



European Employment Observatory

EEO Review: Long-term unemployment, 2012

Malta

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1. Introduction –long-term unemployment, recent trends; 2007-2011

The Labour Force Survey (LFS) indicates that there were about 12000 unemployed persons in Malta in 2011, resulting in an unemployment rate of 6.5 %, which is much lower than the unemployment rate of 9.7 % in the EU-27(Eurostat). Out of the total number of unemployed persons in Malta in 2011, about 5500 or 46.2 % were long-term unemployed: that is, were unemployed for 12 months or more. At 41.9 % of all the unemployed, the long-term unemployment ratio was considerably lower in 2007. However, it increased during the international recession and is now significantly higher than the 42.9 % EU-27 average.

An increase in the ratio of the long-term unemployed to the active population in Malta was registered between 2008 and 2010, from 2.7 % to 3.2 %. The situation appears to have then been contained and the figure decreased to 3.0 % in 2011. The situation is bleaker in the EU-27, where the ratio of unemployed has continued to increase every year since 2008 and reached 4.1 % in 2011 (Eurostat).

The table below shows the link between the long-term unemployment rate and GDP growth in both Malta and the EU-27. When the Maltese economy shrunk by 2.6 % in 2009, this resulted in an increase of 0.5 percentage points in the long-term unemployment rate. In the EU-27, a decrease in the GDP of 4.4 % in 2009 resulted in an increase of 0.4 percentage points in the long-term unemployment rate. However, statistics also indicate that subsequent increases in the GDP did not translate into reductions in the long-term unemployment rates.

Table 1. Real Gross Domestic Product (GDP) growth rate and Long-Term Unemployment rate (LTU) (%)

		2007	2008	2009	2010	2011
Malta	GDP	4.4	4.1	-2.6	2.5	2.1
	LTU	2.7	2.5	3.0	3.2	3.0
EU-27	GDP	3.2	0.3	-4.4	2.1	1.5
	LTU	3.1	2.6	3.0	3.9	4.1

Source: Eurostat

Despite the international recession which has also been felt in Malta, though to a lesser extent than in other EU countries, the average long-term unemployment rate between 2009 and 2011 was still slightly lower than the average unemployment rate between 2000 and 2008 (3.1 % and 3.3 % accordingly). A similar trend can be seen among the EU-27 (3.8 % between 2000 and 2008, and 3.7 % between 2009 and 2011) (Eurostat). These figures indicate that governments are nowadays more effective at containing long-term unemployment than they were before 2008.

2. Incidence of long-term unemployment across different groups

At 2.5 %, the long-term unemployment rate of women in Malta in 2011 is considerably lower than the 3.3 % of men. This figure reflects the very high female inactivity rate in Malta. Working women tend to be younger and more highly educated than working men. Older and less educated women, who are at greater risk of long-term unemployment, are much more likely than their male peers to be inactive. The situation is different from the EU-27, where

there is a greater balance of inactivity between men and women, which is reflected in more equal levels of long-term unemployment between the sexes (4.1 % among women and 4.2 % among males) (Eurostat).

While LFS data is unreliable due to small sample size, most of the long-term unemployed appear to be older persons aged 40 years and over, representing about 55.2 % of all long-term unemployed in 2011. Long-term unemployed persons are also likely to have few skills and a low level of education.

It is unclear whether the economic recession has made any significant difference in the demographic composition of the long-term unemployed.

3. Factors driving transitions into and out of LTU

- *Economic restructuring and economic downturn*

The Maltese economy has been going through substantial economic restructuring. The manufacturing sector has shrunk considerably through the closure or relocation of low-tech and labour intensive industries. Malta has also experienced a real estate bubble which is being deflated. At the same time, the public sector has reduced the recruitment of workers, especially those with lower skills and qualifications. Substantial numbers of workers have been eased out of employment through early retirement schemes in the public sector and in recently privatised companies. Employment sectors in difficulty are being replaced by high value-added manufacturing enterprises (such as in the pharmaceutical industry) and the expansion of the services sector in areas such as aircraft maintenance, financial services, and the gaming industry. Meanwhile, due to an increased connectivity with other European countries, tourism is becoming less seasonal, though it is being affected by the economic slowdown of Malta's tourism markets. The European economic turmoil is also affecting Malta's high-tech manufacturing enterprises (such as those in the microchips field) due to lower consumer demand. The Maltese Government has embarked on several infrastructure projects with the help of EU funds, thus providing considerable employment opportunities for persons in the construction industry. However, many persons, especially older, low-skilled men, have lost their jobs during this economic restructuring and have become structurally unemployed. In other words, their experiences and skills appear to be no longer needed in the labour market.

