



Generating Productive Employment – A National Priority

Proposals by the Malta Employers' Association for the
creation of a Social Pact for Malta

May 2004

Table of Contents

Table of Contents	1.1
Executive Summary	
1. Introduction	1
2. Defining the Problems	4
2.1 Low level of FDI in recent years	4
2.2 Rising unemployment	4
2.3 Unsustainable welfare systems	4
2.4 Welfare system acts as a disincentive to employment participation.....	5
2.5 Public Fiscal deficit limits the use of fiscal expansionary measures although the economy faces a slowdown.....	5
2.6 Public sector overmanned and expensive to sustain.....	6
2.7 Low labour participation rate.....	6
2.8 The country's competitiveness is being eroded because of rising costs, and also because previously undeveloped countries are attaining levels of economic development that are comparable to ours.	6
3. Objectives	8
3.1 To incentivise a higher labour participation rate in the private sector	8
3.2 To increase the ratio of employment in the private sector to that in the public sector	8
3.3 To restore Malta's competitiveness in order to generate productive employment	8
3.4 To reduce the size of public expenditure to a manageable level	8
3.5 To restructure the country's welfare system in a manner that benefits the truly needy and that promote intergenerational equality.	9
4. Labour Market Strategies	10
4.1 Target to reduce the number of persons employed with the public sector by a targeted amount (proposed 12,000) by end of 2008.	10
4.2 Wage increases in to be in the form of bonuses linked to targets related to: employment levels; fiscal situation; GDP growth	12
4.3 Increasing the Labour activity rate	12
4.3.1 Introducing schemes for a flexible later retirement	12

4.3.2	Blocking easy opt outs from the labour force, such as early retirement schemes and boarding out.	12
4.3.3	Curbing Unemployment Benefit Abuse	13
4.3.4	Registered unemployed to be available for training	13
4.3.5	Registered unemployed have to accept employment opportunities related to their line of work, otherwise they will be struck off the register.	13
4.4	Introducing incentives to increase the Female Participation rate	13
4.4.1	Setting up of child care day centres at subsidised rates and giving tax rebates	13
4.4.2	Providing a one year break for Female Returners to the Labour Force	14
4.4.3	Flexi Time Arrangements	14
4.4.4	Temping Agencies	14
4.4.5	Fostering a Culture of Gender Equality	14
4.5	Working Time Directive	15
5.	Increasing Competitiveness	16
5.1	Overtime in manufacturing and hotel industry to be paid at flat rate, but taxed at a maximum of 15%	16
5.2	Public holidays falling on weekends will not be added to the annual leave entitlement	16
5.3	Wage increases: Government announced increases linked to GDP targets	16
5.4	Collective agreement increases to be inclusive of any government induced increases in wages	17
5.5	Period of Collective agreements to be extended to four years unless otherwise agreed between employers and unions.	17
5.6	Leave during long absences from work due to sickness and injury to be forfeited	17
5.7	A commitment by Government to reform Port Charges	17
5.8	A complete evaluation of government systems to reduce bureaucracy	18
5.9	Government departments and authorities must cultivate a pro business mentality.	18
5.10	Incentives Package to Investors	18
6.	Fiscal targets	19

6.1 Curbing Recurrent Expenditure	19
6.2 Reduction in Corporate Tax	20
6.3 Reform of Rent Laws	20
6.4 Curbing Tax evasion	20
7. Monetary Targets	21
8. Education	21
8.1 Guidance in School to Work Transition	21
8.2 Guidance services to employees	21
8.3 Training of Unemployed persons	22
8.4 Involvement of Employers in Educational Institutions	22
8.5 Supporting Self Employment	22
8.6 Generating a Life Long Learning Culture	22
8.7 Reform of the Student Stipend Scheme	22
9. Sectoral Issues	24
9.1 The Natural and Cultural Environment	24
9.1.1 Landscaping	24
9.1.2 Impact of hunting	24
9.1.3 Incentivise Energy Saving Technology	24
9.1.4 Waste management	25
9.2 Tourism	25
9.2.1 Investment in Infrastructure	25
9.2.2 Promote the Harbour Area	26
9.2.3 Develop / Restore sandy beaches	26
9.2.4 Retain preferential VAT rates on Tourism	26
9.2.5 Empower Heritage Malta	26
9.2.6 Develop a Service Culture	27
9.3 Manufacturing	27
10. Other Issues	29
10.1 Malta as a Diplomatic Centre	29
10.2 Innovation	29
10.3 MCESD	30
Conclusion	31

Executive Summary

The Malta Employers' Association is preparing this report as a proposal for a national strategy to generate productive employment. It has set this strategy as a national priority since Malta's economic problems can only be faced by creating productive employment.

The document is based on the principle that only the growth of the private sector can offer a solution to the country's economic problems, and only by addressing these economic problems can the country generate sufficient wealth and growth to increase the standard of living of its citizens.

The MEA supports the setting up of a social pact that will consist of a tripartite effort to address the major economic issues. However, the social pact is a tool and not an end in itself. Even if a social pact does not materialize, the problems still have to be faced.

