



## **Curtailing a Culture of Entitlement**

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# **Proposals for NATIONAL BUDGET 2015**

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## Introduction

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### Curtailing a Culture of Entitlement

The general theme of the pre-budget document - generating opportunities, not dependencies - is one that the MEA supports, and on which it has based these proposals. Opportunities can be created through sustaining a business friendly environment, focusing on competitiveness, and rewarding merit and achievement.

The pre-budget document explains that, in some respects, the Maltese economy is performing better than the eurozone average. Real GDP growth for 2014 is forecasted at 2.3%, almost twice the Euro average. The employment rate has sustained a healthy upward trend which prevailed over the past five years, with an increase from 58% to 62%. This is the result of job generation and an increase in labour participation due to numerous fiscal and social incentives which is seeing a steady increase in females and retired persons in the labour force. Malta's unemployment rate has maintained its position as being among the lowest in EU states. This is accompanied by a continued influx of foreign workers in Malta, generally taking up jobs at different skills levels which are not being filled by Maltese nationals. Government is striving to keep the deficit within the 3% threshold, which is expected to be 2.1% by the end of 2014, to be reduced further to 1.5% in 2015.

Economic transformation continues to generate fresh challenges. The proliferation of e-commerce and online shopping is adversely affecting the wholesale and retail sectors but creating opportunities for others. The crisis in Libya is a serious threat to numerous businesses and jobs, but can create new openings for Malta. There are some worrying aspects concerning our economic performance and infrastructure. The state of public transport is a festering sore and a drain on public finances. The energy supply is still unstable. Many employers complain about a deteriorating work ethic. Real labour productivity in Malta fell by 3.3% between 2008 and 2012, compared to gains of 14.4%, 10%, 9.7% and 7.9% in Poland, Spain, Ireland and Bulgaria respectively. We have been ranked in 47<sup>th</sup> place on the competitiveness index,

compared to 41<sup>st</sup> place in the previous period. Malta is also ranked as the 103<sup>rd</sup> place with respect to ease of doing business.

Perhaps the biggest threat facing our economy, and society in general, is a spreading culture of entitlement. This is the reason why the budget needs to live up to its stated objective. Productive work and initiative should be encouraged and rewarded. The prevailing welfare-shopping mentality among a good cross-section of our society has to be stamped out. A job in the public sector is not necessarily the apex of a person's career, and the increase of 2000 posts in the public sector is sending wrong messages. These attitudes weaken the resilience which has supported our economy through difficult times. Whilst budget measures can, to a degree, address this problem of unreasonable expectations, government cannot be expected to resolve it on its own. It requires the effort of all social partners. The proposals being presented by the Malta Employers' Association aim to make Malta productive, competitive, and a country of choice to foreign investment.

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## Proposals

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### 1. The National Deficit

A core issue which should be addressed in the budget is the control of the deficit. In a context of mild global recovery and a domestic economy which has continued to generate growth and jobs in the private sector, Government is in a better position to strike a balance between growth policies and fiscal consolidation. There should be a stronger focus on efficiencies in expenditure by addressing wastage, controlling the wage bill, establishing priorities, improving revenue collection systems and incentivising growth in the private sector.

The control of the deficit was the main pillar on which the MEA based its proposals to political parties before the last election.

### 2. Curtailing Public Sector Employment

The increase in jobs in the public sector – estimated at 2,000 employees - which started before the last general elections gained momentum during the past fifteen months. This is a worrying trend which is inflating the payroll in the public sector and reducing the chance of reaching the economy's fiscal targets. It is also creating imbalances in the labour market. Many employers in the private sector report that their employees aspire for a chance to change their current employment in favour of a public sector job. One asks whether there was really a need to engage more people to work at the Water Service Corporation, as an example. There should be a planned and systematic strategy to reduce the public sector payroll through a decrease in complement, and to shift the extra manpower into productive jobs in the private sector.

As things stand, labour shortages in the private sector, which are being partly created by the absorption of human resources in the public sector, are being addressed by an escalation in the number of foreign workers in Malta.

At this stage in the legislature, government should plan ahead to avoid negotiations for renewed collective agreements close to elections in 2018.

### **3. Pension Reform**

MEA has been campaigning for increased incentives for young people to take up financial products to serve as a third pillar support for their retirement. The government has announced its intentions to introduce such incentives but these have to be substantial to make a difference and promoted for a better take-up.

MEA reiterates its position against the introduction of second pillar pensions in favour of a strategy that promotes the third pillar and strengthens the first pillar.

### **4. Education Expenditure**

Malta is one of the countries with the highest percentage of GDP allocation to education. Yet, according to reported statistics, we also score poorly on numerous aspects related to education: e.g. early school leavers, NEETS, literacy rates, take up of STEM subjects.

