4.0 percentage points between 2006 and 2011. Without disregarding the fact that a higher employment level is required for the generation of more wealth, an increase in productivity must contemporaneously follow. Higher productivity levels require a skilled and flexible workforce that is able to adapt to change.

2. The introduction of a holistic and permanent 'Active Labour Market Policy' to address the limitations of the local labour market.

In Malta, a series of temporary employment schemes (such as the ones managed by the Employment Training Corporation) co-funded by the EU have been set up to create new job

opportunities and improve the skills of the workforce. Due to their positive attributes such schemes should be implemented on a permanent basis rather than being subject to EU funding.

3. In the medium term (4-6 years), expenditure on ALMP should increase by 0.55 percentage points in Malta.

Expenditure on ALMP must be treated as capital investment as it boosts the productive side of an economy. The 0.55 mark is based on the benchmark expenditure of ALMP in the EU which is circa 0.7 per cent of GDP.

4. An efficient and effective ALMP requires the contribution of all social partners. Thus, a central counselling team made up of government representatives, trade-unions, employers' representatives, education sector representatives', economists and political parties must be established.

In order to cater for the complexity of the labour market, it is imperative for the policy makers to be aware of as much information as possible. This in turn reduces the extent of asymmetric information and increases the probability of an effective ALMP.

5. An efficient and effective ALMP should address employability issues (e.g. long-term training) pertaining to the society at large.

A holistic ALMP does not take into account one particular target group at the expense of others. In reality, ALMP should address different target groups in order to enhance the labour market at large.

6. ALMP should avoid a 'one-size-fits-all' approach.

Empirical research shows that educational training programmes are more beneficial to young target groups. Research further conveys that job-creation schemes and on the job-training measures are better suited for elder target groups. Hence, different ALMP measures should cater for different target groups to maximise their effectiveness.

7. Change is the most stable action of all – ALMP should be subject to revisions on a five year basis in order to take into account new ideologies.

In a highly dynamic global economy what may be relevant today may not be relevant tomorrow. Adaptability to exogenous developments certify the most efficient and effective ALMP.

8. Malta should step-up its efforts and participate more in the MLP.

The EU encourages Member States to actively participate in discussions where country experiences on policy implementation and outcomes are shared. The Mutual Learning Programme (MLP) is a forum where Member States discuss issues related to the labour market and the ways and means to achieve pre-established targets by the EU. Since 2004, Malta has attended for only 13 out of 48 meetings – an attendance rate of 27 per cent.

9. In collaboration with CEDEFOP, Malta published its first skills report in 2009. A periodical preparation of skills reports would provide an uninterrupted awareness of potential business opportunities that might arise along the way. In turn, this would provide an insight on the development of demand for particular skills.

An increasing number of EU Member States together with CEDEFOP (the EU's Vocational Education and Training (VET) arm) are embracing scientific approaches to project prospective business opportunities and as a consequence the type of skills that will be demanded in the near future.

9.2 Reforms to the Employment and Training Corporation (ETC)

10. ETC should re-focus efforts to its original core competencies.

Originally, the ETC was set to provide labour market matching services and to train people with limited or no skills at all. Gradually, ETC engaged into various other schemes which triggered higher unfilled vacancies and more pronounced demand for training. Thus, it is deemed appropriate for ETC to re-engage itself towards the provision of core employment services.

11. ETC budgets should be expanded to cater for the influx of inactive persons. ETC should embark on audit exercises as suggested by the National Audit Office.

In 2010 ETC spent over €1.0 million in training services. This figure would definitely be higher if an influx of inactive persons enters the labour market. In order to determine the efficiency and effectiveness of their schemes, ETC should produce periodical audits.

12. In collaboration with the private sector, ETC should take the role of a market regulator.

In most of the European countries, the provision of certain types of training services is sub-contracted to the private sector. Prospective trainees are allocated a particular amount of money to be spent on training. In part, the privatisation of training services enhances the quality of training

due to competition. Competition may be further encouraged through public bonus payments payable to the most efficient and successful providers of training services and job placements.

9.3 Reforms to the Provision of Public Employment Services

13. ***Unfilled vacancies translate into tax revenue losses. More resources should be allocated to improve the job matching services. It is suggested to increase the number of employees operating PES from 27 at present to 55.***

Malta has the highest vacancy rate amongst all EU Member States. Despite ETC efforts to match 4,000 unfilled vacancies on an annual basis, there were 5,704 and 10,395 unfilled vacancies in 2010 and 2011 respectively. It must be highlighted that this is not a case of skills mismatch as only 25 per cent of the vacancies require a high attainment of skills. An increase in the PES workforce would improve the time allocated to Personal Action Plans (PAP). On average only 2 working hours are dedicated to PAP in a year. Increasing the amount of time dedicated to each PAP would eventually render job matching services more effective.

14. An increase in the number of PES personnel improves the participation rate of clients in basic skills programmes through more focused targeting and follow-ups.

According to the National Audit Office (2006) report on ETC, most (unemployed) clients attend basic mandatory courses and forego other non-mandatory but essential courses.

9.4 Reforms to Employment-Subsidies Scheme

15. Future employment subsidies should be more target-oriented.

If not properly managed, employment-subsidy schemes may lead to substantial economic inefficiencies in the form of deadweight loss and displacement effects. From the research, it transpires that one-third or €4.1 million of the total expenditure on the Employment Aid Programme was spent on individuals younger than 40 with an educational level equivalent to ISCED 3 or higher. It is very difficult to accept the fact that young unemployed individuals with average-to-high skills are at a higher disadvantage than elder low-skilled and unemployed individuals when applying for a regular job.

16. When considering the effectiveness of publicly financed employment-subsidy schemes it is suggested that employment-subsidies for vulnerable or disadvantaged persons should be engaged on a permanent basis.

In between the launch of TEES and the EAP (a four year span), there were no big scale private-employment publicly financed subsidy schemes.

17. Sound, periodical evaluation studies should be engaged to determine the effectiveness and efficiency of employment-subsidies schemes.