Among the major issues to be tackled are the low level of foreign direct investment, rising unemployment, unsustainable welfare systems, the public fiscal deficit, the low labour participation rate, and the country's overall competitiveness. The MEA is also proposing pegging any wage increases to real GDP growth and fiscal targets.

The document includes various proposals on improving the national situation, including strategies for a more productive labour force. The proposals include an effort to reduce the size of the labor force in the public sector from the current 34% to 27% over a number of years, and to complement this strategy with incentives to increase the demand for labour to absorb the increase in labour supply. The MEA stresses that a National Employment Plan should take into account both demand and supply factors to be effective.

Other recommendations involve competitiveness, and education. The proposals also address sectoral issues, related to the natural and cultural environment, tourism and manufacturing. There is also a recommendation to explore Malta's role as a

diplomatic center, given its cultural heritage, geographical position and status as an EU member state.

The MEA appeals to all social partners to approach national issues with a sense of realism, even though certain actions might not be appealing in the short term.

Generating productive Employment – A National Priority

1. Introduction

The Malta Employers' Association believes that it is high time for the social partners to pool their forces to design a strategy to face national economic problems. There needs to be a clear commitment from the government, unions and employers to address the state of the economy, to create the necessary conditions to generate productive employment, and to reverse the current negative trends.

In their recent economic history, tripartite agreements, or social pacts have been developed in many countries to provide the economy with the necessary industrial relations stability to focus on growth, and to compete in a globalised environment. Social pacts usually include defined targets to be reached through the efforts of all parties.

The MEA's position is that it believes that a social pact would be beneficial if it truly addresses the relevant issues in a concrete manner. Otherwise it would be simply an airy fairy exercise that would only result in frustration. One of its priorities must be how the public deficit is to be reduced by setting *quantifiable targets*. There is no point in stating that the deficit can be reduced, for example, by increasing efficiency in purchasing, if there is no indication of the extent to which such measures are expected to dent the deficit. This is a necessity not only because Malta, as a member of the European Union, has to abide by the targets set by the Maastricht criteria, but also because the current situation cannot continue indefinitely.

The MEA believes that there can be no realistic improvement in public finances unless all social partners come to terms with the fact that the country cannot support the scale of public sector, in terms of employment, that it has today. There has to be a strategy to reduce the employment in the public sector from the current 34% of the total labour force to a more manageable level. The Association has been stressing this point in its national budget proposals, and calls for an exercise to determine where there is unutilized manpower to transfer it to more productive use. The Association makes it clear that this exercise does not necessarily mean redundancies. The main

objective would be employ labour in a productive manner, both in the private and the public sector. The recent arrangement for Drydocks workers to be employed by the private sector at subsidized rates by the government is a step in the right direction.

The social pact must reconcile the supply and demand side of the labour market. On the one hand, there has been much discussion about increasing the female participation rate, the number of graduates on the market, and an overall greater participation of the percentage of the population in the labour force, which in Malta is one of the lowest among European Union Countries. This is, of course commendable and the MEA has always participated in such exercises. However, there has not been sufficient attention to the *demand* side of the labour market equation. Increasing the participation rate will be counterproductive unless there is a corresponding increase in the demand for labour. The factors that are deterring employers, as the buyers of labour, to absorb the labour supply are not given sufficient attention.

This is why the Association contends that the notion of work as a 'right' can be misleading and taken to mean that any person has a right to be employed, irrespective of whether there is a demand for his/her services. There must be a clear distinction between what is productive employment, and a social service. Too often governments have resorted to employing persons not because they were contributing to the generation of wealth through their productivity, but simply to disguise unemployment.

The official unemployment figure is misleading in various ways. On the one hand, it is known that a substantial segment of the registered unemployed is somehow gainfully occupied in the informal economy, whilst enjoying unemployment and related benefits. On the other, many persons classified as employed are not, in fact, productive. In purely economic terms, these would be classified as privileged unemployed. The point here is that the right to work should translate into the right to productive employment, to avoid the pitfall of creating artificial jobs.

The country also faces a situation whereby those employed in the public sector have privileges that are certainly not available to those in the private sector. In the private sector, workers are not guaranteed lifetime employment, or lucrative handouts

together with early retirement. The system appears to be rewarding unproductive careers.

The Social Pact would be an opportunity where the social partners, including the party in opposition, come to terms with the reality of the situation. Instead of looking at the past to apportion blame on each other, political parties can work at arriving at solutions with the full backing of unions, employers and civil society.

The Malta Employers' Association is emphasizing the need of generating *productive* employment as being the basis of a Social Pact. A productive job is one that creates wealth. The best way to generate productive employment is through the expansion of the private sector. Therefore the MEA's proposals are based on the following general principle:

Only the growth of the private sector can offer a solution to the country's economic problems, and only by addressing these economic problems can the country generate sufficient wealth and growth to increase the standard of living of its citizens.

