

**MALTA EMPLOYERS' ASSOCIATION**

## **Social Policy Measures for a Decent Living**

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**A Response by the Malta Employers' Association to  
the Caritas Study**

April 2012

## Executive Summary

The Malta Employers Association has issued an official reaction to the report by Caritas about social policy measures that are required to ensure a decent living to Maltese families.

The MEA acknowledges the findings of the Caritas report that families with children need a certain amount of income to be able to afford basic needs. The MEA finds that the most salient point of the Caritas report is that, whereas among families with two parents and two children, only 3% are unable to afford the essential basket of goods and services, this figure shoots up to 53% for single parent families. The implications are that such families are clearly in greater risk of poverty than others. The MEA finds that a two income family, even if both parents earn a minimum wage, would be in a position to earn more than the €200 which, according to the Caritas report, is necessary for a decent living.

The MEA document also looks into the pros and cons of raising the minimum wage. It points out that for a family with two children, the minimum wage, plus bonuses plus children's allowances is close to €200 a week. The MEA also concludes that the determination of wages is linked to productivity and should not be linked to a basket of goods. Simply raising the minimum wage carries the risks that the labour market will be destabilised, that it could lead to a loss of jobs and could work against the interests of the vulnerable groups which the measure will be supposed to help. The MEA document proposes a set of eleven social policy measures through which the social partners can make a concerted effort to minimise the number of families living in relative poverty in society. These measures compliment many of those proposed by Caritas and focus on enabling vulnerable families to be able to increase the family income.

## **Social Policy Measures for a Decent living – A Response by the Malta Employers’ Association to the Caritas study**

Caritas Malta has published a study –A Minimum Budget for a Decent Living- which has analysed the cost of basic needs of families and recommends various policy measures aimed at removing such families from the threat of poverty. Among these recommendations the most controversial – and which will have the greatest impact on employers - is raising the minimum wage from the current level of €160 to €180, an increase of 14%. The rationale behind this proposal is that the minimum wage should be sufficient to enable families to at least afford the package upon which the study was based, which requires a minimum income of €10, 634 per annum or €204 per week for a family with two children, and of €8581 per annum or €165 for a lone parent with two dependent children.

The Malta Employers’ Association has given careful consideration to the study by Caritas and this report is its reaction to their proposals.

### **1. Objective**

MEA supports the idea of having a study which quantifies, in monetary terms, the basic necessities of families in Malta. One of the fundamental goals of societal progress is that the standard of living and quality of life of all citizens should be improved through the generation and distribution of wealth. In this respect, MEA shares the concerns by Caritas that a number of families may be living on means or a level of income that may be insufficient to provide for what in our society may be classified as basic necessities.

For this reason, the Association contends that a key objective of social policy should be: **‘to minimise the number of individuals and families living in relative poverty in society’**. This objective can be reached through a set of short term and longer term measures and is more realistic than attempting to eliminate all relative poverty through radical measures, which stand a chance of harming the people they are intended to help.

### **2. The Concept of a Wage**

Wages are determined through a complex set of factors – competitiveness, productivity, relativity, company performance, individual performance, other costs, collective bargaining etc – which all interact to achieve levels of remuneration for various occupations in a wide range of

economic sectors. This is all the more true for an economy like the Maltese economy with its high level of diversification.

However, the fundamental principle of wage setting is productivity. A wage is a just return for the value of productivity based on agreement between an employer and an employee. In a labour market which is only dictated by free market forces, wage setting will be exclusively a function of demand and supply of labour. In reality, there is consensus between social partners that a certain amount of regulation is necessary to provide for decent work conditions through reasonable labour legislation, but even such a legislative framework operates within the parameters of productivity –in the private sector at least.

Wage determination is different, and should be kept distinct from distribution of wealth. The distributive function, through taxation, social security and other social services is a government function. Government, through its interaction with social partners also has a role in setting the parameters within which the labour market can operate – hours of rest, sick leave entitlement, etc. However, the role and duty of the employer remains essentially to respect the labour market parameters and that of rewarding productivity. In this sense, a wage, by definition, is not related to purchasing requirements, either of individuals or of families.

### **3. The Minimum Wage**

One of the labour market parameters mentioned above is the determination of a minimum wage. While in Malta the concept of a minimum wage is taken for granted, as it was established forty years ago, the very notion of the minimum wage is still subject to debate, even in some industrialised economies who still have not established a national minimum wage to this day.