This makes sense as the extent of resources allocated on employment-subsidies is substantial when compared to other labour market programmes. Policy evaluation should not be limited to the number of participants benefitting from a particular employment–subsidy scheme. Tracer studies should be taken on board in order to determine the effectiveness of a scheme to promote the permanent engagement of individuals into the labour market.

9.5 Reforms to Training Schemes

18. On the premise that productivity gains are attributable to the extent of skills, resources spent on training must not be subject to availability of EU funds. Resources (other than EU funds) should be permanently allocated for training services.

The recent success of the Training Aid Framework substantiates the interest expressed by the private sector towards the enhancement of human capital.

19. Tax rebates that deduct the full amount of training costs from the income-tax can motivate firms to invest more in their employees

Many small to medium firms consider training activities as superfluous expenses to their business. Usually, training budgets do not feature and if they do, they are the first to be trimmed during financial difficulties.

20. Government should impose a minimum level of expenditure of training on medium and large firms.

Several European Member States encourage private sector investment on training. France for instance adopts a more aggressive approach as firms that forego training are subject to fines. The revenue collected from fines is subsequently spent on training.

21. While training courses offered by ETC and MCAST address current market requirements efforts should be stepped up to project upcoming training requirements.

CEDEFOP studies continuously remark a projected shortage of high-end skilled individuals across the EU. This stern advice helps Member States to carry out tweaks and updates to their ALMP accordingly.

22. Training should encourage job-mobility across all tiers of society.

Training should not be limited to the attainment of basic skills. In Luxembourg for instance, in view of a short supply of hedge fund managers ALMP training schemes converted accountants and economists into hedge fund managers. Job mobility should be encouraged across all social strata.

23. Trade-unions must put training budgets at the forefront of collective agreement negotiations.

According to the European Conditions Working Observatory, in 2010 only a third of Maltese employees were trained on their workplace. This contrasts with the Dutch (49%), the Slovenians (48%) and the Danish (44%).

24. Malta should explore the concept of 'notional training accounts' where the unemployed shop around for training.

To boost training quality, certain Member States liberalised the provision of training services. Malta should engage similar approaches to enhance the effectiveness of training services.

25. ***A 'Skills Council' should be set up involving social partners and other prominent guests to regularly meet, discuss and update the training strategy to cater for the latest developments in demand for skills.***

The concept of a skills council has been integrated to the ALMP system of Denmark. Similar efforts have been embraced by the UK through the formation of the Commission for employment and skills. In both cases, social partners are at the forefront of the decision making process of ALMP. The expertise of social partners is indispensable to the maximisation of the positive effects of ALMP.

26. Training programme schemes should be followed by effectiveness and efficiency reports.

Just as in the case of employment subsidies, training schemes involve an extensive allocation of resources. Accordingly, policy-makers should be able to evaluate the worthiness of such programmes.

9.6 Reforms to the Education System

27. An evaluation of the current education system is urgently required to assess the motive behind the extensive rate of early school leavers at the age of 16.

Considering the resources disbursed on education, Malta has one of the poorest returns to education in Europe. The Early School Leavers (ESL) rate is at an outstanding level of 33.5 per cent - twenty percentage points higher than the EU27 average.

28. Tracer studies should be taken on board as soon as possible by MCAST.

The formation of MCAST in 2001 was a leap forward in Vocational Education in Malta. To date MCAST has trained thousands of students and produced hundreds of skilled workers. Nevertheless, it is pertinent to assess the effectiveness of MCAST courses to enhance both efficiency and effectiveness of this institution.

29. In line with tracer studies, guidance reports should be disseminated on an annual basis to all relevant stakeholders in order to increase awareness of labour market demand.

In order to overcome labour market shortages full information must be availed of. Labour market information is very important to aid students plan better their carrier path.

30. In line with performance assessments based on employability and earnings of students, education courses should embrace revisions and updates to enhance their effectiveness.

In Denmark, Vocational Education and Training (VET) courses that do not produce an employment rate of at least 75 per cent of participants are subject to revisions to increase their relevance.

9.7 Addressing the Inactive – (40+ females)

In order to converge with the EU average employment ratio, the participation rate of the inactive must be enhanced. Official statistics convey that the Maltese female employment ratio in the cohort 20 to 39 is catching up rapidly with the rest of Europe. Indeed, a low overall employment ratio for females emanates from the 40+ category. Although not seeking employment, 4,800 females in this category expressed their willingness to work. The following set of policy recommendations addresses the 40+ inactive females.

31. The setup of more childcare centres to encourage 'elder' females to take up work.

In 2011, 10 per cent of females in the 40+ category declared that they cannot work themselves because they are taking care of their grandchildren. Childcare centres promote the (re)entry of this category of inactive into the labour market.

32. In-work-benefits encourage further participation of households with low work intensity and inactive persons with limited skills.

It transpires that 91 per cent of the 40+ female category have an education level equivalent to ISCED 0-2. Low educational attainment is associated with a low level of productivity and consequently low wages. It is therefore paramount to counter this limitation through in-work-benefits that make work pay.

9.8 Addressing the Inactive – (Welfare Dependants)

33. Measures should be engaged to lower the benefit trap for beneficiaries who are 40 years of age or younger.

The current Marginal Effective Tax Rate for welfare beneficiaries is too high. It can go all the way up to 110 per cent, thus impeding their (re)entry into the labour market. The sustainability of around 9,000 welfare dependents for a span of 25 years comes at an unaffordable cost to Malta.

34. A national training plan should be established to improve the skills and employability of this category of people.

Most welfare recipients own very limited skills. Therefore, it transpires that the integration of national welfare reforms should take on board a cohesive training plan to enhance the skills of the inactive on welfare benefits.

35. In order to encourage the (re)engagement of social benefit beneficiaries, social security contributions should be phased-in over a gradual period.

Welfare dependants find it hard to engage into low paid jobs as work does not pay at all. A gradual phasing-in of social security contributions increases the opportunity cost of being inactive at first.

36. Government should consider transferring part of social benefits into a form of employment-subsidy to encourage employment.

