



# Proposals for a Stabilisation Mechanism for COLA

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## Position Paper

September 2022

## **1. COLA in Context**

1.1 The aim of this position paper is to propose amendments to the COLA adjustment with the major objective being to stabilise the potential harmful impact of the mechanism on the sustainability of enterprises and employee's welfare in times of extreme inflation or deflation.

1.2 The COLA mechanism has been in force since 1990, and has established an automatic link between wages and inflation. Although employers have always criticised the agreement on the basis that wage levels should be linked to productivity, rather than the price level, the COLA mechanism has been conducive to provide for a minimum increase in wages which, under normal circumstances, have been absorbed by businesses with minimal disruption.

1.3 In some companies covered by a collective agreement, employers have been able to hedge against sudden increases in COLA by agreeing with the unions to incorporate COLA in the collective agreement increases. This settlement also applies in the public sector.

1.4 The political parties have not been consistent in their positions regarding COLA. When in opposition, a party will claim that COLA is insufficient to compensate for inflation, with the position being reversed when in government. This ambiguity has created a general scepticism about the whole mechanism and a failure to accept that the calculation of COLA is the result of an objective mechanism based on the Retail Price Index, which in turn is based on the weightings established by the Household Budgetary Survey.

1.5 Therefore, any changes to the mechanism should not be based on the mechanics of the system itself, but rather on how it can be tamed to address sudden or prolonged fluctuations in the price level which are out of the norm. The approach to amend the mechanism should in no way be intended to tamper with the system to favour a higher or lower adjustment.

1.6 The main concerns about the COLA mechanism becomes more pronounced in times when inflation is close to zero, or when there is a sudden increase in the price level, often due to unpredictable external factors (e.g. the war in Ukraine).

1.7 The proposal of this position paper is not intended to provoke a tug of war between the social partners to raise or reduce COLA adjustments, but rather to respect the mechanism which has been in operation for thirty years and recommend a way forward to guard against economic shocks to everyone's mutual benefit. In essence, the COLA mechanism will operate as it has since its inception.

## **2. Recommendations**

It is being proposed:

2.1 to set a maximum and a minimum COLA increase for a period of five years

2.2 that any amounts accrued, if any, to employers or employees will be awarded in the sixth year subject to 2.3 below

2.3 the accruals will be paid in amounts of not more than €1.50 in any given year, subject to point 2.4 below.

2.4 that the maximum COLA entitlement will be of €6 per week, and the minimum will be of €2.50 per week for any given year

2.5 to have such an agreement, which is subject to consensus among the social partners, to be effective for COLA in 2024

2.6 that the parameters of 2.4 will be subject to revision every five years, upon consensus between the social partners.

**Example 1:** If, over a five year period, total COLA would have been of €28, and 26 have been paid out by employers, total COLA in year six would be COLA+€1.50, and total COLA + €0.50c in year seven

**Example 2:** If, over a five year period, total COLA would have been of €27, and €29 have been paid out by employers, COLA in year 6 would be COLA less €1.50, and total COLA less €0.50c in year seven.

This agreement will:

- strengthen the provisions of the subsidiary legislation 452.65 Wage Increase National Standard Order
- address Article 5 of the subsidiary legislation in more concrete terms. Article 5 states that: *'It is agreed that where and when extraordinary circumstances occur as a result of which the national economy, in the unanimous opinion of the Malta Council for Economic Development, is not able to sustain any one or all of the agreed increases, the Council may then authorise changes*

*in the agreement concerned under such terms and for such period as the same Council may determine'*

- avoid the consequences of sudden and extreme fluctuations in the price level – e.g. a wage price spiral – which can negatively impact competitiveness and employment. It is a win win for both companies and employees.
- be very straight forward and simple to implement