- *Overview of labour market supply and demand*

The table below indicates the type of occupations sought after by the registering unemployed and the type of vacancies reported to the Employment and Training Corporation (ETC), Malta's public employment service. Most registering unemployed are in search of jobs requiring low qualifications or skills such as clerical, sales and elementary occupations. Whereas sales and elementary occupations are also the most demanded occupations by employers, clerical work is much less demanded. Indeed, in the period under examination, there were nearly three times as many persons registering for clerical occupations as vacancies, an excess of 665 persons. In addition, the number of persons searching for skilled jobs and plant operators was also much higher than those available in the economy. Due to the aforementioned economic restructuring, technical and professional jobs are also increasingly in demand by employers.

Table 2. Occupations sought after by the registering unemployed and vacancies reported to the ETC (Monthly average Q1-2008 to Q3-2011)

	a.Registering unemployed*		b.Vacancies reported to the ETC**		Disparity	
	Number	%	Number	%	Number	Ratio (a/b)
Legislators, senior officials, & managers (& supervisors)	221	3.3	69	2.6	152	3.2
Professionals	431	6.4	175	6.6	256	2.5
Technicians & associate professionals	729	10.9	393	14.8	335	1.9
Clerks	1034	15.4	369	13.9	665	2.8
Service & shop & market sales workers	1368	20.4	794	29.8	575	1.7
Skilled agricultural & fishery workers	226	3.4	5	0.2	221	45.2
Craft & related trade workers	869	13.0	243	9.1	626	3.6
Plant & machine operators & assemblers	862	12.9	182	6.8	680	4.7
Elementary occupations	956	14.3	431	16.2	525	2.2
Total	6696	100	2661	100	4035	2.5

Source: Employment and Training Corporation, Administrative Data

* These figures do not correspond to LFS data due to different data collection methodologies

**Employers are not obliged to report their vacancies to the ETC

- Education, skills and work experience

Economic change has caught many low qualified and skilled persons by surprise who were unable to adapt to the emerging employment needs. The education system is also struggling to keep up with labour market needs and has often been accused of not being sufficiently reactive to the changing world. Early school leavers, amounting to about a third of those aged 18 to 24 years (Eurostat), appear to be particularly vulnerable to long-term unemployment. Over the past years, the Government has embarked on an exercise to reduce the number of students who fall out of the system. However, the Government's aspirations and progress in this direction are both insufficient. Lifelong learning in Malta is also relatively low and there is no comprehensive approach towards it. Lack of qualifications and skills are increasingly being felt due to the technical and professional requirements of the new employment sectors. At the same time, there is a considerable mismatch between labour demand and supply, ultimately resulting in long-term unemployment. A properly working lifelong career guidance system would prove beneficial in reducing long-term unemployment by assisting students in continuing their studies and directing employees and unemployed persons to the more suitable training and employment choices.

- ***Shadow economy and the benefit trap***

Malta has a high level of shadow economy, recently estimated at about a quarter of the country's GDP (Schneider, 2011). Such a situation contributes to long-term unemployment. Maltese employers in several sectors, especially in construction and tourism, often opt to employ foreign and local persons without permits rather than legally employing unemployed persons, as the former are often paid lower wages and are also easier to fire. New legislation against the illegal employment of third country nationals seeks to combat this phenomenon through harsh penalties for employers abusing the system.

The benefit trap occurs when individuals are encouraged to remain dependent on the welfare system rather than become contributors to the economy. It has been reported that a substantial number of unemployed persons are easily caught in the benefit trap in Malta (Zerafa, 2007). The problem stems from the fact that the unemployment assistance package is comparable to the minimum wage. Long-term unemployment benefits are subject to means testing in order to reduce abuse. However, 'this type of benefit remains a burden on the Maltese economy, indicating that reforms must be carried out in order to reduce long-term dependency and to encourage recipients to enter the labour market' (Zerafa, 2007, p.37).

- ***Other personal characteristics and circumstances***

Apart from the above-mentioned structural aspects which impede the employment of long-term unemployed persons, other personal characteristics and circumstances may also act as barriers in this regard. For example, old age appears to be a strong barrier against employment. Active aging is not strongly promoted and employers normally prefer younger workers to older ones. Indeed, employers act as a main institutional obstacle for the employment of the long-term unemployed (EMCS, 2008). Due to antidiscrimination legislation, ageism has become more subtle, but appears to be still widely ingrained in the Maltese mentality. Younger persons are viewed as easier to train and can be given lower salaries, a need that has become more pressing due to the difficult economic times.