The (re)engagement of the inactive on welfare benefits into the labour market reduces the extent of social benefits payable and increases the extent of social security contribution receivable by the government. In turn, the government may transfer part of the extra revenue earned to finance employment-subsidies schemes and further contribute towards the creation of employment.

Concluding Remarks

This research shows that more than ever before, human capital is proving to be one of the most essential elements to indefinite economic growth. Moreover, it is conveyed that 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.

On these lines, several European Member States have envisaged the prominent role of human capital to growth. Consequently, these countries have shifted their efforts towards the development of human capital. To mention a few, the efforts made by the United Kingdom, Germany, Denmark and the Netherlands were outstanding to say the least. The United Kingdom and Germany successfully engaged welfare dependants into work and made work-pay for those on a low income tier.

The flexicurity concept is the flagship of both the Netherlands and Denmark. These countries have moved from guaranteeing 'a lifetime job' to 'lifetime work'. In the case of Denmark and the Netherlands, ALMP has contributed by a large extent to the achievement of a flexible workforce. Thus, it comes to no surprise that 48.3 per cent of the Dutch and 45.4 per cent of the Danish citizens expressed their ability to find another job with the same pay[40] as relatively easy. In contrast, this figure drops to 35.9 per cent in the case of Malta (EWCO, 2012).

The remarkable 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. 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 ours - registered annual productivity gains of 2.7 and 3.0 per cent respectively.

Over the past decade, economic growth in Malta was mainly fuelled by a growing workforce rather than productivity gains. As highlighted earlier, if the growth in employment registered in the past seven years persists, then Malta will reach an employment ratio of 69.0 per cent by 2020. This would translate into a growth of 7.5 percentage points over 2011 (1.3 percentage points of which will materialise automatically because of a shrinking workforce).

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 EU 27 average. The discrepancy between living standards arises due to the gap in the quality of human capital i.e. skills. Indeed the European workforce is much more skilled when compared to Malta's. Based on the current trend of skills development, Malta will not converge with the EU27 average before another 33 years elapse.

On these lines, the document defines the way forward to address the current shortcomings of the Maltese labour market. A series of measures are recommended to accelerate the catch up process of Malta with the rest of the EU27. Recommendations are not limited to the generation of jobs but

[40] The Dutch and Danish replies represent the highest affirmations in the survey.

further accentuate the necessity to upgrade the skills of the workforce. Indeed, the up-skilling of the inactive and job-seekers should be top priority in Malta over the coming years. However, in order to promote the generation of a knowledge-based workforce, the development of skills must involve all tiers of society – from the non-skilled tier all the way up to the highly-skilled tier.

Active Labour Market Policy is a supply-side policy that promotes the activation of the inactive and the creation of new jobs. Furthermore, ALMP embraces the development of skills which in turn promotes productivity gains.

Due to the ageing factor, the Maltese workforce will continue to shrink in the coming years. As a result, labour hourly productivity must increase in order to counter the drop in the labour force and therefore sustain economic growth. Moreover, higher productivity triggers higher profits and better wages for workers. ALMP addresses other social issues such as poverty and inequality by curbing down on precarious jobs as well. Moreover, the upgrading of skills increases the bargaining power of workers when negotiating wages.

The prominent role of ALMP is also substantiated by a gradual downfall of the working-age population across Malta and Europe as a whole. In turn, this will lead to unsustainable population pyramids. Consequently, productivity gains are essential to counter the imbalance of the population pyramids.

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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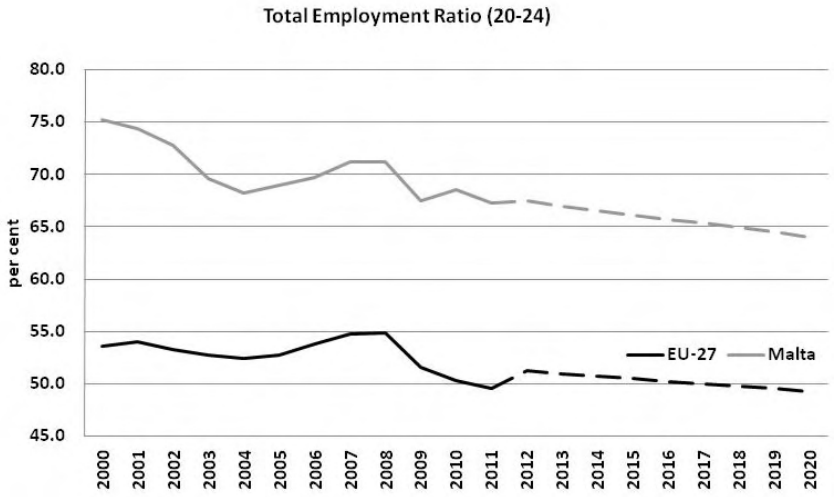
Appendix A


