



## **MALTA EMPLOYERS' ASSOCIATION**

### **National Budget Proposals -2006**

The performance of the Maltese economy has been influenced by external factors and internal developments. In the manufacturing sector, companies are struggling to maintain competitiveness against emerging economies. Increased demand for oil is pushing the cost of energy, with little signs that the trend will be reversed. Malta is also facing stronger competition in the tourism sector, with destinations like Croatia and North African countries becoming strong and lower cost attractions to tourists.

However, there has been a marked drop in unemployment during the first half of 2005. This has not been the result of large scale expansions or substantial new projects but through slight additions to the labour complement spread out among many companies. Another contributing factor has been the schemes that are being offered by ETC to match the unemployed to employers' requirements. The TEES, for example has so far managed to broker over 200 placements of unemployed persons over forty. Public sector employment has also declined slightly, but still remains excessive given the size of the economy and the low overall participation in the labour force. It continues to be a major cause of the structural nature of the public deficit.

MEA is getting various reports of employers who are not finding suitable persons to fill vacancies. These vacancies exist in different sectors – construction, food processing, security services, catering, and other skilled trades such as woodworking and welding. It is obvious that there is flagrant abuse of the welfare system. The package of unemployment and other benefits is serving as a strong disincentive to persons to accept

decent and productive employment. MEA has also had reports of employers being threatened by persons sent for interviews not to report that they are not accepting employment in order for them not to be struck off the register.

The country needs policies to brace itself for possible social exclusion resulting from the lack of employment opportunities for unskilled persons resulting from restructuring of companies that may shed operations in which they are no longer competitive and retain value added departments related to product design and research. This of course is desirable in itself and is the way forward for a sustainable and competitive manufacturing industry. However this may leave a segment of the labour force on the wayside and will also affect the nature of collective bargaining as companies will be able and willing to increase remuneration packages of skilled employees but will not be able to afford improve or in some cases retain the conditions of employment of the unskilled segment.

This calls for continued efforts to retrain employees by employers and by government through ETC, and also for a fresh and more flexible approach to collective bargaining by unions to reflect these dynamic economic conditions.

In spite of efforts to curb expenditure, the fiscal deficit remains high and given the level of government expenditure and revenue thus far in 2005, will remain well above the criteria that are necessary for Malta to adopt the Euro. The deficit cannot be allowed to be a barrier to the adoption of the Euro, since this should increase trade flows and benefit the economy.

## **Budget recommendations**

### **1. Cap wage expenditure in the public sector**

Certainly a major cause of the fiscal deficit is the excessive manpower and the drain on public funds to finance the wage bill in the public sector. During the MCESD discussions on the social pact, one of the issues raised was that there should be a capping of the wage

bill in the public sector as one measure to control the deficit. Given the state of public finances, this commitment should also be endorsed by the unions.

## **2. Cost of living increases**

Employers continue to stress that, given current global conditions, it is unwise to retain the practice of granting automatic cost of living increases in the national budget. Wage increases should only reflect productivity, and any increases that are over and above the productivity levels of the economy only serve to deteriorate Malta's competitiveness. The concept of COLA should be only to ensure that a minimum wage provides a minimum standard of living to all employees, and as such should only be applicable to the minimum wage. Market forces and collective bargaining will automatically determine wage levels that reflect competitiveness and productivity.

Now that Malta has joined ERM II, it is important to plan ahead so that the transition to the Euro happens with minimum inflationary impact. Otherwise, given the current mechanism of cost of living increases, the negative impact on competitiveness of cost of living increases threaten to erode competitiveness even further.

## **3. Compulsory training to the Unemployed**

The MEA notes with satisfaction that the authorities are being more forceful in tackling abuse of welfare benefits and there have been a number of persons struck off the employment register for refusing decent employment. Schemes like the TEES have been made compulsory for persons over forty and the experience of such schemes are exposing the extent to which welfare benefits are being abused by persons who are either working in the informal economy, or who have no intention of becoming employed. It has been observed that there has been considerable reluctance by some unemployed persons to attend training even if this is provided against payment.

The compulsory aspect of training should be extended to cover all segments of the unemployed, both to enable them to learn new trades and skills in an ever-changing economy and also to prevent abuse. Living off the taxpayer should not be an option to anyone who can contribute to the economy.

#### **4. Unemployment Benefits**

Government should consider reducing unemployment benefits to widen the gap between benefits and income from employment. This will incentivise more people to take up employment opportunities.

#### **5. Career Guidance**

Government should invest in career guidance services to reduce the effect of structural unemployment resulting from a mismatch between the demand for labour and the supply of needed skills. It is imperative that our educational institutions are geared to produce the manpower with qualifications needed by employers, and also to channel unemployed persons into productive jobs through retraining, or, in the case of unskilled persons, through training.

There is a risk that as a result of a restructuring of the economy, some will find it difficult to take up new job opportunities. Career guidance services to such persons may enable them to plan ahead to adapt to changing requirements of the labour market.

