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Media Release

Proposals for National Budget 2011

Towards Increased Labour Participation

1. Introduction

The past year has seen the economy emerge from recession back towards positive economic growth, and the figures for the first two quarters confirm that the economy is out of the recession. This situation can be approached with cautious optimism, since the economy is experiencing uneven growth, with recovery being far more acute in some sectors (financial services, real estate) than others (manufacturing, wholesale and retail). Although the uneven growth is, in itself, a sign of economic transition, which is necessary for Malta to shift towards higher value added activities, sudden changes risk creating frictional issues, and growth areas may be subject to higher volatility, thus creating a risk to the economy.

However, employment figures reveal that the strategy of job retention, advocated by all social partners during the recession, has paid off, as Malta has one of the lowest unemployment rates in the EU, with the August figure for registered unemployed standing at 6,600, or 5%. The job retention strategy meant that shorter working weeks were preferable to redundancies, more flexibility, employee training and moderate wage increases. Countries in which companies resorted to redundancies and retained relatively high wage increases are today struggling with high unemployment figures and, in spite of mild economic growth, a job recovery remains elusive.

In Malta, as in many other developed countries, governments are placing fiscal consolidation as one of its top priorities. The recession has revealed a weakness on the part of many governments to provide the necessary stimulus to keep economies afloat as years of fiscal neglect resulted in persistent deficits and debts which in some cases are in excess of 100% of GDP. The drastic austerity measures taken by these countries, combined with an unsteady recovery in many European states and the US threatens a 'double dip' recession, which can reverse the positive trends in the Maltese economy.

In such a fragile environment, the budget should aim at stimulating growth in those sectors of the economy which are still struggling to achieve pre-recession levels, and to increase the

labour activity rate. The latter, combined with continued investment in education is the best means of generating income and wealth, and a way out of poverty to many.

2. Family Friendly Measures (FFMs)

MEA supports the view that an enhancement of family friendly measures is necessary to induce a higher activity rate, in particular among the female segment of the labour supply. This is a precondition to having a sustainable welfare system, provided that sufficient jobs are generated to cater for an increased labour supply.

It is important to distinguish between two main categories of family friendly measures – those that encourage people to stay away from the place of work (e.g. extended maternity and parental leave, career breaks) and others that incentivise stronger attendance (e.g. tax incentives, child care).

The latter have been proven to be more effective in retaining and attracting people in the labour market, since long breaks often discourage people from returning to the labour force. The distinction between these two types of family friendly measures is of strategic importance, since the design of such measures will have an impact on their effectiveness.

Although there needs to be a balance between the two (e.g. a minimum break for maternity leave is indispensable), MEA proposes that the main thrust of ffms should be in the direction of incentivising attendance, rather than absence.

On the basis of these arguments, MEA proposes that budget provisions should cater for:

- **Increased investment in child care services and tax incentives/subsidies for affordable child care services at community level or at strategic locations (e.g. near park and ride in Blata l-Bajda; Industrial estates).**
- **Extending the school opening hours to provide the option – possibly at a charge – for parents to leave their children to be looked after at school. This can be achieved by offering extra payment to teaching and school administrative staff to man these hours.**

These measures, combined with others which employers may implement at the workplace (e.g. flexible hours, reduced hours, teleworking etc) will be more effective in incentivising stronger female participation than simply extending ffms applicable in the public sector (e.g. 5 year career breaks) to the private sector, which would be impractical and work against the employment of females.

3. Maternity Leave

Malta is one of the few countries which pays maternity leave at full pay, and where such leave is paid for by the employer (note: payment for the fourteenth week is still in dispute, as the Inland Revenue department claims that employers may claim *only* the N.I. payable during the fourteenth week, and not the salary!)

Moreover, the obligation to work a minimum period of six months on return from maternity leave is being challenged, which raises the question: *if this obligation is removed, which is the employer paying for maternity leave in the first place?*

MEA is proposing that starting in 2011, payment for maternity leave by employers will be phased out over a period of three years, and that any additional maternity or paid parental leave that may be introduced or imposed on the labour market will be paid for by government.

This proposal will reduce the relative cost of employing female employees, which can act as an unfair barrier to them to participate in the labour market.

