



## **MALTA EMPLOYERS' ASSOCIATION**

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### **Talking point**

## **What Employers Want: The Greater Good**

The report on energy tariffs that was presented at the MCESD has made the pre-budget document – on which the social partners were to base their proposals for the national budget – irrelevant. The report has shifted the goalposts, and generated a strong sense of uncertainty that is having a negative effect on business in general.

The minister was given the wrong advice if he is acting on the premise that adjusting tariffs and the removal of the capping system will automatically generate sufficient revenue to make up for the subsidies given. The outcome of such linear thinking may well be that the economy will be faced with a number of negative consequences. Amongst these one can mention: reduced manufacturing output and exports; increased unemployment; wage push inflation; a fall in aggregate demand; a drop in domestic production in favour of importation; declining tourism figures. All these may well result in a wider deficit than the one the government is trying to solve, and push the target of a balanced budget by 2010 even further in the future.

What is fundamentally lacking in the KPMG report is that its approach is too mechanistic and devoid of any sort of economic analysis that would quantify the probable impact of the options offered by government given the magnitude of these factors. It is unrealistic, at this stage, to expect the MCESD to conduct such an analysis within a couple of weeks, during which the social partners are also expected to submit counterproposals with a similar socio-economic evaluation.

Another shortcoming of the report is the conspicuous absence of mitigating measures. What about tax incentives, elimination of inefficiencies, green incentives and others that can offset the increase in costs to employers? What about the reduction in port charges that were promised when the port reform was being discussed? Transport costs to companies have remained the same – i.e. higher than any other country in Europe.

Thus far, what was presented to MCESD is nothing more than a book-keeping exercise, which is insensitive to the dynamics and fragility of the economic fabric, where the pulling of a thread may unstitch the whole garment.

It is also inappropriate that, at a time when other governments are erecting buffers to shield their economy from the brunt of an international recession, we are thinking of dismantling ours, and to expose our fragile economy to the global turmoil that surrounds us. Other governments are allocating massive taxpayers' funds to bail out financial institutions that face collapse because of their own irresponsible practices. What Maltese employers are expecting is simply that government avoids giving sudden shocks to the economy that may lead to deteriorating competitiveness at such a critical point in time.

Employers are not calling for protectionism. When they were consulted and given adequate notice to bear the brunt of liberalised markets resulting from entry in the EU, they responded to the need of the greater good and adapted to the changing macro-environment, in spite of inevitable casualties. This is what led to the economic turnaround in the past three years. It is government's responsibility to ensure that these achievements are not lost because of hasty decisions.

Our legal system cannot turn its face away from the needs of the economy. It must acknowledge that certain measures may appear anomalous only if they are taken out of the context of the greater good. When, in 2005, employer organisations, unions and government at the MCESD reached consensus on the capping system, individual and sectoral interests were superseded by the national imperative. The capping system saved thousands of jobs at a time when GDP growth was close to zero, tourism was underperforming, foreign direct investment was low, and many companies were facing relocation to cheaper destinations. In the absence of capping, the results would have been catastrophic. This was one of the MCESD's finer moments.

There is no question that, given sufficient space to breathe, the MCESD can likewise be the fertile ground from which a solution to the current situation can be found.

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