There should be a frank and objective analysis to establish whether the figures which are being submitted for comparison are realistic, and whether we are truly comparing like with like with other countries. (The early school leaving rate was revised downwards after a revision of the methodology to make it comparable to that used in other countries).

If the figures turn out to be correct, then government should identify areas of education expenditure which are not yielding the desired results, and/or identify and address external factors (e.g. broken families) that might be contributing to this state of affairs. If external factors are indeed the cause, then increasing expenditure on education will not improve the situation unless combined with policies that address these factors.

## **5. The Employability Index**

MEA notes with satisfaction that Government has taken up the idea to introduce an employability index for courses at tertiary level. The issue is being discussed as part of Active labour Market Counselling and Action committee, and the stumbling block thus far has been the issue with data protection. The index will contribute towards channelling education funds into more career orientated jobs that will match qualifications with the needs of industry.

## **6. Children's allowances and Education**

The Minister of Education and Work is concerned about the level of truancy in schools, and that children can be absent for up to three days in a month without producing any form of certification. It is also established that the attendance rate in government schools stands at 80% compared to 95% in church and private schools.

This is certainly contributing to a culture of absenteeism which is also affecting the work ethic when students start working.

MEA is proposing:

- a) All absenteeism from schools has to be certified. The current practice of allowing students to absent themselves three days a month without justification will be removed. Doctors who certify children who are not sick will risk having their warrant withdrawn.
- b) Depositing part of the children's allowance in a personal account which can only be used by the child for travelling abroad (for study or even leisure) after reaching the age of 14 years. In this manner there is a better likelihood that the funds distributed on children's allowances will be used to improve children's welfare (rather than, as happens in some cases, being spent by parents on cigarettes and nail technicians!). This will also address a social imbalance whereby children who have never travelled stand at a disadvantage compared to others who have visited other countries.

## 7. Maternity leave

Employers have long contended that maternity leave is a social benefit and should be paid through taxes. The proposed measure by government to increase employers' social security contributions to finance maternity leave has its positive aspects in that:

- a) It spreads the burden of this benefit on all employers, not just those who are female intensive
- b) It will partially address the disadvantage which young women face in competition with their male counterparts in recruitment.

However, it still leaves the burden of paying for the maternity leave on employers.

Further discussions to determine the exact implications of the government's proposal are required before any decision is taken for its implementation.



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## 8. Benefit fraud

A fundamental pillar of social justice in Malta should be that of curtailing benefit fraud.

There is no question that there are people and families in Malta who are deserving of social benefits. However, an inflated figure of persons at risk of poverty, recently claimed to be in the region of 94,000 persons in Malta (approx. 23% of the population) carries the danger that, rather than targeting and focusing resources on the segment of the population that is most in need, these resources will be diluted over a wider number of recipients and lose their effectiveness. Inflating the poverty issue can also result in an unnecessary increase in government expenditure and misguided social policy measures.

## 9. Rates for outsourced work

There is still confusion about the hourly rate payable for outsourced work in the public sector. Operators are still complaining that they are losing out on government tenders to others who are not abiding with minimum working conditions. The Association has always been clear and uncompromising in denouncing unfair and illegal practices, particularly when these create an uneven playing field between competing companies.

## 10. COLA and Inflation

The Association has always been critical of the COLA mechanism as it is wage indexation system which does not reflect productivity. For 2015, the Association insists that there will be no tampering with this mechanism given the low inflation during the reference period September 2013 – September 2014. When COLA was calculated at

€5.82 in 2010, employers still paid the full amount, even though many firms were being negatively affected by the impact of the international recession.

## **11. Energy**

Energy rates are an essential cost element that affects the competitiveness of many forms in Malta. Although political expedience has prioritised the reduction in consumer rates during 2014, the reality is that whereas consumer energy rates were close to the EU average, commercial energy rates in Malta are still among the highest. In effect, commercial rates were kept high to subsidise consumer rates. It is imperative that commercial rates are reduced, possibly even before the budget to give companies a much needed competitive boost. The completion of the interconnector with Sicily should enable such reductions without having a negative impact on government finances.

## **12. ECO contributions**

Many retail operators complain that while they are subject to eco contribution, similar products which are being sold by them are being purchased on-line and are not being charged eco-contribution. This is creating an uneven playing field for local retailers.

## **13. Tapering of benefits**

The tapering of social benefits carries the danger of generating labour market imbalances. Unless accompanied with strict enforcement, it can incentivise

unemployed persons to stay longer on the register to be eligible for the tapered benefits. It will also create friction at the workplace as two people doing identical tasks will be having a different take home pay.