4. Labour Costs

Although the projected COLA for 2011 is one of the lowest registered, due to the low inflation rate during the period September 2009 – 2010, it does not follow that labour costs will not increase during the coming year.

The COLA increase of €1.16 will follow a year when employers had to award a COLA of €5.82, at a time when many were experiencing a drop in revenue and profitability due to the recessionary impact.

Employers will also face an increase in Social Security contributions in the coming year, as the ceiling for such contributions will increase to reflect the changes in the pension ceilings.

The pro rata entitlements to part timers in their secondary employment will also raise the costs of employment, particularly in sectors which traditionally employ a considerable number of part timers, like tourism.

The trend in the past six months of falling unemployment will also trigger an increase in labour costs. With unemployment level in the region of 6,500 (ETC figures), labour shortages will raise remuneration packages in sectors in which there is a high demand for labour.

Government is urged not to add any further costs to employment beyond the COLA for 2011.

5. Welfare benefit

In addition to the previous point, however, employers are conscious of the fact that the lower paid section of the labour force is finding it difficult to make ends meet. As the economy shifts to higher value added activities, wage disparities will increase and the relative purchasing power of some segments of society will decline.

There is also the probability that 2011 will see an acceleration of inflation. This will be due to the inflationary effects of the global recovery, which may result in an increase in energy prices. Increasing global demand, adverse weather conditions as well as political factors are already pointing towards upwards movement in grain prices which will result in higher prices of basic foods like bread. This will have an adverse effect on vulnerable sectors of society.

Employers are well aware of the need to sustain a decent standard of living to employees and vulnerable groups, and MEA has consistently supported the concept of a minimum wage and a cost of living increase which is focused on the lower income earners, rather than given indiscriminately.

It is felt that, in spite of encouraging signs of recovery and growth of the Maltese economy, these have not, as yet filtered down to consumer confidence. Many economies experience a time lag between economic recovery and job creation, followed by another time lag between job generation and a pick-up in consumer confidence. In Malta, employment figures, together with the increase in the number of job vacancies are indicative of a job recovery, and a fiscal stimulus can be effective in increasing domestic demand.

For the above reasons, MEA is proposing that, for 2011, there will be a one-time welfare supplement of €78 (based on €1.5 per week) which will be awarded to families with a household income of less than €12000 per annum. This will anticipate any hardships caused by inflation during 2011. This will be a focused and temporary intervention which will reflect current economic conditions, and preferable to nationwide measures that often are more expensive to implement and are wasteful.

This measure should run concurrently with continued efforts to curb welfare abuse.

6. Employment levels in Public Sector

The downward trend in public sector employment between 2007 and 2009 appears to have levelled off, and there is constant pressure for the public sector to engage additional employees. While this is understandable in areas where there are labour shortages – i.e. nurses – government should resist increasing its labour force. Job creation should be led by the private sector, and one of the ways in which fiscal targets can be met is through persistent efforts to reduce the number of persons in the public sector.

An observable development is that while, in the past, the pressure on government was to act as an employer of last resort to relatively unskilled persons, this is now shifting to the engagement of graduates seeking to create artificial demand for their services.

7. Public Sector Collective Agreement

Any discussions for a collective agreement in the public sector have to be conducted with specific manpower projections which will keep the payroll in control. The collective agreement should focus on developing the public sector into a lean, efficient machine that is committed to the growth of the private sector and to the general welfare of Maltese society. The best way to achieve this is to reduce the overall number of persons employed and widening wage differentials to reflect levels of responsibility and to incentivise efficiency. This will free funds to be channelled into better priorities, like health, education and infrastructure.

The scales in the public sector collective agreement are also misleading, as sectoral unions are working round the restrictions of the scale by negotiating various allowances which are raising payroll costs substantially. Authorities which do not fall directly under the public sector collective agreement also pay rates which are significantly higher than the public sector rates.

8. Encouraging the private sector to participate in Government and EU funded schemes

One area of public sector activity which cries out for efficiency is the implementation of government and EU funded schemes to generate activity in the private sector. Both the design and implementation of such schemes as the micro credit for SME's, the TAF and many other projects are simply too bureaucratic and are discouraging many from participating.