Other characteristics that increase the duration of unemployment include physical or mental disabilities, ill health, and personality or social problems. Lack of motivation appears to play a crucial part in determining long-term unemployment. Unrealistically high aspirations may be blocking the employment of some long-term unemployed, especially the younger ones. Despite the small size of the country, geographic location may also play a role in reducing employment, often due to transport difficulties or social conditioning coming from their locality of residence. For example, some people living in Gozo may prefer to remain long-term unemployed rather than get a job on the island of Malta.

4. Policies to prevent and tackle structural unemployment and LTU

- ***Active labour market policies***

The ETC, Malta's public employment service, is the main implementer of active labour market policies in Malta. Employment advisors at the ETC profile all the long-term unemployed persons in order to assess their abilities and skills. Tailored Personal Action Plans aim to guide these persons to appropriate training programmes and employment schemes (Ministry of Finance, the Economy and Investment, MFEI, 2012). The ETC is currently in the process of revising its operations in order to deal more effectively with specific types of groups, including the long-term unemployed.

As can be seen in the following table, in recent years, the ETC has offered a number of schemes specifically targeting the long-term unemployed (at times together with other vulnerable groups). Besides, as will be discussed later on, many long-term unemployed persons are trained in mainstream courses.

Table 3. Long-Term Unemployed participants in ETC schemes and courses

	2006-2007	2007-2008	2009	2010
Employment Training Placement Scheme	10			
Active Youth Scheme	34	78		
Work Start Scheme	85	71		
Private Sector Placement Scheme		158	13	
Job Experience Scheme			23	
Employment Aid Programme			11	34
Work Trial Scheme			5	74
Community Work Scheme			115	102
Mainstream courses	1638	1593	903	2532

Sources: Employment and Training Corporation, 2007, 2009a, 2009b, 2010

The Community Work Scheme is one of the latest schemes and aims to deinstitutionalise the long-term unemployed who become entrapped into a life of dependency on social benefits (Malta Independent, 2009). The scheme, originally planned for the very long-term unemployed (who have been registering for work for five years or more), is now offered to persons who have been unemployed for shorter periods of time. Participants are requested to do community work for 30 hours per week for 26 weeks while earning 75 % of the minimum wage and continuing to receive social benefits. ‘The community work done so far included cleaning of roads and public gardens, rubble wall building and maintenance, basic maintenance in public libraries and assistance in the organisation of cultural activities by local councils’ (ETC, 2010, p.16). The scheme is mandatory and those who fail to take part without a valid reason are struck off the unemployment register for six months, losing their unemployment benefits. Thus, the scheme cracks down on persons who abuse the system by registering for work as unemployed persons and do undeclared work at the same time (Malta Independent, 2009). Participants reportedly found the scheme beneficial and appreciated the opportunity to improve their skills and contribute to the community (ETC, 2010). A total of 441 placements were carried out during 2011 (MFEI, 2012).

The Employment Aid Programme (EAP), another recent scheme launched in 2009, provides financial assistance for employers so that they can offer training or work to long-term unemployed persons and other groups at risk. Employers receive a public grant equivalent to 50 % of the wage costs for one year. Employers of persons with disabilities receive a higher subsidy for a duration of three years. Besides, employers are obliged to retain persons with disabilities in employment for a further year after the end of the subsidy (MFEI, 2011). The Government recently declared that the EAP had an 85% success rate, through which a total of 2025 persons who enrolled in the scheme were subsequently engaged full-time by the same

companies (Times of Malta, 2012). The success rate of the long-term unemployed who participated in the scheme is unknown.

The Government has also been attempting to encourage long-term unemployed persons to start working as self-employed. As from 2008, persons older than 45 years who have been unemployed for five years and who become self-employed, are exempt from paying social security contributions for their first year of activity (Government of Malta, 2007). The success rate of this measure is unknown, but it is likely to have been minimal, as the incentive appears to be too small to entice very long-term unemployed people to start a challenging entrepreneurial career.

- Policies aimed at reducing skills shortages/anticipating skills needs/re-skilling the long-term unemployed

Education and training have been given high priority by the present government, in view of the new skills required by the developing labour market and the fact that Malta scores low on the EU education benchmarks. The emphasis on reducing early school leaving by improving the compulsory education system through better physical infrastructure, revised curricula (including the insertion of vocational subjects in secondary schools), and a more holistic approach in dealing with students (including the appointment of professionals such as career advisors in schools) may go a long way in preventing students from becoming long-term unemployed when they leave the education system. The Government is also investing heavily in higher education. For example, the Malta College of Arts Science and Technology (MCAST) is undergoing massive development of its physical infrastructure, its courses, and the training of its lecturers. MCAST has the potential to attract more individuals who might otherwise end up in long-term unemployment. In addition, it can be used more for training long-term unemployed persons.