#### **14. Tax incentives for persons taking care of elderly parents**

Many employees are facing a burden not just looking after children. An emerging problem, resulting from an increased activity rate together with a higher mortality age is the care of elderly parents. Many families are pooling resources to cater for the needs of parents, through private homes for the elderly or even engaging care workers at home.

It is being proposed to grant tax incentives for working persons who are paying for private services in elderly care.

Such initiatives can relieve government institutions from carrying the full burden of caring for an increasing number of elderly persons, and also help in retaining people – mostly women - in the labour force.

#### **15. Topping up the Minimum Wage**

The Association is not in favour of topping up the minimum wage of persons in employment for the following reasons:

- It will destabilise labour market relativities and lead to wage inflation

- If the top up will be tapered as earnings increase, employees will abstain from working additional hours (i.e. overtime) as it will reduce the amount they receive as top-up
- It will incentivise undeclared work or underdeclared wages, with possible collusion between employee and employer.
- As a social measure, it targets those already in employment and earning an income. It does not increase the welfare of the unemployed.
- Some beneficiaries of the top up may have a high family income through other sources of income or else a second income in the family. Removing the entitlement where there is a second income will discriminate between stable and separated families, or drive the recipient of the second income to work in the black economy.

From a social policy perspective, realistic measures to reduce poverty would be to have as few people as possible on a minimum wage through the generation of higher value added jobs, education and a better work ethic.

## **16. Port handling Charges**

Government needs to look into the increase in cargo handling charges recently announced by the Valletta Gateway Terminal and evaluate its impact on the economy's competitiveness.

## **17. Set off between Government Departments against amounts due by Government**

It is common for companies to be owed money from one Government department whilst having outstanding payments themselves with other Government departments.

This causes a strain on the cash flow of many companies who are, in some instances, charged interest and penalties on outstanding payments, and at times even face criminal proceedings.

It is proposed to establish a system under which set-offs can be arranged. This will be a big relief for many businesses as it improves their liquidity situation.

## **18. Revision of VAT thresholds**

The vat thresholds for exempt without credit supplies of goods and services have remained unchanged since the introduction of vat in 1995. It is being proposed to revise these thresholds to reflect current values.

## **19. N.I. Contributions by Employers**

In cases where employees working part-time or reduced hours pay less than the minimum flat rate of National Insurance, the employer should not be obliged to pay the minimum rate. The employer should pay the equivalent of that paid by the employee.

## **20. Making life better for employed people**

Government can consider introducing measures to accommodate the needs of working people. Some ideas:

- a) Providing incentives for companies to organise their own transport to alleviate traffic congestion. (However, one disincentive for the provision of company

transport which should be addressed is that an employer providing transport will have to pay injury leave if an employee is injured to and from work. Some companies have stopped providing transport once they became aware of this obligation.)

- b) Making out patients departments and polyclinics available outside normal working hours for persons in employment; fast tracking employees who are sent to a polyclinic during working hours
- c) Extending opening hours of child care centres to cater for evening shift workers. The implementation of free child care has been a very positive step which is instrumental in increasing female participation.

## 21. SMEs

There are a number of initiatives that can be introduced in the coming budget to help businesses - SMEs in particular – to function better. These include:

- a) A revision of current policies regulating loading/ unloading bays. Companies operating in the distributive trades find it frustrating to service their clients due to excessive restrictions.
- b) A discussion and a decision about the opening times of retail establishments which factors in the contemporary needs of customers and businesses
- c) A commitment to introduce the SME test for all areas of legislation. The SME test is necessary to ensure that businesses are not burdened with additional bureaucracy.
- d) An extension of the incubation centre to accommodate more start ups, even those that may be proposed by University and MCAST students.
- e) Following the successful implementation of the Micro Invest Scheme, there should be an effort to activate and promote the Micro-guarantee scheme.
- f) Allocating spaces for open depots where businesses may leave equipment such as construction equipment, boats etc. without causing inconveniences in populated areas.

## **22. Re-activating schemes for alternative energy to enterprises**

The budget should include funds to re-activate incentives for the installation of photovoltaic panels by enterprises. There was a good take-up with previous schemes by businesses.

Additional incentives should be introduced for the diffusion of electric vehicles.

## **23. Preparing for the next EU Programming Period**

Government should be well-prepared to hit the ground running to utilise the allocated EU funds for the current programming period. The budget can introduce schemes to encourage take-up of the funds and to channel them into national priorities. Chief among these are training schemes for human resource development, and funds for research and innovation.

## **24. Civil Society Funds**

The budget should confirm the continued allocation of the civil society funds to social partners. The social partners and civil society require sustained support to engage in meaningful social dialogue which is of benefit to all society. Civil society funds should be subject to rigorous audits to ensure that they are being used efficiently and in their intended activities.