Social Partners have to acknowledge this as the basis of a Social Pact.

It is important to stress that for a Social Pact to materialize, all social partners have to be in agreement and accept ownership of the contents. Even if there is no such agreement and a social pact does not materialise, the above principle would still apply, since the country would have to find solutions to its current problems just the same.

2. Defining the Problems

This section lists the main problems that are affecting the country and that need addressing:

2.1 Low level of FDI in recent years

Although there have been expansions from firms already operating in Malta, the country has suffered from a fall in FDI in recent years. There are internal and external factors that account for this phenomenon. If we want to reach the objective of generating productive employment, the reasons for lack of FDI have to be identified. Malta must become an attractive venue for high value added foreign direct investment to generate job opportunities in the private sector.

Investors must be offered the necessary infrastructure and incentives to be attracted to Malta. Stories abound of applications that took too long to process, lack of adequate factory space and other inefficiencies that have acted as a deterrent for foreign investment. There are also issues such as artificial transport costs that erode Malta's competitiveness.

2.2 Rising unemployment

In spite of the low labour participation rate in Malta, unemployment is increasing and currently there are 8,000 registered job seekers. Part of this unemployment figure is structural, but there are increasing concerns that the performance of the economy will not expand sufficiently to absorb those who lose employment and the increase in the labour supply. A strategy to increase the demand for labour is a priority.

2.3 Unsustainable welfare systems

Malta faces the threat of unsustainable welfare systems. The current pension system, relying exclusively on the pay as you go system, will be insufficient to support an ageing population with a longer life span. It is known that unless concrete measures

are taken, the ratio of employees to retired persons will fall and this will make the system even more unsustainable. The Malta Employers' Association has made concrete proposals to reform the pension system. Health expenditure is also of concern and threatens to apply further pressure on the state of public finances. There is no clear direction that specifies how the increased costs of running the new hospital are to be catered for. Welfare reform has to be incorporated in any agreement between the social partners to improve economic situation in the country.

Even if government manages to curb its expenditure, the current health and pension schemes will still increase the size of the fiscal deficit in the coming years.

2.4 Welfare system acts as a disincentive to employment participation

The way that the welfare system has evolved over the years has created a situation whereby the welfare benefits encourage people to stay clear of employment opportunities, instead of incentivising them to seek productive employment. The gap between unemployment benefits and the minimum wage is too narrow. The welfare benefits one receives when unemployed make it more attractive to retain those benefits and seek informal work, than to join the officially gainfully occupied labour force. Employers report that many persons sent to them for interviews are not interested in giving up their welfare benefits.

This situation results in abuse of the welfare system, and lack of tax revenue due to tax evasion.

2.5 Public Fiscal deficit limits the use of fiscal expansionary measures although the economy faces a slowdown

The extent of the fiscal deficit, in terms of accumulated national debt, and as a percentage of GDP restricts the use of deficit financing as an expansionary measure. The current situation whereby the public debt stands at more than 70% of GDP, and the Deficit/GDP ratio at more than 9% definitely needs to be tackled. The situation has deteriorated to an extent that Government faces the dilemma of applying a contractionary fiscal policy (i.e. raising tax revenue to narrow the fiscal deficit) during

an economic slowdown. Such measures might in themselves deteriorate the economic situation even further.

2.6 Public sector overmanned and expensive to sustain

The public sector employs about one third of the labour force, and accounts for a major segment of government expenditure. This is a result of a policy whereby the government acted as ‘an employer of last resort’, which has resulted in numerous departments and corporations being over manned and inefficient. The cost of maintaining this situation is being borne by the tax payer. The amount being paid as wages for unproductive labour are also resulting in lack of resources being allocated to major national priorities, such as education and the infrastructure. The labour supply that is ‘trapped’ in the public sector also creates artificial labour shortages and contributes to wage inflation in the private sector.

2.7 Low labour participation rate

Malta falls short of the Lisbon targets with respect to participation in the labour force, in particular that of female participation, which, at 30% is one of the lowest in the EU. The average age of retirement is also drastically low – 52 years. This effectively means that a relatively small labour force has to sustain the rest of the population through their production, and, as indicated above, one third of these are employed in the public sector.

2.8 The country’s competitiveness is being eroded because of rising costs, and also because previously undeveloped countries are attaining levels of economic development that are comparable to ours.

One reason that accounts for the lack of FDI is the erosion of competitiveness. This is partly due to developments in developing countries that have improved their incentive packages, human resources, political systems and infrastructure to be able to act as investment destinations. However, some of the reasons that threaten our competitiveness are self- induced and action can be taken to improve the situation.

The main challenge facing the country will be to continue with the process of restructuring to become competitive in higher value added industries to sustain our standard of living. This will also entail upgrading of our human resources.

3. Objectives

From the above analysis, the MEA proposes that a strategy to generate productive employment should be based on the following objectives:

3.1 To incentivise a higher labour participation rate in the private sector

This objective relates to the necessary measures that have to be taken to increase the labour participation in the private sector. The focus here will be on increasing the supply side of labour, in particular female labour and older persons.