The ETC offers extensive training facilities to the long-term unemployed. Some of these initiatives involve work experience and on-the-job training (as mentioned earlier), while others focus on off-the-job training. In 2010, the ETC ‘trained more than 2500 long-term and very long-term unemployed clients in several courses, primarily in job skills courses, IT, hospitality and trade training programmes’ (ETC, 2010, p.12). Rightly acknowledging that the learning of job related skills on its own is not sufficient if it is not accompanied by healthy attitudes, the ETC organises motivation seminars for the long-term unemployed. ‘Apart from informing and encouraging jobseekers, these seminars... improve the relationship between employment advisors and jobseekers’ (ETC, 2009b, p.7).

The ETC is collaborating with employers and other stakeholders in a bid to continue offering and updating courses in line with the emerging skill shortages. Besides, in 2012 it has increased its efforts to evaluate courses beyond the usual criterion of the number of participants. However, in Malta there is no comprehensive system of skills forecasting. A number of one-off studies have focused on skill needs in specific sectors such as ICT, the green economy, call centres, and financial services sector. The lack of a structure in charge of identifying skill trends and anticipating change complicates matters for institutions such as the ETC, which aim to offer services based on forecasted skills needs.

- ***Unemployment benefits system***

Malta's welfare system has often been criticised for not being conducive to decreasing long-term unemployment, as the gap between social benefit entitlements and potential earnings from employment is at times marginal. This social problem is difficult to eliminate, as increasing the minimum wage would reduce the country's competitiveness and reducing social benefits would increase the number of families at risk of poverty. The Government's efforts to modify this system have tended not to be particularly effective. In 2011, the Government implemented an interesting measure to encourage members of families in receipt of social assistance to find employment while enabling other family members to continue receiving social benefits (MFEI, 2012, p.76). In the first seven months of its operation, about 70 families benefited from this measure (MFEI, 2012). The Government should study more carefully the advantages and disadvantages of other creative measures as they might offer a way out of the benefit trap. For example, the use of lump-sum subsidies for early exit from unemployment might be worth exploring.

Most of the Government's efforts to improve the unemployment benefit system are concentrated on tackling abuse, something that the Government has been increasingly successful at in recent years. If registered unemployed persons do not accept employment or training opportunities offered to them, they are struck off from the register. This system resulted in the removal of 1486 registered persons from the register during 2011 (including both short and long-term unemployed) (MFEI, 2012), potentially making such efforts the most effective way of getting people out of official long-term unemployment.

Seeing more scope for improvement in this field, the Government has continued intensifying its efforts to curb abuse of the welfare system. As part of such efforts, the system will start using the technology of fingerprint-based registration (MFEI, 2012). It is also being proposed that the frequency of registration of jobseekers be increased in line with the length of their unemployment. Greater contact with the employment adviser will be also provided. Besides, the penalty period for registering unemployed persons who fail to participate in activation measures without just cause for three or more times, will be doubled, from six months to one year (MFEI, 2012). All these measures are bound to decrease the number of long-term unemployed, further curbing the abusers of the system.

5. Conclusions

While the Maltese economy proved to be resilient during the international recession and unemployment was contained, the ratio of long-term unemployed has grown over the past years.

Whereas a portion of long-term unemployed may be abusing the system by working in the shadow economy or by not being interested in finding employment, one should keep in mind that individuals sometimes experience difficulties in finding a job 'due to older age, lack of qualifications or skills or due to certain circumstances in life such as health reasons' (Malta Independent, 2010). Apart from straining the welfare system, long-term unemployment increases the risk of poverty of the unemployed individuals and may be devastating for them and their families (Malta Independent, 2010).

The Maltese Government has been tackling structural unemployment in various ways, especially by upgrading the education institutions, organising active labour market measures

and curbing abuse of the welfare system. Unfortunately, despite such measures, ‘the long-term unemployed stand little chance of being absorbed in gainful employment’ (Spiteri, 2010). Indeed, only about 120 long-term unemployed persons were placed in jobs each year between 2007 and 2010. In this context, much more needs to be done to combat age discrimination and persuade society to recognise the value of older workers.

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