The coming budget should set systems to analyse the procedures of these schemes to minimise the bureaucratic burden and maximise take up.

9. Education Expenditure

There is consensus about the need to invest in our human resources and government has justly increased its allocation to expenditure on education. **MEA's suggestion is to conduct audits**

to evaluate the expenditure against effectiveness to improve the efficiency in which the funds are being used, and to channel funds in priority areas. Amongst these is the reduction in the number of school drop outs by enhancing the availability of vocational courses, and to reduce ‘waste’ in areas where there might be an oversupply of qualified persons being generated.

In some cases, students are opting to pursue post graduate studies simply to stay off the unemployment line. Rather than selling courses, career guidance personnel should be engaged in providing students with an informed opinion about career options. One possibility would be to grade courses according to an ‘employability scale’, and to have these scales revised periodically to reflect investment trends and labour market developments.

It is proposed to make a study to design and implement an ‘employability index’ for courses at tertiary level. The index would rate courses in terms of employability and prospective earnings to guide students in their choice of career.

Although the objective to increase qualified personnel is desirable in itself, the matching of skills with the needs of the labour market is essential to curb wasteful expenditure and to avoid structural unemployment. Educational institutions and ETC should also join forces to avoid duplication of effort, which is also wasteful.

Regarding private schools, government should consider revising the tax incentive to persons sending their children to private schools so that it truly reflects the burden which the state is being relieved of.

10. Green Issues

The budget for 2011 should accelerate the efforts of previous budgets to generate a green economy. This is in itself a must in order to meet EU2020 criteria, but more importantly, this is a requirement to reduce our heavy dependency on fossil fuels, which is affecting the country’s competitiveness.

- **MEA is proposing a task force to look into the assembly, importation and infrastructure – such as electric charging points, which were already promised in the past - necessary to the diffusion of electric vehicles on the islands. Gozo would be an ideal location to test market such initiatives and this would complement the Eco Gozo vision in emission and noise reduction.**
- **Incentives for households and businesses to install energy saving technology should be extended and more easily accessible. A rebate rate of three units for every unit generated by solar panels should be established.**
- **The confusion in consumers’ minds about utility rates should be tackled immediately. The way ARMS is operated is an embarrassment and a cause of frustration to the general public.**

11. Protecting Legitimate business

MEA is repeating its calls for protection of legitimate business, which is the source of decent employment.

- **There is a dire need to protect the interests of importers from parallel traders, who may be bypassing customs procedures by bringing goods through the catamaran from Sicily. This is hurting many importers who face a disadvantage when competing with such**

practices. These will be further exacerbated with the introduction of the new, larger catamaran. There needs to be equal treatment of cargo being handled by the catamaran and other means of entry into Malta.

- Government is urged to take action when tenders are awarded to employers who manage to win such tenders by giving their employees conditions of employment which go below the legal minimum. Minimum thresholds need to be set and to ensure that such thresholds are adhered to. Employers need to compete on a level playing field.
- Government should expedite outstanding payments to its suppliers in the private sector, some of whom face serious liquidity issues in honouring their own commitments to their suppliers and banks. It should anticipate the late payment Directive and apply its provisions with immediate effect. **Government should commit itself to pay its suppliers within a thirty day limit.**

Conclusion

During 2010, Malta has, thus far, experienced positive, but unbalanced growth, since most of the GDP increase can be attributable to the financial services sector. While every effort has to be made to uphold the growth in financial services, an effort to achieve a balanced growth offers better prospects for a sustained recovery, and protects the economy from turbulence which may affect a particular sector. One of the strengths of our economy lies in its openness and diversity.

Therefore every attempt has to be made to facilitate growth in areas such as manufacturing, by expediting the processing of training schemes; cutting unnecessary bureaucracy; improving support from the public sector (half days in summer at customs?); and increasing the labour supply through cost neutral family friendly measures. A balanced growth will also boost consumer confidence and generate increased business in wholesale and retail sectors.

It is also expected that there should be an adequate follow-up to the budget. It was agreed at MCESD that a quarterly meeting was to be set to discuss the implementation of budget measures. This has not materialised and many budget initiatives announced last year were either not implemented or else implemented late in the day. It is hoped that follow-up meetings will be held as promised during 2011.