Opponents of the minimum wage argue that:

- Companies operating in labour intensive, low value added areas and/or which are price takers will lose competitiveness
- it interferes with the labour market mechanism,
- it can threaten jobs and productivity,
- it can lead to an expansion of the black economy, as people who cannot find employment and who are willing to work at wages which are lower than the minimum wage are pushed to work in the informal economy.
- Rather than just setting a minimum level of remuneration, the minimum wage can raise all wages to re-establish relativities

On the other side of the coin, supporters of the minimum wage contend that:

- a minimum level of social protection is required to protect employees from abuse
- the minimum wage is necessary to provide for a decent standard of living to all employees
- the minimum wage has positive effects on the economy as it channels income to segments with a high marginal propensity to consume, which in itself generates economic activity and business.

#### **4. MEA and the Minimum Wage**

**The Malta Employers' Association supports the idea of a national minimum wage insofar as it is set a level which does not keep people out of employment.**

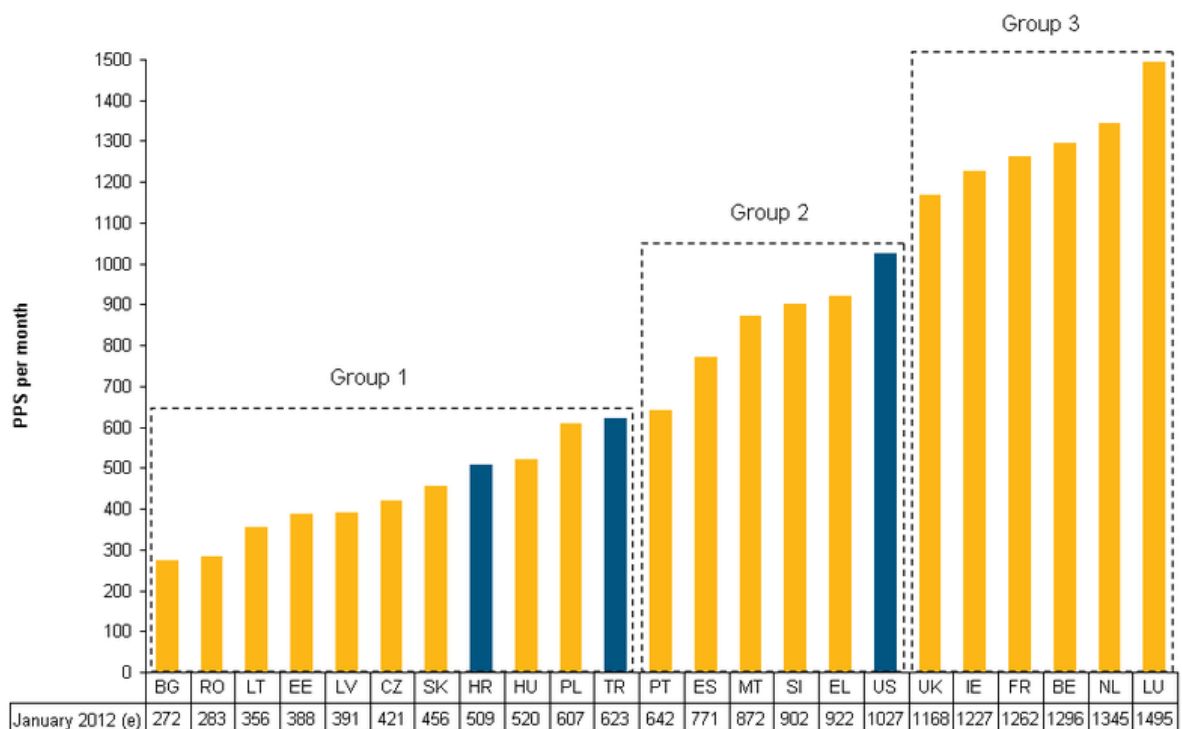
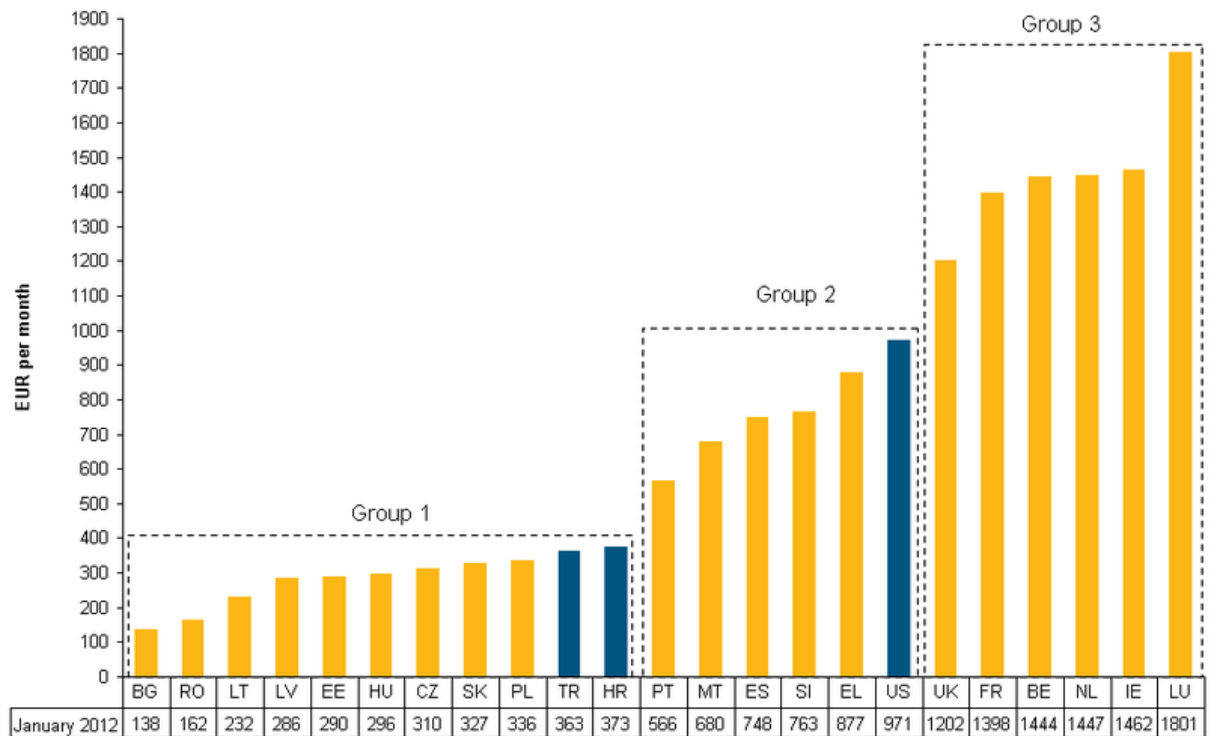
The MEA has never spoken out against the minimum wage, and even in its presentations on the reform of the cost of living adjustment (COLA) has always maintained that the minimum wage should always be adjusted by COLA, even if the COLA is not applicable to all income groups.