Total Employment Ratio (20-24)
per cent
80.0
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50.0
45.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Total Employment Ratio (25-29)
per cent
84.0
82.0
80.0
78.0
76.0
74.0
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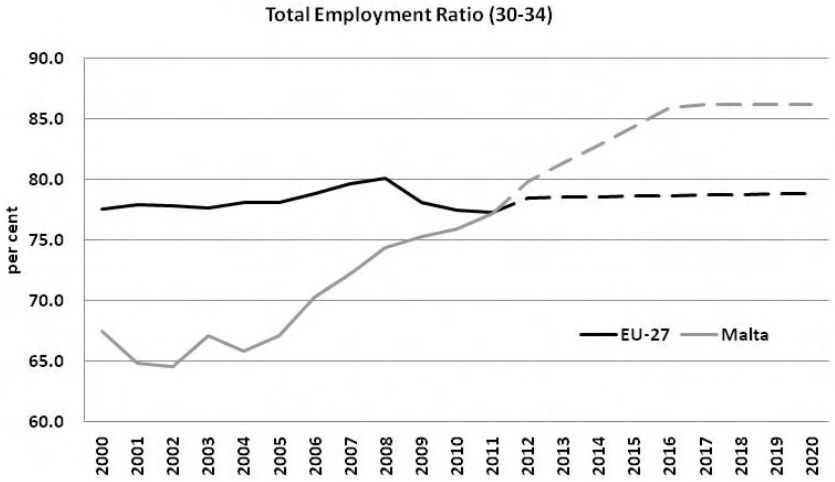
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020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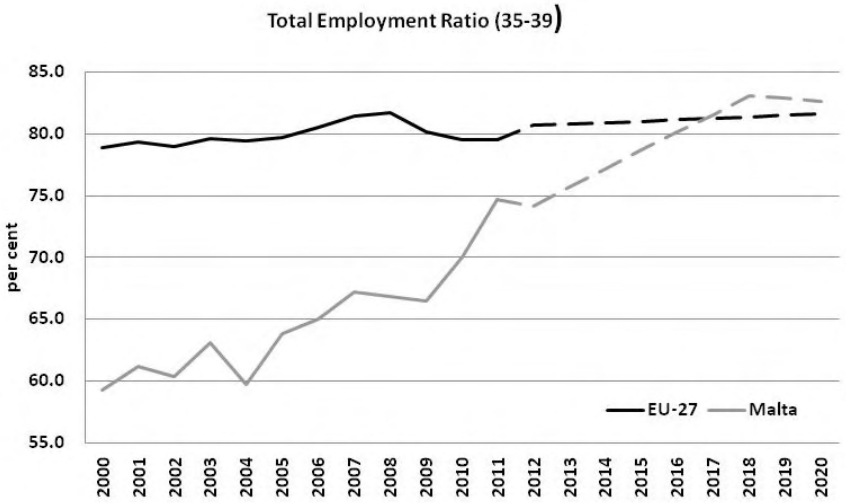
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020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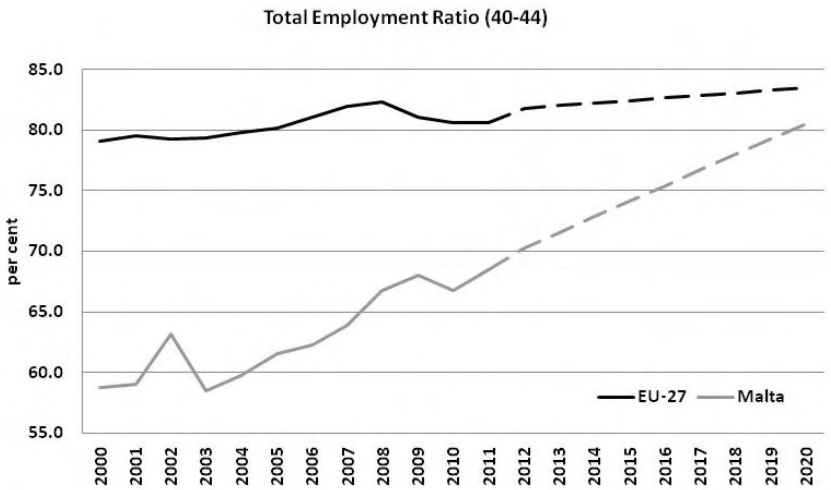
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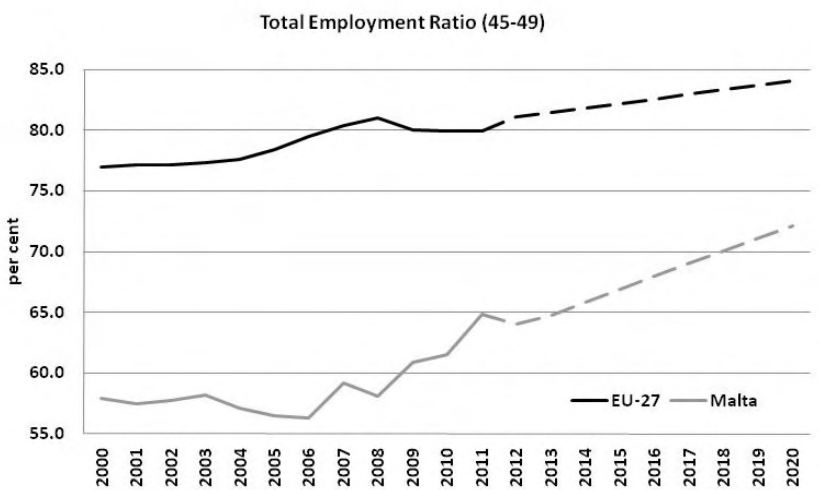
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55.0
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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Total Employment Ratio (50-54)
per cent
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80.0
75.0
70.0
65.0
60.0
55.0
50.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Total Employment Ratio (55-59)
per cent
75.0
70.0
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EU-27
Malta
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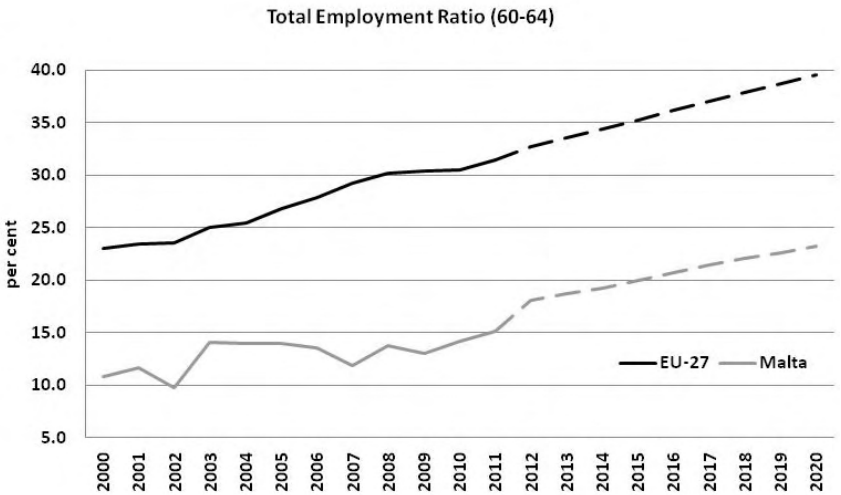
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20.0
15.0
10.0
5.0
EU-27
Malta
2000
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2014
2015
2016
2017
2018
2019
2020