3.2 To increase the ratio of employment in the private sector to that in the public sector

The strategy will include targets to shift persons from the public sector into the private sector. This is also a supply side measure that will increase overall per capita production per employee.

3.3 To restore Malta's competitiveness in order to generate productive employment

The ability of the economy to be able to provide jobs to match the increased supply of labour will ultimately depend on the extent of competitiveness that will in turn generate increased demand for the products and services offered.

3.4 To reduce the size of public expenditure to a manageable level

There has to be a clear strategy to reduce public expenditure. Government has to commit itself to specific targets with the support of the other social partners. For example, it would be a futile exercise to agree to reduce public expenditure and simultaneously expect government to award substantial collective agreement increases without expecting the public deficit to increase.

3.5 To restructure the country's welfare system in a manner that benefits the truly needy and that promote intergenerational equality.

Welfare reform is an issue that has to be addressed and incorporated in the social pact, since it will affect all social partners. Any reforms have to consider the impact on future generations. Thus far there has been a 'buy now, pay later' approach, and the consequence is a rising fiscal deficit and public debt that will have to somehow be paid in future. This may result in hardship to future generations who will bear the brunt of the current generation's extravaganza.

Welfare spending also has to focus on the truly needy by curbing abuse.

4. Labour Market Strategies

4.1 Target to reduce the number of persons employed with the public sector by a targeted amount (proposed 12,000) by end of 2008.

The Association believes that one way to reduce the fiscal deficit is by agreeing on a strategy to reduce employment in the public sector by a specified amount. This reduction will take place over a number of years to avoid unnecessary shocks and give sufficient time for the private sector to be able to absorb the increase in supply of labour, thus minimizing the possible rise in unemployment that may result.

If this target is achieved, wage outlay could possibly be reduced by approximately LM50 million. Therefore this will have contributed to the reduction in the fiscal deficit without the need to raise taxes.

This can be achieved through a number of measures, including:

- Conducting an audit in government departments and parastatal organizations to identify where there is surplus labour and how many persons are not productively employed. A report will be prepared and submitted to the MCESD to be endorsed by the social partners.
- Part of the reduction will occur through natural wastage. A number of persons will retire or exit the labour force for some reason, who will not be replaced. Approximately 2000 persons reach retirement in the public sector annually.
- The proposal does not imply that government may not recruit personnel in the public sector. However, part of the national employment plan will include a manpower planning exercise to identify the areas where persons will be employed and also the number of such vacancies that are expected to arise by 2008. The manpower plan will be instrumental in shifting persons in the public sector from areas where they are underemployed to ones where they can contribute more positively, where possible. The union's cooperation here is essential to ensure that there will be the necessary flexibility to make such movements possible.

- The manpower plan will also identify training needs that will make the re-allocation of human resources within the public sector possible. The ETC can play an important role in providing the necessary training to make the labour force more flexible.
- Public sector employees who are extra will be given incentives to join the private sector. This may lead to voluntary resignations and a reduction in public sector employees. Early retirement should not be an option.
- Employers can also be given incentives to absorb extra labour from the public sector. Wages can be subsidized over a number of years, as has been done recently with drydocks workers.
- There might be cases for outright redundancies. Employees in the public sector can be made redundant in the same way that applies to employees in the private sector. The perception of lifetime employment has to be changed in line with contemporary realities. In the case of such redundancies, employees should be given adequate notice – up to three years – to enable them to seek alternative employment. This should be backed up with training and guidance services to ease the transition.
- The idea of private public partnerships can be extended further to utilize extra labour productively in other projects. For example, the Maltese landscape cries out for the restoration of our rubble walls. Other complementary projects can also include designing and landscaping of footpaths for country walks that can be enjoyed by Maltese and tourists alike.

It is important to coordinate this measure with the targets set by the National Employment Plan. For example, if the public sector is expected to shrink its labour force by 12,000 over a four-five year period, and the labour supply is expected to increase by an additional 10,000, then the number of jobs that will have to be created over the period would be 22,000. This will reduce the ratio of employees in the public sector to total labour supply to approximately 25%. However, it will be Herculean task to increase the demand for labour by the desired amount. Clearly, for this stratagem to work, there will have to be substantial incentives to the private sector to be able to absorb the increased labor force.

4.2 Wage increases are to be in the form of bonuses linked to targets related to: employment levels; fiscal situation; GDP growth

In order to control wage inflation, which, in the public sector contributes to the fiscal deficit, wage increases for the duration of the social pact, or an otherwise agreed period of time will be partly given in the form of bonuses that are target specific. For example, authorities or parastatal organizations will factor in employment and fiscal targets, in agreement with the unions, to determine the extent of such increases. Overall wage increases in the public sector will be based on GDP growth targets.