The issue of whether to support the minimum wage or otherwise centres around calibration. It has to be set a level which does not disincentivise the generation and retention of jobs. This is the main reason why it can be subjected to periodical adjustment, as happens in the case of Malta through the COLA mechanism which provides for an annual upwards adjustment, and as has happened this year in Greece which has seen it necessary to reduce the minimum wage by 22% as part of the austerity measures to combat the impact of the recession.

The minimum wage can be explained as a means of job refusal. It establishes a standard which draws a line between jobs which are acceptable and those which are not. In the case of Malta, jobs which yield a productivity of less than €160 plus other costs of employment are either not accepted by both employers and employees or else, in some cases, are performed in the informal economy. In reducing the minimum wages, countries like Greece and Portugal are openly stating that they would like to attract jobs whose productivity is less than that of the level set before the downward revision. They have, in effect, recalibrated the minimum wage to reflect the situation on the labour market in the interest of enterprise and of job seekers.

## 5. Minimum Wage in Other Countries

At this point, it is worth looking into how the minimum wage in Malta compares with that prevailing in other countries. This is illustrated in the following two diagrams.



These EUROSTAT figures were published before the reduction in the minimum wage in Greece (EL). One can conclude that, although not the highest, the minimum wage in Malta compares well with that of comparable economies. The computation of the Minimum wage for Malta also excludes the June, March, September and December bonuses which amount to a further €9.43 per week or €41 per month. Taking this into account will take the Maltese minimum wage higher up the scale. Therefore one can conclude that the minimum wage in Malta is higher than all but the most developed economies.

There are countries in the EU which do not have a minimum wage. A close competitor of Malta which does not have a minimum wage is Cyprus. In Italy it is known that there are many workers who work for less than the Maltese minimum wage, while Germany sets sectorial minimum wages. In Germany there is a strong debate on whether to introduce a national minimum wage. One of the reasons quoted to account for the low unemployment levels in Germany in 2012 is that there is no floor at which people may be employed. On the one hand, this has contributed to getting people into jobs, but opponents also point towards hundreds of thousands of jobs (mini-jobs) which pay at less than €3 an hour.