Male Employment Ratio (20-24)
per cent
80.0
75.0
70.0
65.0
60.0
55.0
50.0
EU-27
Malta
2000
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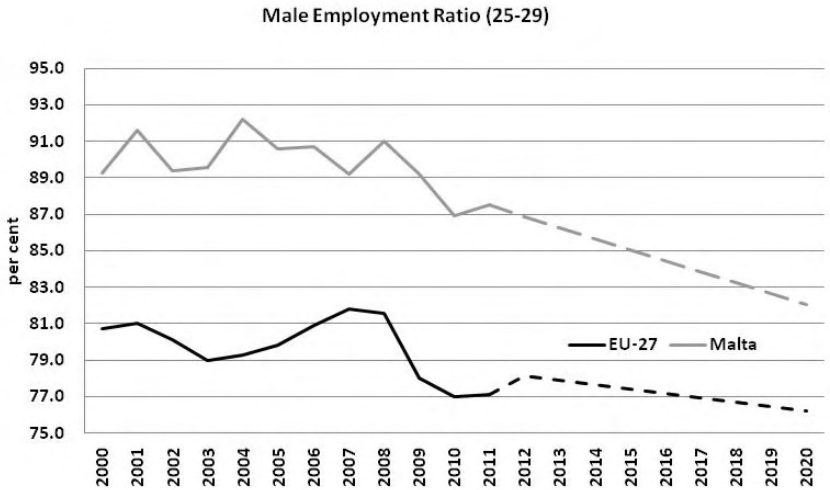
2020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83.0
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75.0
EU-27
Malta
2000
2001
2002
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2004
2005
2006
2007
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2016
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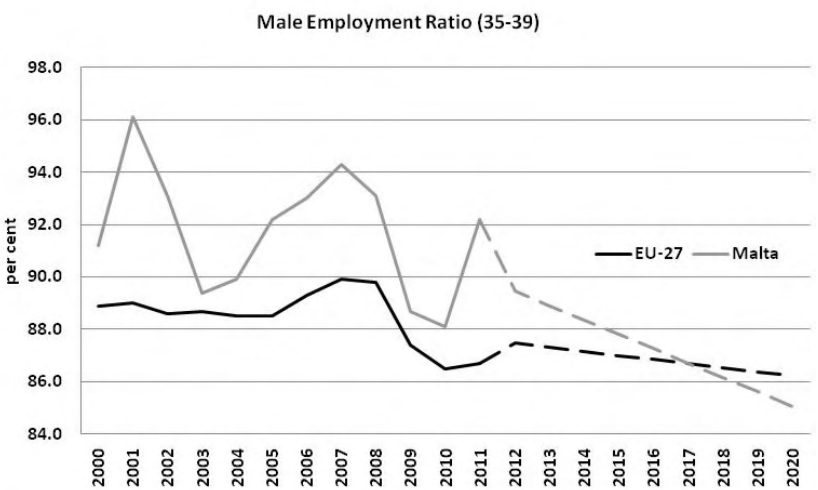
2018
2019
2020


Male Employment Ratio (30-34)
per cent
96.0
94.0
92.0
90.0
88.0
86.0
84.0
82.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Male Employment Ratio (35-39)
per cent
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96.0
94.0
92.0
90.0
88.0
86.0
84.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Male Employment Ratio (40-44)
per cent
95.0
94.0
93.0
92.0
91.0
90.0
89.0
88.0
87.0
86.0
85.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Male Employment Ratio (45-49)
per cent
94.0
93.0
92.0
91.0
90.0
89.0
88.0
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86.0
85.0
EU-27
Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Male Employment Ratio (50-54)
per cent
96.0
94.0
92.0
90.0
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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
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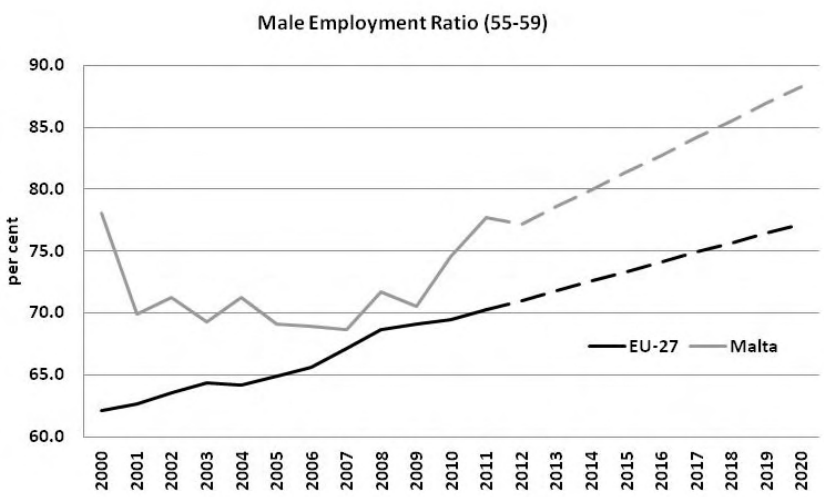
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EU-27
Malta