4.3 Increasing the Labour activity rate

One of the fundamental principles on which this proposal is based is that a higher labour activity rate in the private sector is essential for the sustained growth of the economy. As explained earlier, this low rate of labour participation in Malta threatens the sustainability of our welfare systems and also government finances, since tax revenue depends partly on the employment rate. The following are suggestions on how to increase the employment rate:

4.3.1 Introducing schemes for a flexible later retirement

The proposals made by employers for pension reform included introducing incentives, in the form of enhanced pensions, for later retirement. Employees could reach agreements with their employers to work reduced hours and still be entitled to an enhanced pension if they retire at 65 years or later.

4.3.2 Blocking easy opt outs from the labour force, such as early retirement schemes and boarding out.

There is no question that the country cannot sustain an average retirement age of 52 years, as is the case at present. Persons who have been boarded out have to be reviewed periodically to check whether they can return to work. The figure of 8000 persons who are currently boarded out is a clear indication that there is abuse of the system. Early retirement schemes are costly and do not offer a solution to unemployment.

4.3.3 Curbing Unemployment Benefit Abuse

The current efforts to curtail abuse of unemployment benefits has to be sustained, and perpetrators fined heavily for stealing from the state.

4.3.4 Registered unemployed to be available for training

Those who are registering for work would have to attend training courses if requested to do so. There have been cases where training schemes have been offered (e.g. TEES scheme) but only a small percentage of those eligible opted to join the scheme. Attendance to training courses should be made compulsory to the registered unemployed. This will serve the dual purpose of curbing abuse and of providing those registering for work with skills to make them more employable.

4.3.5 Registered unemployed have to accept employment opportunities related to their line of work, otherwise they will be struck off the register.

Refusing a job should not be an option. Employers constantly report cases of persons turning up for interviews who clearly have no intention of accepting the job offered come up with creative reasons for doing so.

4.4 Introducing incentives to increase the Female Participation rate

Malta has a long way to go to achieve the Lisbon target of 60% employment rate for women, and it is doubtful whether this target can be achieved by 2010. However there can be a number of measures that may be implemented to increase female the activity rate:

4.4.1 Setting up of child care day centres at subsidised rates and giving tax rebates

MEA agrees that family obligations are amongst the factors that contribute to the low female participation rate in Malta. Every effort must be made to increase the number of licensed child care centers. These should offer the services at affordable rates and working mothers should be given tax rebates on the expenses incurred. The local councils may be involved in the setting of such centers.

4.4.2 Providing a one year break for Female Returners to the Labour Force

It is being proposed to offer a one year tax break to female workers who would have stopped working for family reasons. The tax break would apply to those who return to employment between four and six years since the date that they had stopped. This should act as a strong incentive for female returners.

4.4.3 Flexi Time Arrangements

Employers will try to introduce flexi-time working systems to cater for family related commitments of both male and female employees.

4.4.4 Temping Agencies

The MEA encourages the setting up of temping agencies to cater for temporary labour shortages. Employers in many countries see great benefit in the services offered by temping agencies.

4.4.5 Fostering a Culture of Gender Equality

Employers should strive to provide equal opportunities to employees irrespective of gender. This is not only to comply with legal obligations, but also because of the economic and social benefits that arise from a higher female participation rate in the labour force.

4.5 Working Time Directive

The social partners will commit themselves to support retaining the opt out clause of the Working Time Directive. The Malta Employers' Association has written to the EU Commission to reiterate its position that the removal of the opt out clause will have negative effects on employment and competitiveness. If there is agreement to this effect by the social partners, this would strengthen the position of Maltese MP's in the European Parliament to lobby to retain this clause.

5. Increasing Competitiveness

Malta needs to come to terms with the changes that are occurring in the global competitive environment. Strategies that aim to improve our competitiveness should be based on reducing costs, improving efficiency, raising value added, and promoting innovation.

Increases in labour costs have to be pegged to productivity, otherwise there will be the risk of further deterioration in our competitiveness. Malta should not aim at being a low labour cost destination, since it cannot hope to compete with developing countries with far lower labour costs than ours. However, there should still be measures aimed at curtailing labour costs to protect sensitive industries.

5.1 Overtime in manufacturing and hotel industry to be paid at flat rate, but taxed at a maximum of 15%

One measure that is being proposed is to pay overtime in manufacturing and tourism at a flat rate, but that such hours would be taxed at a maximum of 15%.

5.2 Public holidays falling on weekends will not be added to the annual leave entitlement

Employers are also proposing to increase the number of productive days in the year by discontinuing the practice of adding public holidays falling on weekends to the annual leave.

5.3 Wage increases: Government announced increases linked to GDP targets

Wage increases should be left to collective bargaining and market forces to determine. If government is to continue with the practice of awarding wage increases in its budget, these should be based on real GDP growth targets to reflect increases in productivity. The formula for pegging such increases to real GDP growth will be agreed between the social partners.

5.4 Collective agreement increases to be inclusive of any government induced increases in wages

It should be agreed in principle to include any government induced increases as part of the collective agreement increases. This will act to control wage inflation. Government induced increases, if based on real GDP growth, will reward nation wide increases in productivity, whereas any increase over and above the government induced increase will be based on company performance and market rates for labour.

