



Malta's Demographic Challenges

**A Position Paper by the
Malta Employers' Association**

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'The best way to predict the future is to create it.'

Peter Drucker

Since the 1960s Malta has experienced continuous economic growth which has resulted in an improved material well-being and in general, in the overall quality of life. The country has developed from what was essentially a military base into a robust, diversified economy, in spite of severe constraints in its resources. Some describe Malta as an economic miracle, and we have become accustomed to compare social and economic indicators with those of the world's major economies. Employers attribute these achievements to a strong sense of entrepreneurship and job creation, unions claim that we are where we are due to a hard working, flexible labour force. Civil society says that it is due to a cohesive society and positive values. The Nationalist Party argues that the current economic success is due to its investment in infrastructure, emphasis on diversification and membership in the EU. The Labour Party would state that the current situation of full employment and strong economic growth is the result of sound economic management since it gained power.

There is probably a general consensus that all these perspectives are correct, and that they have collectively contributed to the present state of affairs. The disagreement will lie in the relative share of the merit attributable to different players.

Over the course of these years, Malta has moved from a country of emigrants to one of returning Maltese emigrants, to a stage where the population is growing due to an influx of people of different nationalities under varying circumstances. In spite of an increase in the activity rate and female participation, the domestic labour supply has failed to keep up with the sudden increase in demand due to the number of productive hours demanded and also partially owing to skills mismatches. Consequently over the past decade, there has been an increase in foreign employees, a trend which has gathered momentum and which results in 37k, or 18% of the workforce being foreign in 2017. The country had started from a protectionist mentality of trying to limit the

influx of foreign employees, but these employees – whether they are EU citizens or third country nationals – are now being seen as necessary to sustain economic growth, and thus the authorities are adopting a more open door policy to foreign employees, as labour shortages are prevalent across all economic sectors.

This implies that there is a relationship between the growth of the labour force and economic growth, with the latter depending on the former under current economic conditions. However an important question that needs to be addressed is the extent of dependence, and interdependence of economic growth and population. The economic boom is being fuelled by a growing influx of foreign workers, but Malta's relative prosperity is also in turn a magnet for foreign people, originating from Africa, EU and elsewhere to come, at least temporarily, with aspirations to improve their fortunes. Together with the IIP scheme, this is boosting domestic demand for goods and services which in turn is generating business opportunities for some – e.g. retailing, property – but may be affecting others negatively, for example through rising rental rates.

For the purposes of this paper, the term 'population' is defined as the average number of people living on the Maltese islands per day. These would include Maltese citizens, foreign employees and their dependents, asylum seekers and tourists.

The scope of this paper is to kick-start a debate among the social partners with the objectives of:

- **Establishing the extent of dependence and interdependence of population growth and economic growth in Malta**
- **Anticipating the social and economic impact of an increase of the population living in Malta to 750k**
- **Propose policies and strategies for a managed transition to a sudden increase in population**
- **Analyse the sustainability of such a demographic change**
- **Project demographic changes for the next twenty years. Is this increase in population a bump? Will it plateau? Will the current increase in**

population continue indefinitely? Will population increases become a necessary requirement for economic growth?

- **Opening a discussion about the different models available for dealing with multiculturalism (melting pot, mosaic, assimilation, segregation) and their application to Maltese society.**

This is certainly a subject where the MCESD should take the lead and provide research and guidance to our political leaders. It is a complex, multi-dimensional issue which touches upon all economic and social aspects of our lives.

The increase in the foreign population in Malta was not foreseen and has happened in a rather haphazard manner. Before joining the EU, the prospect of an influx of EU nationals in Malta was seen as a threat to our society, and not as a requisite for economic growth. In the beginning of this decade the discussions on the sustainability of pensions did not envisage that there might be 45k foreign employees working in Malta by 2020. Identity Malta and Jobs Plus (previously ETC) were not geared to handle so many requests to engage Third Country Nationals in Malta. The pressure on these institutions for faster processing is leading to an overhaul of the system.

The recent pronouncement by the chairman of Jobs Plus that Malta will require an additional 20k workers, which will raise the total to more than 60k foreign employees in the coming five years (12.5k new workers in 2018 alone) came as a surprise to many. This may effectively mean that, in a scenario where the public sector employs 50k persons out of total projected labour force of 220k, more than 30% of employees in the private sector will be foreign, and that as much as 30% of Maltese employees will be engaged in the public sector, given that almost all foreigners are employed in the private sector.

The point here is that such fundamental and radical changes in our demographic structure need to be planned and controlled to avoid the risk of a sudden implosion and its possible consequences.

Another important consideration is the relationship between economic growth and population increase, through the potential threat of a vicious circle whereby the country's economic growth will be dependent on population increase. Is there a limit to which this can be sustainable, given Malta's physical constraints? Is there a need for a strategy to somehow contain an expansion in population by increasing economic growth through enhancing output per capita? The fundamental argument here is whether we are increasing potato production because we are utilising more land, or because we are increasing output per tumolo. Both result in an increase in national income. Yet, growth in the former scenario is dependent on increased resources, whereas the latter situation makes better use of existing resources.

The MCESD is the proper forum where such matters need to be taken up. However, this is a task which MCESD members can not face alone, but will need the engagement of numerous experts who will contribute by providing insights in their respective field.

The following is a proposed list of dimensions which could be part of a comprehensive research exercise to compose a dynamic picture of these demographic changes:

Economic

Impact on:

- Economic growth
- Income distribution
- Inflation
- Wages
- Labour supply and employment
- Labour market flexibility
- Welfare
- Property prices
- Rental rates

- Compatibility of activities of different sectors (e.g. construction vs tourism)
- Output per capita

Social and Cultural

Impact on:

- Regional issues: e.g. emergence of ghettos of particular nationalities
- Social cohesion
- Poverty groups
- Social mobility of second generation migrants
- Family structure
- Religion
- Multicultural policies
- Language
- Media
- Maltese identity

Demographic

Impact on:

- Regional population density
- Age distribution
- Birth rate
- Length of stay of foreign workers
- Ethnic mix and regional concentration

Political

Impact on:

- Involvement and Representation of ethnic minorities
- Crime rates
- legislation

Environmental

Impact on:

- Carbon emissions
- Construction
- Green areas/open spaces
- Noise pollution
- Water supply
- Waste generation and disposal
- Number of vehicles on the road
- Sea quality
- Health

Infrastructure

Impact on:

- Water supply and consumption
- Energy demand
- Drainage
- Road and transport networks
- Health services
- Education

Tourism

Impact on:

- Types and quantity of accommodation
- Population density – e.g. crowded beaches
- The tourism product

Agriculture

Impact on:

- Supply and demand for local produce
- Agricultural land
- Manpower
- Compatibility with other sectors

It is recommended to adopt the following process to tackle this issue:

1. Set an MCESD meeting to discuss this paper to decide whether the social partners agree to pursue the matter.
2. Ask government for a budget to engage experts.
3. Establish a committee in conjunction with the University of Malta to set a timeline, supervise research and monitor progress.
4. Organise a national conference, inviting all stakeholders to present the findings of their respective areas.
5. Issue a publication with the papers presented by the different researchers/research teams. This publication will be edited by MCESD and will also include the input of the social partners following the presentation of the findings. The findings and proposals will be presented to Government and the Opposition. The publication will be made available to the general public.
6. There will be periodic follow-up meetings and activities organised by the MCESD to follow developments.