Male Employment Ratio (60-64)
per cent
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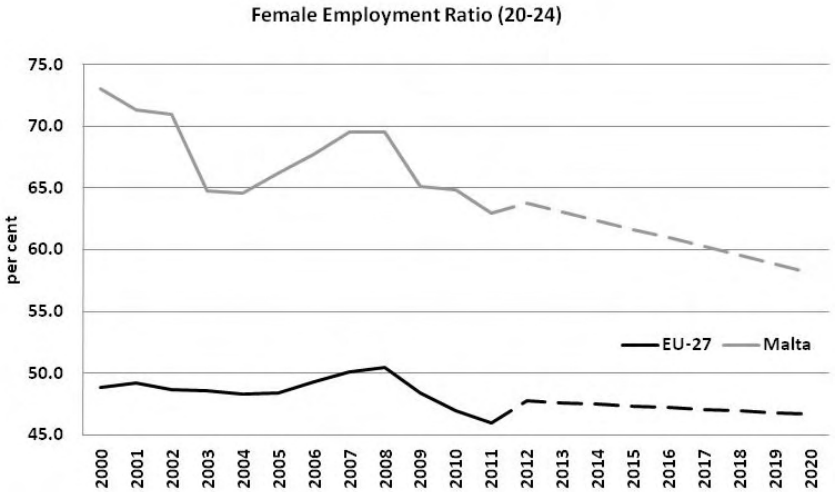
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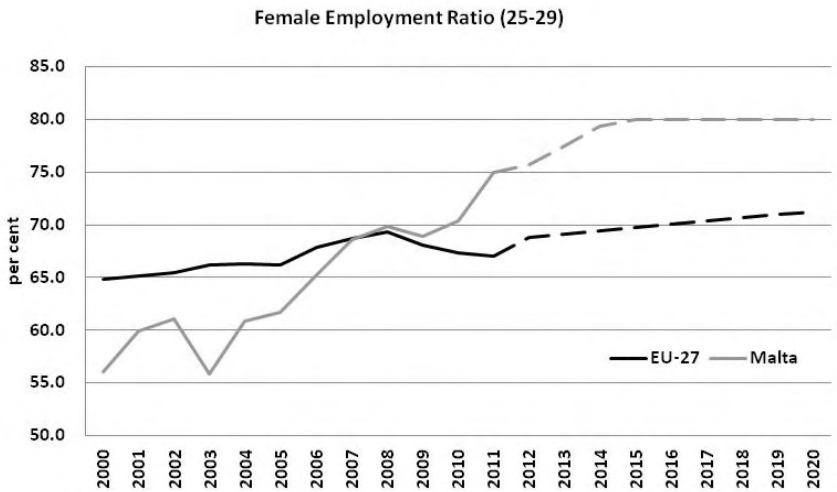
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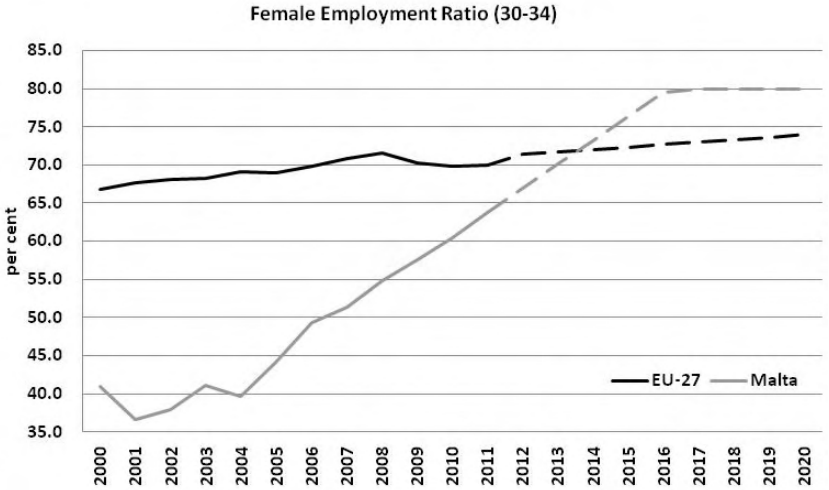
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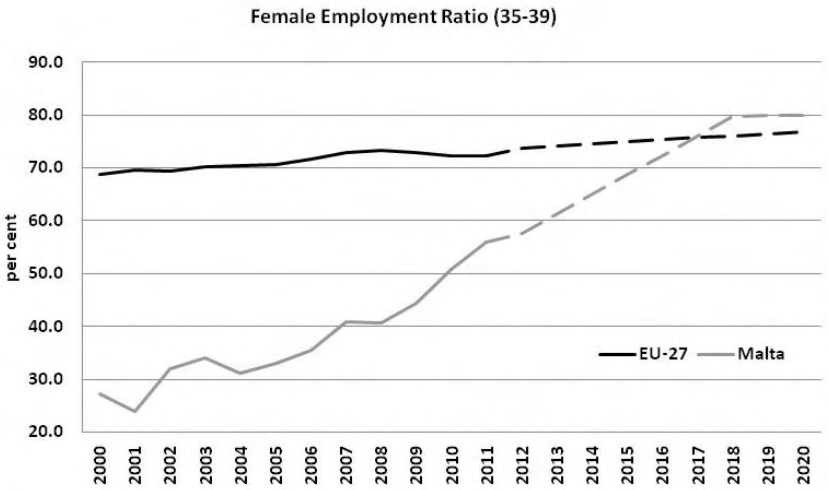
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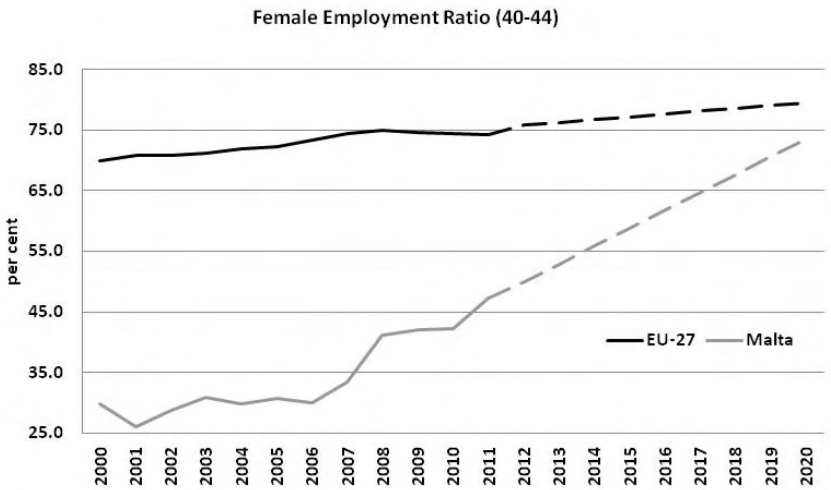
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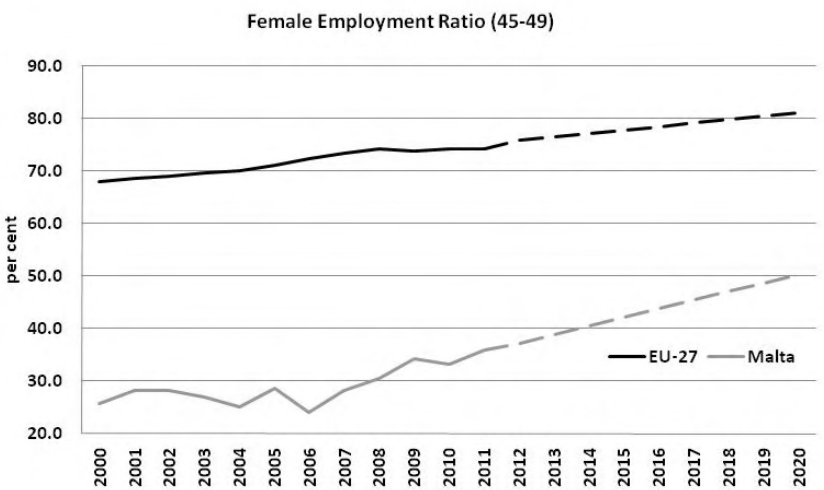
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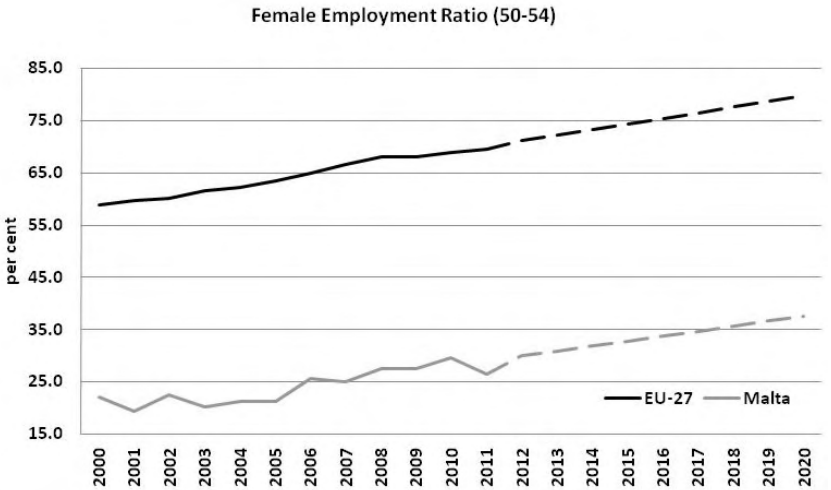
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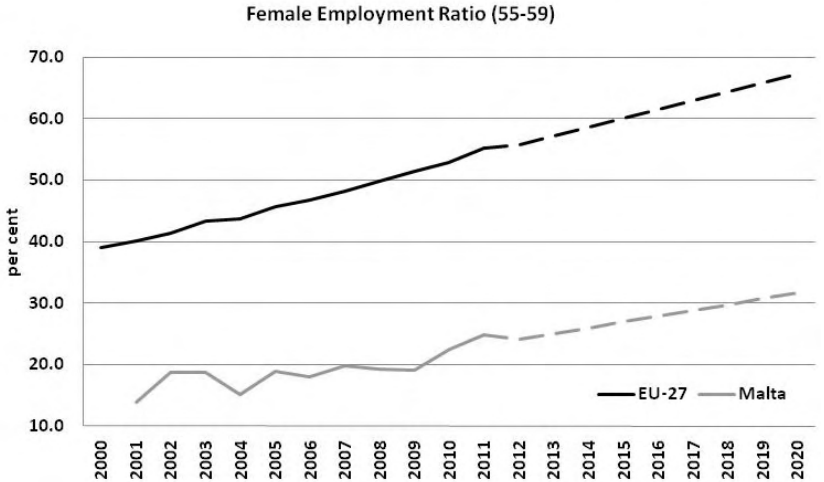
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Malta
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