5.5 Period of Collective agreements to be extended to four years unless otherwise agreed between employers and unions.

The period of duration of collective agreements, which in most cases stands at three years, will be extended to four years unless both parties agree for a different time period. A longer duration than the current three years will allow for better industrial relations stability.

5.6 Leave during long absences from work due to sickness and injury to be forfeited

Employers have long contended that the practice of awarding vacation leave for periods during which the employee would have been out on long sick leave or injury leave should stop. It is proposed for absences longer than three months, vacation leave during the period of absence will be forfeited.

5.7 A commitment by Government to reform Port Charges

Government must commit itself to reform the system of port charges within a definite time frame, since these contribute to unnecessary high transport costs. Such a reform would result in significant cost savings to many employers, particularly in manufacturing.

5.8 A complete evaluation of government systems to reduce bureaucracy

In line with the HR objectives explained above, government needs to commit itself to make an audit of the systems and procedures of its departments and those of authorities and parastatal companies to improve efficiency. This should be incorporated with the manpower planning exercise referred to earlier.

Such an exercise will also involve revision of working times in government departments. They should be market driven and be available to provide a service to their clients, particularly business clients. This may not necessarily entail eliminating shorter working days during the summer months, but any arrangement in working hours should not be made at the expense of service to the client.

5.9 Government departments and authorities must cultivate a pro business mentality.

Government officials must be trained to adopt a business like mentality. Even in cases where they are there to enforce regulations they have to see the side of the businessman. The objective should be to educate and to gain cooperation as far as possible, and not to exercise authority. There are frequent reports of arrogant behaviour that certainly does not promote initiative.

5.10 Incentives Package to Investors

It is proposed to revise the incentives package currently offered to investors to increase Malta's attractiveness as an investment destination, based on an evaluation of incentives packages being offered by competing countries. One such measure could be offering subsidized utility rates to new companies opening in Malta.

6. Fiscal targets

The most challenging task facing the country is to seek to control the fiscal deficit. Although there is consensus among the social partners on this point, little effort has been made to define how such a reduction is to materialise. However, there is agreement that action needs to be taken before things go even further out of control.

The deficit problem should not be tackled through reductions in capital expenditure. It is also not foreseeable that government can in any realistic manner commit itself not to raise taxation. It is a question of using fiscal policy tools, through reductions in expenditures and increased revenues to bring about a more healthy state of affairs in the budget with as little pain as possible.

MEA believes that the size of the public sector is not sustainable. There are already positive trends in the fact that employment in the public sector has been decreasing over the past few years. This trend has to be sustained, and if possible, accelerated.

6.1 Curbing Recurrent Expenditure

The most feasible way to reduce the size of the deficit is to focus on cutting recurrent expenditure and incentivise economic growth, which will in itself generate tax revenues. A reduction in the size of the public sector can enable government to reduce company taxes to stimulate expansion in the private sector.

It is understandable, and one might add, inevitable, given the state of public finances, that government will reduce the budget of its departments, corporations and authorities. However, the reduction in the budget cannot run hand in hand with increases in the cost of labour in these organizations. For example, a reduction in the budget of the Malta Tourism Authority should not translate into a reduction in the marketing budget to attract tourists to Malta. This could lead to situations where the ratio of labour costs to total operational costs increase and drain the resources necessary for the organization to reach its objectives.

There has to be a change in the public's and Government attitude towards expenditure. One reason for the escalating public deficit is that the line of reasoning behind public expenditure is that it is based on what is desired, not on what is affordable. This mentality clearly has to be changed. Some projects might be desirable, but not affordable. For example, having a state of the art hospital is desirable, but is the current one being built affordable, given the running costs that it is going to entail? Student stipends are desirable, but are they affordable in the current circumstances? Economic realities are seldom pleasant but they cannot be ignored indefinitely.

Government has to commit itself not to approve any projects unless a prior assessment on their impact on public finances has been made, and discussed at MCESD level.

6.2 Reduction in Corporate Tax

Reductions in Corporate tax from the current 35% to 20% would be an incentive to businesses to invest more and absorb the labour supply.

6.3 Reform of Rent Laws

Government should commit itself to make the necessary reforms in rent laws. Besides addressing the injustices caused by the outdated rent laws, such liberalization will increase tax revenues as rents increase. This measure will also have a positive impact in other respects. For example, there will be increased activity in renovating neglected property and ease demand for new housing.

6.4 Curbing Tax evasion

Malta still does not have a culture of tax compliance. The efforts to curb abuses and tax evasion have to be sustained to ease the fiscal deficit. Government may consider an amnesty for undeclared income, with strict enforcement immediately following the amnesty.

7. Monetary Targets

The monetary aspect of managing the economy has to be synergized with the other economic strategies. Price stability economic activity will depend on our interest and exchange rate policies. Malta has targets to reach, if it has the ambition to join the EURO. The impact of an undervalued dollar on Malta's competitiveness should be assessed.