## **6. Number of Persons on the Minimum Wage**

The percentage of working persons on the minimum wage also merits consideration. Some admittedly outdated data reveals that the percentage of the labour force on the minimum wage in France, for example stood at 17% in 2005, whereas in Malta there are 9k employees on the minimum wage, or 6% (excluding overtime). Countries like Luxembourg offer a high minimum wage to attract foreign workers, who commute from neighbouring countries and make up more than 30% of its labour force.

The low number of employees on the minimum wage in Malta also suggests that many such jobs are transitory. Security companies, for example, accept that most employees in this sector do not intend to make a career out of their job and tend to move on once they find a better paying alternative. Employers who engage people on the minimum wage cannot expect loyalty, but these low paid jobs also enable many persons to make the essential transition from unemployed status to employment, which makes it easier for them to access better paying jobs.

## 7. Raising the Minimum Wage

### 7.1 Impact on Employers.

Raising the minimum wage to €180 has this to be analysed in terms of deciding which jobs Malta is prepared to shed. In sectors where there is a concentration of low value added jobs, employers have the following options:

- Reduce profit margins
- Make redundancies
- Raise prices
- Resort to undeclared employment

Clearly all of these options present dangers of their own. Generally, most sectors that pay low wages are price takers, operate with low profit margins, and are labour intensive. Such companies will find it difficult to increase their wages and will shed labour. Others will shift the impact on their clients, and one can expect an upward shift in prices as a result. The most likely impact in the Maltese scenario is a reduction in employment, and an expansion in the informal economy.

### 7.2 Restoring Relativities

However, the strongest impact on the economy will be the labour market adjustment to restore wage relativities. Perhaps the weakest argument in the Caritas report is the notion of legislation, or an agreement with the unions not to make claims for higher wages to restore relativities. MEA disagrees with the conclusion that:

*'The research team does not believe that if a reasonable increase in the Statutory Minimum Wage is legislated this would cause any appreciable escalation to Malta's overall level of wages, especially if the government decrees illegal any wage increase demands based solely on relativity with the statutory minimum wage.'*

This is highly unlikely as employees who suddenly find themselves earning close to, or a minimum wage at €180 a week will surely make claims on employers to increase their package. This will have a profound psychological effect on employees who will also apply pressure on unions which they will find difficult to resist. In many companies, wages will have to be adjusted across the board to maintain relativities between different grades. This readjustment will have a



negative impact on the competitiveness of many companies, especially since Malta is one of a few countries which have an automatic wage indexation through the COLA mechanism.

The dynamics of the labour market are beyond the control of government, employers and employees. Raising the minimum wage is bound to result in considerable wage inflation.

### **7.3 Labour Market entry**

As mentioned above, jobs offering minimum wage conditions tend to be transitory and often serve as stepping stones for higher paid employment. Establishing a higher entry point in the labour market might make it more difficult for such persons – particularly the unemployed - to find productive employment.

## **8. The Minimum Wage and Family Income**

The Caritas report has costed a basket of goods and services and linked it to a wage which is required to be able to afford that basket calculated at around €200 per week. According to the findings of the report, a two income family, even if they both happen to earn a minimum wage – which is unlikely – would easily be able to afford this basket at an income of at least €320 per week.

The second income will therefore enable low income families to pull themselves out of relative poverty. It is acknowledged that there are cases where families may be unable to support themselves through a second income – for example a low income family with disabled children. In such cases, the state should make every effort to assist such families to live decently.

## **9. Benefits of Raising the Minimum Wage**

The Association accepts that raising the minimum wage can have positive benefits. Increasing the disposable income of persons and families with low income has a higher multiplier effect on the economy. Another benefit is that the higher minimum wage will create a greater gap between the social services and the minimum wage and encourage more people to work, thus raising the labour supply.

However, one has to be wary of the latter argument. It should never be accepted that Social services are an opportunity cost to gainful employment. There should be no choice between living on social service and employment. Social services should only be paid to those who cannot find productive employment, and not to those who opt not to do so. The Association

objects to the statement in the report which states that: *'With a take-home pay of a full-time employee on minimum wage amounting to € 7,912 p.a. in 2012, inclusive of statutory bonuses and after deducting social security contributions, there already exists a disincentive to seek employment as things now stand'* (page 44). **Refusing work to live off social benefits is a criminal act and a waste of taxpayers' money.** We cannot have a society of welfare shoppers, and the level of social services should not be used as an argument to raise the minimum wage.

## **10. The Minimum Wage and Purchasing Power**

The MEA's position is that the setting of the minimum wage cannot be linked to a basket of commodities. A question worth asking is: what would happen if the costings of such a basket were of €300 per week? If one accepts the principle of linking the minimum wage to purchasing power, are we to understand that the minimum wage should automatically increase to €300 per week.