Female Employment Ratio (60-64)
35.0
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per cent
EU-27
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Appendix B

One-off or time-limited in-work benefits: 2007 (except where otherwise noted)

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Australia	Employment entry payment.	Unemployed lone parents or long-term income support recipients. Eligible once every 12 months.	Yes (lone-parents)	No (flat rate)	Starting employment	Lump sum of AUD 104 (USD 87).	Not income-dependent		--
Belgium	1. Complément de garde d'enfant.	Long-term unemployed lone parents.	Yes	No (flat rate)	Starting employment	Lump sum of EUR 743.68 (USD 1018).	Not income-dependent		--
Canada	1. Ontario start up benefit. ('typical' province-level start up benefit)	Social assistance recipients (eligibility limited to once every 12 months).	No	No	Starting employment	Lump sum of CAD 253(USD 253).	Not income-dependent		--
Ireland (continues next page)	1. Back-to-work allowance (BTWA).	Long-term unemployed (over 2 years) aged over 23.	No	Yes (child dependent supplement in SA amount)	Starting employment.	EUR 7 246 (USD 9919; 23% of APW) = 75% of SA amount; 50 % and 25% of SA amount for 2nd and 3rd years.	Not income-dependent		--

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Ireland (cont.)	2. Continued child dependent payment (CCDP).	Long-term recipients of job-seekers benefits (CCP is a continuation of the child-additions to these benefits for 13 weeks)	Yes	Yes	Full-time for at least 4 weeks.	EUR 286 (USD 1566) = 1% of APW per child	Not income-dependent		--
Japan	Re-employment allowance.	Unemployment benefit recipients.	No	No	Starting employment, at least 20 hours per week.	Lump sum = remaining days of benefits × 1/3 × daily unemployment benefit (basic allowance).	Not income-dependent		--
Korea	Early re-employment allowance.	Unemployment benefit recipients.	No	No	Starting employment, at least 20 hours per week.	Lump sum of 50% of remaining benefits.	Not income-dependent		--
Slovak Republic	Activation allowance	Long-term unemployed SA recipient returning to work	No	No	Income from work at least MW and less than 3*MW	SKK 11 400 = 5% of AW over a period of six months			Individual

Abbreviations:
AW = average wage, APW= average production worker wage, MW = statutory minimum wage, SA = social assistance, SSC = social security contributions, UA = unemployment assistance.