8. Education

The educational sector has a pivotal role to play in the achievements of the targets set out in this proposal. The educational system has to be geared to provide the necessary skills to students and the labour force for the mobility that is crucial for the transformation of the economy.

The following actions are recommended in the field of education:

8.1 Guidance in School to Work Transition

Students must have reliable and professional guidance to have an understanding of the career options available to them. Such guidance must be provided from secondary level and continue even at tertiary level.

8.2 Guidance services to employees

Guidance services have also to be extended at the workplace, particularly in declining industries which are the most likely to face redundancies. These services will also be made available to surplus employees in the public sector to ease their mobility into the private sector.

8.3 Training of Unemployed persons

Training services should be offered to the unemployed. Such training will be compulsory, other wise they will not be included in the unemployment register.

8.4 Involvement of Employers in Educational Institutions

Stronger links should be forged between the educational institutions and employer bodies.

8.5 Supporting Self Employment

Educational institutions are to encourage entrepreneurship, and to include entrepreneurship in the national curriculum.

8.6 Generating a Life Long Learning Culture

Lifetime employability depends on lifelong learning. The ones most vulnerable to long term unemployment will be those who fail to upgrade or acquire new skills. This applies not only to unemployed persons but also to the gainfully employed. The real challenge will not be to minimize redundancies, since these are bound to occur, but to make the labour force sufficiently employable to be able to adjust to new employment opportunities. The concept of lifetime employment is today an anachronism.

8.7 Reform of the Student Stipend Scheme

The stipend scheme has served to increase the number of students following education at tertiary level. However, given the state of government finances, and the swelling number of tertiary students, the sustainability of the system should be evaluated. This exercise is especially important in view of the projections for the student population in the tertiary sector. If, as has been stated, the number of tertiary students needs to double to reach European standards, can the expenditure on stipends increase from the current LM6 million to LM12 million? There is also the question of opportunity cost.

Should the educational system be allocating money on stipends at the expense of better educational resources and research facilities.

The system may also be encouraging students to follow courses that are not really necessary for the country's development. Although the Association does not favor the principle of utilitarian education, nor can it endorse channeling tax money in terms of stipends, into areas that will not yield an economic return. Students should be left free to select any areas of study, but not necessarily be entitled to the stipend.

Government should also be wary of introducing a streaming system based on family income. Affluent families may not necessarily provide the financial independence to their children to pursue tertiary education. Also the benefits of stipends may go to undeserving students, since the income of their parents may be understated.

9. Sectoral Issues

Any agreement between the social partners has to consider sectoral requirements. This section makes recommendations for the natural and cultural environment; tourism; and manufacturing.

9.1 The Natural and Cultural Environment

The natural and cultural environment must be protected and nurtured since it contributes to the quality of life of the general population and also is a major contributor to the success of our tourism product.

9.1.1 Landscaping

Government should extend its private public partnership exercise to restore rural areas to their previous natural beauty. Areas like Buskett are in a serious state of neglect.

9.1.2 Impact of hunting

Hunting regulations are to be respected and enforced. Abusive practices are attracting the attention of environmental groups worldwide and affecting our tourist industry. Tourists should be free to roam our countryside without being harassed by some hunters.

9.1.3 Incentivise Energy Saving Technology

Social partners should agree on specific targets for the diffusion of energy saving technology. This will safeguard the environment, create job opportunities, and ease the fiscal deficit through the savings in energy imports. Energy saving measures can range from simple practices such as installing a brick in the water closet to save water, to the production and dissemination of solar water heaters. Currently, water and electricity subsidies act as a disincentive to switch to resource saving technologies, and this is costing the country millions of Maltese Liri per annum.

MEA has been suggesting to set up a company that utilizes part of the surplus labour in the public sector to produce water solar panels. Even if these are sold at cost, there

would be a positive cost benefit to the country. Introduction of energy saving devices, both by consumers and industry, should be incentivised through subsidies, reduced taxation and utility rates. The message that needs to get across to society is that nothing comes for free.

9.1.4 Waste management

Another area where commitments are required through definite targets is waste management. Industry should commit itself to minimise waste by waste saving technologies and waste sorting. All social partners should collaborate changing local culture to create stronger environmental awareness with respect to waste. Even simple practices such as waste separation are not practiced in a country with such a dense population.

9.2 Tourism

The tourism industry is a major source of employment and revenue that needs to be provided with adequate support to generate growth. This industry is facing heavy competition from other destinations. Malta needs to market its product based on its distinguishing features in order to position itself away from a sun and sea destination. The Malta Tourism Authority is being instrumental in repositioning Malta and this effort should be maintained.

9.2.1 Investment in Infrastructure

The tourism product must be supported with the necessary infrastructure in order to provide value for money to tourists. It is pointless promoting our five star hotels when the infrastructure is substandard. Government must set a target dates to improve the state of the roads. The country still looks shabby and the general cleanliness, although improved, still leaves much to be desired.

