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23rd March 2005

Media Release

Reaction by the Malta Employers' Association to Malta Labour Party's document: Towards an Economic and Social Regeneration Plan

The main issues mentioned in the report are similar to the document produced by the MEA: Generating Productive Employment – A National Priority. MEA is in agreement that there is a need for policies that will really address the current challenges facing the economy and to reverse the recent sluggish economic growth and poor economic performance. MEA has been insisting that this has been the result of global challenges and also because of mistaken policies by successive governments that have resulted in an unsustainable recurrent expenditure leading to a persistent fiscal deficit and high national debt that in turn, is absorbing substantial funds to service.

The foreword of the MLP document mentions that the concept of a welfare state is being challenged. MEA does not believe in the dismantling of the welfare state, but has been calling for reforms that would make it sustainable. There is no point of aspiring for high quality health services, and adequate pensions for current and upcoming generations unless these are supported by a productive and competitive economy. It is the view of the Association that there has been too much focus by the political parties on retaining and improving social welfare systems without giving due consideration to their affordability and sustainability. The overriding of the political agenda over the economic one is a symptom that has become a common feature in many Western economies and that in itself threatens the welfare state. MEA's views on these issues cannot be given an ideological classification, but are based on economic pragmatism.

The five central aims of the report are commendable, since they do link the concept of solidarity and a just distribution of income and wealth with that of productivity.

Aim 1: We have to utilise all productive resources available, in the best way possible so as to create the necessary wealth that allows us to maintain solidarity with those in need.

- MEA is in favour of measures to curb tax evasion. It believes that the best way of achieving this objective is to reduce incentives to evade tax. High tax rates create such incentives.

Taxpayers also need to see that they are getting value for money. Government inefficiencies, and overemployment may make it morally justifiable to some to evade tax.

- MEA agrees that the fiscal deficit is, in large part, a result of government's high recurrent expenditure. However, the excessive salaries of some executives and travel expenses, as mentioned in the report, only contribute marginally to the real source of the deficit. A more significant culprit is the level of employment in the public sector.

Both political parties have to acknowledge that the current level of employment in the public sector is not sustainable and that a plan is required to reduce the ratio of persons working in the public sector to the total labour force over a specified number of years. MEA's document recommended ways in which such a plan should be implemented. If there is a drive, as proposed in the MLP document, to improve efficiency in the public sector, then there will be an even lower complement required to man it and to provide a better quality service. This is after all, the way in which the private sector is managing to restructure and face global challenges. Only in this manner can the fiscal deficit be curtailed without resorting to higher taxation. Increasing taxes to feed the public sector monster should not be considered as an option.

- Nonetheless, as stated in the report, government can make better use of its employees. This in itself should bring about a lower complement because of higher productivity. One way is through private public partnerships, or to have a concentration of surplus labour assigned to specific projects, under set time frames and budgets: e.g. restoration of Fort St. Angelo, landscaping projects.
- MEA agrees that there is a strong need for greater scrutiny on capital projects. There is no question that in some cases expenditure was much higher than what was projected.
- The report rightly mentions the need to reduce excessive bureaucracy for the manufacturing sector. Investors are faced with unacceptable delays in processing applications for new enterprises. MEA strongly supports efforts to reform the port systems, which are a major source of bureaucracy and unreasonable costs to manufacturing industry. The MLP should also pronounce itself in favour of such reforms.
- MEA also agrees that embassies should be utilised to attract foreign investment to Malta. They should be developed to perform this essential function, and to coordinate their activities with Malta Enterprise.
- Malta has considerable potential in becoming a services centre. We should exploit our geographical position and EU membership to become a trading and cultural bridge between Europe and North Africa. Malta could have a unique role to play in this respect.

Aim 2: We have to give the opportunity to everyone to create wealth, whether as an entrepreneur or a worker

MEA supports the principle that the creation of 'productive work' should be the top priority as a means to sustain a social welfare system. This mirrors its own document, and MEA has been emphasising on the term productive employment to avoid situations where political parties create artificial jobs to bring down the jobless figure.

The country needs to draw a clear distinguishing line between what is a wage, and what is a welfare benefit. A wage is something earned for productive work. Regretfully, too many persons in the public sector, as previously mentioned as receiving a wage more as a type of welfare benefit, since they are giving little in return. In effect, such persons may be termed as 'gainfully unemployed', and this phenomenon is one of the main causes of the national debt.

It is agreed that, as stated in the MLP document, everybody must be given the opportunity to participate in the process of wealth creation, but no one should be allowed to benefit from the efforts of others unless for justifiable social causes.

The importance of education cannot be understated, together with measures to increase the labour participation rate. It is true that Malta lags behind the Lisbon targets on many fronts, and MEA contends that the National Action Plan for Employment drawn up by the Government is a positive step that sets quantifiable employment targets. Early opt outs from the labour force should be restricted, and the female participation rate increased through appropriate incentives and the provision of support services. MEA believes that the provision of facilities to encourage more females to work is a better option than fiscal compensation from the State.

The issue of female participation is raised throughout the document, since it touches with many other items of social and economic importance. MEA believes that it is crucial for the economy to create the right conditions to have a more educated and participative female labour force. A thorough analysis is required to identify the reasons for the low female participation and to design policies that are aimed at rectifying the situation. This is a complex matter and the reasons for non participation may not be purely economical in nature.