Notes:
Smaller programmes may exist in these and other countries. Lump-sum payments are paid only once. Where payments are recurring, they are shown on an annual basis. 2007 average exchange rates were used to convert to US dollar amounts. The table does not include safety-net benefits (such as social assistance) that are not conditional on employment but may be nevertheless be available to some low-income earners. Further details on tax-benefit policies in each country and for years other than 2007 are available on the OECD website: www.oecd.org/els/social/workincentives.

"Permanent" in-work benefits: 2007 (except where otherwise noted)

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Belgium	Reduced social security contributions		No	No	Income from work	Max. value of SSC allowance is EUR 1716 (USD 2349) =4% of AW	18%	40% of AW	Individual
Canada	Working Income Tax Benefit (most provinces have similar)	Working individuals with low income	No	Yes	Income from work at least CAD 3000 = 7% of AW	CAD 500 (USD 500) = 3.5% of AW; double in case of couples or lone parents	Phase-in: 20%; Phase-out: 15%	23% of AW; 34% of AW in case of couples or lone parent	Family
Finland	1. Earned income allowance (municipal income taxation)	Working individuals with low income.	No	No	Income from work at least EUR 2 500 = 7% of AW	Max. value of tax allowance is EUR 3 250 (USD 4 449) =9% of AW.	1%	40% of AW	Individual
	2. Earned income allowance (central income taxation)					Max. value of tax credit is EUR 400 (USD 548) =1% of AW.	0.9%	95% of AW	
France	Prime pour l'emploi.	Working individuals with low income.	No	Yes	Income from work at least EUR 3 695 = 11% of AW	EUR 948 (USD 1298) =3% of AW	Phase-in: 4-5%; phase-out: 9%	66% of AW	Family

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Germany	Reduced social security contributions	Working individuals with low income.	No	No	Income from work	Max. SSC reduction of EUR 1001 (USD 1370) =2% of AW.	5-21%	11% of AW	Individual
Hungary	1. Employee Tax credit	Working individuals with low income.	No	No	Income from work	HUF 108 000 (USD 588) =5% of AW	Phase-in: 18%; phase-out: 18%	70%	Individual
	2. Extended Employee Tax credit	Working individuals with low income.			Income from work at least 28% of AW	HUF 28 080 (USD 153) =1% of AW	Phase-in: 18%; phase-out: 5%	47%	Individual
Ireland	1. Family income supplement (FIS).	Working families with children and low earnings.	Yes	Yes (through earnings limit)	19 hours per week	60 % of difference between net family earnings and earnings limit (78% of APW).	See column [6]		Family
	2. Part-time job incentive (PTJI).	Long-term unemployed previously receiving UA. Instead of UA, part-timers get flat-rate weekly payment.	No	No	Part-time work	EUR 6 120 / 10 067 = 20% / 32% of APW.	Not income-dependent		--
Korea	Earned income tax credit (from 2009)	Low-income working families.	Yes	Yes	Details not yet known.		Details not yet known.		Family

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Netherlands	1. Combination credit	Working families with children aged under 12.	Yes	No	Income from work	EUR 149 (USD 204).			Individual
	2. Additional combination credit	Same as (1) and must be a lone parent or the lower-earning partner.				EUR 700 (USD 958) =2% of AW			
New Zealand	1. In-work Tax Credit	Working families with children and not receiving a main out-of-work benefit.	Yes	Yes	20/30 hours per week (combined) for one/two-parent families	NZD 3 120 (USD 2 380) = 7% of AW	20% (tapered jointly with main family benefit)	Once main family benefit is fully tapered off	Family
	2. Minimum Family Tax Credit		Yes	No		ensures a minimum net income of NZD 18 044 (USD 13 800) before adding in other family benefits	See column [5]		
Slovak Republic	Child tax credit	Working families	Yes	Yes	Income from work by at least one family member at least 6*MW	Tax bonus of SKK 6 480 (USD 263) =3% of AW *per child*.			Family

	Name of programme	Beneficiaries	Children condition on benefit eligibility	Children number influence on benefit amount	Work criterion	Maximum benefit	Taper rates	Phase-out starts at	Benefit Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Sweden	Earned income tax credit under the local income tax (EITC).	Working individuals	No	No	Income from work	SEK 11 000 (USD 1628) =6% of AW	Non-refundable tax credit so its value initially increases up to the point where the credit fully offsets (local) tax liability.	No phase-out	Individual
United Kingdom	Working tax credit.	Working individual.	No (unless under 25)	No, but lone parents get more	16 hours per week; 30 hours per week if aged 25+ and no children	Maximum GBP 4 135 (USD 8274) (12% of AW) for couple or lone-parent (working over 30 hours/ week)	37%	16% of AW	Family
United States	Earned income tax credit.	Working families with children and individuals with low income.	No	Yes (increase with number of children, see next column)	Income from work	USD 428 (1% of AW) without children, USD 2853 (7% of AW) with one child, USD 4716 (11% of AW) with 2 children.	Phase-in: 8-40% depending on family type; phase-out: 0.8-21% depending on family type	17-42% depending on family type	Family

Abbreviations:
AW = average wage, APW= average production worker wage, MW = statutory minimum wage, SA = social assistance, SSC = social security contributions, UA = unemployment assistance.

Notes:
Smaller programmes may exist in these and other countries. All payments are shown on an annual basis. 2007 average exchange rates were used to convert to US dollar amounts. The table does not include safety-net benefits (such as social assistance) that are not conditional on employment but may be nevertheless be available to some low-income earners. Further details on tax-benefit policies in each country and for years other than 2007 are available on the OECD website: www.oecd.org/els/social/workincentives.