#### **6. Processing of employment applications from Foreigners**

Employers have been complaining that applications for the issuing of work permits for foreign workers take too long to be processed. As a result, employers are often constrained to employ foreigners informally until such permit is issued. This often creates frustration as employers are faced with shortages in the domestic labour market on one hand, and excessive bureaucracy to employ expatriates on the other.

Government should also consider granting temporary work permits to refugees who can contribute to the economy, provided that such persons are given same working conditions as the Maltese to prevent exploitation.

## **7. Waste Management**

This is an area where a decisive strategy is called for. It is proposed to allocate funds for land reclamation that will in turn yield revenue through the use of such land. Other countries have been using land reclamation to use as natural embellishment or building development for years. Malta, with its scarcity of land, should also adopt such a strategy.

## **8. Privatisation**

MEA has always supported privatisation on the basis that enterprises are run more efficiently by the private sector. However, in case of essential and strategic services, Government is advised to ensure that, besides the fiscal aspect, privatisation exercises also guarantee the smooth operation of the private sector. For example, the privatisation of Sea Malta has to include safeguards that ensure that industry will benefit from at least the same standard of service that has been provided over the years by Sea Malta.

## **9. Use alternative energy resources**

According to the Lisbon targets, Malta should be on a path to generate 5% of its energy requirements through the use of alternative energy sources. It is clear that we are still a long way off this target and action is needed to reduce the economy's dependence of oil, which is becoming increasingly expensive due to international developments. MEA has long been suggesting promoting use of solar energy through incentives and also investing in the building of solar panels to generate energy. Malta should not lag behind other countries in this, and it has the required human resources (e.g. ex drydocks workers) to realise solar engineering projects that will result in cost savings to the country.

Government should consider setting up a private public partnership for such an endeavour. Such a project could generate substantial productive employment opportunities.

## **10. Education**

Malta has a comparatively high percentage of its GDP allocated to education. The recent figures about the percentage of the population having followed tertiary education in European countries caused quite a sensation because Malta came among the last. However, it is a fact that among the younger cohort, a higher percentage of students are pursuing studies at tertiary level. It is not a question of number, but of ensuring that the right amount of qualified persons is available to meet the demands of the economy. France may have more graduates, but it also has a youth unemployment rate of 22%.

Malta should learn from the experience of other countries and utilize resources allocated to education to create a match between graduates and jobs. The system should be reformed in a manner that provides an incentive to students to follow courses that are, or a projected to be, in demand. This can be achieved through a reform of the stipend system. If the number of students is projected to increase to average EU levels, then the burden of financing the stipend system will increase and this will drain resources and funds that could be channeled into educational facilities and research.

## **11. Protect legitimate business**

The budget can also use fiscal measures to protect legitimate business. There are various instances where established companies are losing because of unfair practices and systems.

Examples:

- In the distributive trade, many employers complain of the number of tickets that are being issued to their delivery people whose only transgression is that they are

going about their business. In many cases delivery trucks and vans have no option but to park near the outlet they need to serve. It is evident that local councils and wardens are finding these salespersons easy prey to boost revenue and to reach the infamous 'ticket quotas'. Companies often do not have the time to waste to appear before a tribunal to contest the tickets issued and there have been complaints that these are amounting to hundreds of liri per month.

- There should be safeguards to protect serious operators in the security and cleaning sectors from unfair competition, particularly when tenders in the public sector are issued. There are reports that tenders are being awarded to unprofessional companies that quote hourly rates that do not even cover the cost of employing a person on the minimum wage. This situation acts as an incentive to employ people informally and also results in inferior conditions of employment in established companies because of falling profitability. This issue has become a concern to the unions as well.
- Car Dealers employ hundreds of persons and are foremost among employers that invest heavily in the training and development of their employees in areas such as engineering, marketing and sales. These jobs are being threatened by the importation of second hand cars from operators who do not have to invest in showrooms, equipment and human resources to run their business. Fiscal measures (e.g. higher taxation on importation of second hand cars) should be introduced to raise government revenue and also to restore a level playing field between the dealers and the second hand car importers.

## **12. Review National Insurance Contributions for Part timers**

The current system whereby a minimum contribution is paid irrespective of number of hours worked acts as a disincentive to part timers to work in the formal economy. N.I. contributions should reflect the number of hours worked and in thus attract more persons to work part time. This could have a positive influence on the female participation rate.

### **13. Heritage Malta**

One of the positive measures that featured in the last budget was the enhanced budget for Heritage Malta. This effort is to be maintained for the sake of our cultural heritage and as it is one of the main ways to increase the value added aspect of our tourism product.

### **14. Pension reform**

The MEA has submitted separate proposals for pension reform. It is high time to introduce the reforms necessary to have a sustainable welfare system. These can be supplemented by tax breaks on private pension schemes and health insurance.

### **15. Port reform**

Government should proceed with the necessary reforms to make our ports more efficient and less expensive to industry. This will contribute to improved competitiveness in our major industrial sectors.