MEA agrees that education and training will play key roles in developing a trained and flexible work force, one that would be more productive and adaptable to changing economic conditions.

Aim 3: We must work in order to provide everybody with access to the basic necessities and reduce risk of relative poverty.

The MLP document rightly points at the danger of having a welfare state that in itself hinders people from joining the labour market. It is a known fact that there are abuses of the welfare system (e.g. currently there are more than 8000 persons who have been boarded out; abuses of unemployment benefits by those working in the black economy.) MEA supports any measures aimed at curtailing such abuses, and that help unemployed in joining the productive labour force. For example, the TEES scheme run by ETC and currently being funded by the EU is a worthy collaboration between the ETC and the private sector to provide productive employment for unemployed persons over forty years of age.

MEA is aware of the fact that a substantial part of the gainfully occupied labour force earns less than LM4000 per annum. However, this situation can only be improved through increased efficiency and value added output. Simply increasing wages will make many firms uncompetitive and drive them out of the market. This is why Malta cannot project itself as a destination for low value added investment if the population aspires to maintain, and improve its current standard of living. As mentioned in the MLP report, education plays a pivotal role in increasing workers' incomes.

The MLP document mentions the increase in property prices and the fall in the savings ratio. There could well be a phenomenon that, given the prevailing low interest rates, many are shifting their assets into property. In fact, concurrent with a falling savings ratio, the amount spent on property has escalated significantly over the past years, and the increase cannot be attributed exclusively to rising property prices. MEA recommends caution before proposing to tax property, and one should look into the reasons for the excessive demand for property before suggesting taxation. However, there should be measures to assist young couples through special schemes for first time buyers, and

through reform of outdated rent laws to make it easier for persons to have the option to rent property rather than purchase. This would be better than an over reliance on social housing which might act as a disincentive for persons to work or to declare their income in order to retain housing subsidies.

MEA agrees that the regional issues in Gozo and Cottonera should be addressed, and that these two regions have tremendous historical and natural assets that offers potential for tourism. It should be noted that although income inequalities exist in Malta as elsewhere, inequality as measured through the Gini coefficient is low compared to many other countries. In fact, at a coefficient of 0.32, Malta is one of the countries with the lowest Gini coefficients, which implies an equitable distribution of income.

The MLP document contains a reference to parallel trading, stating that this should be allowed. This is already the case, and indeed, parallel trading is even accepted under EU regulations, on grounds that it can favour the consumer. What must also be considered, however, is that parallel traders may not offer the levels of after sales service as local agents, their supply is frequently unreliable, and they do not invest in brand building as the agents do, but rather tend to ride on the efforts and expenditure of others.

Aim 4: We have to create new means with which to help those who are not capable of doing so on their own.

The document presented by the MLP delves in to the inefficiencies of the US system where there is an over dependency on private health services. Malta needs to learn from other countries mistakes and develop a system where private health services can exist and complement the public service. Private insurances and healthcare services cannot be dismissed, and a right balance has to be struck between the public and private sector in this regard. It is a fact that as the population ages and the mortality age increases, the demands on the health system will increase. MEA agrees that essential services should not be charged and be available to all.

Health and pensions will absorb an increasing share of public finances and will be difficult to sustain without increased contributions, in some form or other. In view of this fact, the MLP proposal to channel the bonus to this purpose cannot be ignored unless alternative recommendations are put forward.

The same applies to the reform in the stipend system. MEA believes that this system was useful in incentivising more students to pursue tertiary education, bearing in mind that the number (as a result of educational policies in the eighties) was very low when the system was introduced, and there was a chronic shortage of qualified persons in all fields as a result. Now is the time to question whether the system has served its purpose, whether it is affordable (especially given the projected increase in the number of students studying at tertiary level), and whether the funds being invested in it would be better spent in upgrading educational facilities at the University and MCAST. There should be a frank and honest discussion on this issue without partisan mud slinging.

Aim 5: We have to create the best economic and social environment through which we can accommodate an ever-increasing number of elderly in our society.

The MEA had presented a position paper on pension reform in 2003 (available on web site: www.maltaemployers.com). The Association agrees on the need for a multi faceted approach to

ensure that the pension system is sustainable. This includes increasing the participation rate, limiting early opt outs from the labour force, introducing a second pillar to the existing pensions PAYG scheme, and also to allow for a flexible retirement scheme that will encourage employed persons to remain in the labour force beyond the age of 61.

MEA agrees that ultimately, the solution will depend on generating productive employment in the private sector, and this has been the basis of its recommendations. However, the Association believes that the pensions time bomb is a reality, and that action is needed in the short term to avoid greater hardships in future. The major challenge shall be that of ensuring an adequate pension for an increasing number of elderly persons without raising the cost of employment and minimising the impact of any form of savings (optional or compulsory) on aggregate demand.

The MLP document states that the welfare state has three main pillars: the family, the market and Government. One should add that another pillar is the private sector that is essential in sustaining the welfare state.

Conclusion

The time is ripe for the major political parties to reach a consensus to remove certain items of national interest from the partisan agenda. Among these items one can include pensions reform, manning of the public sector, and student stipend reform. Malta is a small country facing global challenges, and as such should rise above partisan polarisation to focus on generating more wealth. Irrespective of which party is in government, decisions need to be taken, and certain decisions may not enjoy immediate popular support, much as they may be necessary. As it has done in the past, MEA will always be willing to offer its services to promote the national interest by maintaining a healthy dialogue with all political parties.