Another issue is the frequency of revision. Employers are already burdened with an automatic annual COLA increase. Are employers now being told that there will also be a periodic revision of the minimum wage as well?

## **11. The Salient Point of the Caritas Study**

The above arguments have been necessary because, regrettably, all the media attention concerning the Caritas study has focused on the most controversial proposal, i.e. to raise the minimum wage. This is, as Caritas proponents have emphasised, only one of many recommendations in the report.

The MEA believes that the media and opinion leaders who have commented on the study have missed on what should be its most significant feature. The study selects three segments on which to base its recommendations:

- Two adults with two dependent children
- One adult with two dependent children
- Elderly couples

The study reveals that, the percentage of individuals among these segments that are at risk of poverty is 3.3%; 52.6%; and 8% respectively. The difference between the first two segments is staggering. The fact that only 3% of families with two adults risk poverty as against 53% of

families with a single adult sheds a spotlight on the social and economic cost of broken families on society, which is mostly being suffered by the children.

**The implications of these figures are that there is a real social issue which needs to be addressed through focused and tailor-made measures aimed at assisting such families, and ideally, to prevent the breakdown of families which tends to lead many on the path to poverty. This is a matter of societal values which goes beyond the remit of employers to address.**

## **12. Conclusions**

The Malta Employers' Association recognises that single income families with a low wage find it difficult to make ends meet. In this respect, the study by Caritas is meaningful as it has compiled a list of items that are necessary for a family to live decently, and through the costings of this basket, has established the level of income which is required to afford it. The report states that: *'This study does not seek to show how much a family should earn. Rather it aims to describe a basic minimum standard, which it should be unacceptable for any household not to attain'*.

It is manifestly evident that single parent families are at greater risk of not being able to afford this package than families with two adults. The study is an eye-opener to all social partners that there are families facing difficulties, and this is why MEA believes that social policy measures are important to ensure that the number of families living in relative poverty should be minimised.

It is a fact in Malta that, judging by the relatively low number of persons living exclusively on a minimum wage, the vast majority of employers recognise the need to provide for a decent income to their employees. Yet the fact remains that for some occupations, mostly concentrated in specific sectors, companies may find it difficult to raise wages and remain competitive.

## **13. Policy recommendations**

In view of the arguments presented in this paper, MEA proposes the following measures to improve the situation of families at risk of poverty. Many of these measures support the ones included in the Caritas study.

13.1 Students need to be educated at an early age about the importance of life skills such as family budgeting.

13.2 Adults, especially young couples, should be given specialised training through community based projects about parental skills, family budgeting and resource utilisation (e.g. energy saving, water conservation). Such training should be made mandatory for recipients of social benefits.

13.3 A continuous effort to use education as a means to move people into more productive and higher paying occupations. More adults should be encouraged to participate in life- long learning.

13.4 Strengthen the infrastructure required to enable families to access a second income. This can be achieved through a continued extension of affordable child care facilities, and extension of school hours.

13.5 Employers also have a role to play by being more receptive, where possible, to flexible and atypical work organisation to enable more women to access gainful employment.

13.6 Employers should also use training and development to increase the value added of production and develop their human resource to its full potential. This is a means of improving competitiveness and makes higher wages affordable.

13.7 There should be more acceptance by Unions about the necessity of atypical employment (part-time work, definite period contracts, temping) in order to increase accessibility of families to earn a second income, provided that such practices occur within legal parameters.

13.8 There should be special social assistance to families who earn a low income and, due to particular circumstances – e.g. caring for disabled children – cannot afford to work for a second income.

13.9 Government should intensify its efforts to curb benefit fraud, to free resources that should be used to assist families who are truly in need. These include unmarried couples that take advantage of benefits allocated to single parents; and individuals who choose to work in the informal economy to be entitled to benefits and avoid honouring their parental obligations.

13.10 Government should give preference to targeted benefits - aimed at children in particular - rather than cash handouts to ensure that social benefits are truly channelled into uses for which they are meant. Child welfare has to be the priority.

13.11 Civil society and church authorities should raise awareness about the social and financial implications on children of broken families. There should be a concerted effort across all society to promote family values and to make people aware of the responsibility and obligations involved in raising children. This effort can be enhanced through programmes and measures to bring down young/single pregnancy rates such as better sex education and PSD programmes in schools.

All social partners have to accept that the key to have less people at risk of poverty is economic growth, as it is through higher value added productivity that enterprises will be in a position to increase wages. Thus the country must manage its resources to maximise the economic growth, and to design a set of distributive and social measures to assist all families and citizens to develop their potential as productive citizens.