9.2.2 Promote the Harbour Area

Marketing efforts should continue to promote the harbour area. Valletta and the Cottonera area have tremendous potential that has not been fully exploited for tourism purposes yet.

9.2.3 Develop / Restore sandy beaches

Many countries have enhanced their tourism offering by developing artificial sandy beaches. A number of our beaches have been eroded and should be restored to their former state, if necessary by adding sand. Even if Malta will not be focusing on being a sand and sea destination, better beaches will still be an important asset in attracting tourists. The initiative taken at St. Georges bay needs to be followed up in other localities.

9.2.4 Retain preferential VAT rates on Tourism

Because of the volatility of the industry, the preferential VAT rates for the tourism sector should be maintained to retain competitiveness.

9.2.5 Empower Heritage Malta

Malta can only become a high quality destination on the merits of its rich culture and historical attractions. Heritage Malta can be more instrumental not only in preserving our cultural heritage, but also in developing our tourism product through the presentation and experience of our sites. Heritage Malta should build synergies with the private sector and MTA. For example, an annual marine pageant could be organized at the Grand Harbour focusing on Malta's maritime history. This could involve:

- Heritage Malta;
- the MTA to build the initiative into an international event;
- the Malta Film Facilities – using its expertise to build ships for film producers (example the film Troy)

- The Drydocks – because of their expertise in shipbuilding.

(a separate paper with more details on this proposal has been submitted to MTA and Heritage Malta)

9.2.6 Develop a Service Culture

The efforts by the MHRA, the MTA, and the ITS in developing a service culture based on a market driven service needs to be extended to other operators in the tourism business. The recent nonsense concerning the provision of transport to Valletta to cruise passengers is a sign that, unfortunately, the efforts by the hospitality business is not being emulated by other operators who are more after the one off rip-off than long term prospects. It seems as if some operators are oblivious to the fact that today, tourists are spoilt for choice of destinations where to spend their holidays, or where to organize their conferences. The tourism product has to be seen as a value chain, and standards must be set and enforced to ensure customer satisfaction at all levels of this chain.

9.3 Manufacturing

In spite of the shift of the economy into services, manufacturing will still remain a crucial sector in the economy, and an important source of employment. The manufacturing sector is currently in a state of flux as some sectors are struggling to remain competitive, others to seek export markets. Clearly, the direction for this sector lies in attracting higher value added investment that addresses niche sectors.

The efforts by the industry to generate productive employment need to be supported by:

- adequate incentives
- human resource development
- infrastructure
- support services
- fast response to prospective investors.

These points have been dealt with in other sections of this report.

10. Other Issues

10.1 Malta as a Diplomatic Centre

Malta could be developed as a diplomatic centre. Owing to its geographical location, and culture, Malta can really serve as a desperately needed bridge between the Western and Muslim world. This could generate substantial jobs and would exploit Malta's position as a European Union member in the centre of the Mediterranean. This would be instrumental in strengthening Malta's profile in the international field, and enhance its status with other EU countries. This role for Malta would also be useful in branding the country and therefore be a better destination for tourism and investment. The promotion and establishment of such a centre could generate considerable funds from Arab countries, European states and the United States.

This proposal should be given strong consideration by the government as it could set an important strategic direction for Malta. There is no other country in the world more suited than Malta for such an initiative. Malta was the place where the East and West signed the end of the Cold War. It could well be the place to bring together North and South. This direction could define our country in the coming years.

10.2 Innovation

Innovation is not a buzzword, it is survival. Darwin wrote that it is not the strongest species that survive, but the ones that are most adaptable to change. Malta needs innovative ideas to be able to face the challenges of globalization. Through the MCESD, a think tank can be set up to invite ideas from all sectors of society and the population in general about innovative ideas for enterprise Malta. The ideas can be screened and plausible ones studied further for implementation, with recognition being given to the originators of successful innovations.

10.3 MCESD

MCESD should be the forum of discussion of any agreement between the social partners. It needs the necessary resources to act as a focus point for its members, to evaluate their proposals and to conduct background research if necessary for it to be productive.

Conclusion

It is the ambition for the Malta Employers' Association that the proposals being forwarded in this report will be accepted by government and unions as a basis for a social pact. The recommendations mentioned should not be taken to mean that the country is at a standstill. A lot of good work is being done and there is no question about the goodwill of the social partners to steer the country on a course leading to better prosperity. The main task ahead is to take the bull by the horns and decide on actions that might not be popular in the short term.

The success or otherwise of the economy will depend on the extent to which productive jobs can be created, to restructure the economy, to absorb surplus labour from the public sector, and to provide opportunities to new entrants in the market. The targets set by the National Employment Plan have to be synchronized with the expected demand for jobs. It should also be considered to integrate the National Employment plan, the Social Pact and other similar documents into one strategy to eliminate repetition of effort.

Malta will need to generate the sufficient FDI to enable the economy to grow at a sufficient rate to be able to soak the fiscal deficit.

With sufficient political will, union cooperation, and entrepreneurship, the challenges contained in this report can be met to the interest of Maltese society.