



MALTA EMPLOYERS' ASSOCIATION

A Memorandum to Political Parties submitted by the Malta Employers' Association

MARCH 2008

SUSTAINABILITY

COMPETITIVENESS

PROACTIVITY

The Malta Employers' Association is recommending that during the next legislature, the party in government should base its policies on three fundamental principles:

- Sustainability
- Competitiveness
- Pro-activity

1. Sustainability

Clearly the country needs to be run on sustainable grounds, and educating the general public that no society can expect to live beyond its means indefinitely. The principle of sustainability definitely applies to fiscal policy. The trend over the past three years whereby the fiscal deficit has been reduced to a lower percentage of GDP has to be maintained and whichever party is in government should manage its revenue and expenditure to set a balanced budget as one of its short term fiscal targets. This is a critical objective not just because Malta has to adhere to set economic parameters now that it is part of the Eurozone, but because it is the only way that the economy can achieve sustained growth.

1.1 Public Sector Employment

On the expenditure side, public employment should be reduced to a lower percentage of the working population. This does not imply that human resources should not be increased in sensitive areas such as the health sector. However, there is ample scope to improve overall efficiency in many government run departments and entities. Although the drive to curtail recruitment in the public sector over the past few years may not have been popular, it has resulted in drop in employment in the public sector and this contributed to the improvement in government finances over the past three years. This momentum should be maintained. MEA's proposal in this regard is to reduce public sector employment to *27%* of the total labour force.

1.2 Fiscal Policy

Government should resist trying to increase revenue through measures that discourage entrepreneurship and employment. The management of the fiscal

balance should aim at the control of expenditure whilst generating revenue arising from increased economic activity, not added taxation. At the other end, there is also the risk of taking impulsive measures that, although politically convenient, might result in serious shortfalls in revenue that will have to be compensated by other means of taxation to avoid a surge in the fiscal deficit. Any fiscal policy decisions have to be assessed in terms of their economic impact before implementation, and should be preceded with consultation with the social partners. Tax systems should be simplified and unambiguous, and single straight line tax rate should be given active consideration. The consolidation of government finances should remain a priority irrespective of who is elected in government.

1.3 Welfare Systems

Welfare systems should also be designed on the basis on affordability. Like other developed nations, Malta is facing demographic challenges and the welfare gap is a tangible threat that calls for policies that anticipate the requirements of the upcoming generation. This is why MEA has recommended measures to increase active ageing, and has openly supported reforms that will control the burden of expenditure on pensions, while increasing the current maximum ceiling of state pensions. A gradual raising of the retirement age, and social security contributions, is inevitable given current demographic trends, and there is no room for procrastination. However, the introduction of the second pillar pension should not become mandatory.

Welfare benefits should be available only to those who genuinely need some form of assistance, and not be a disincentive to work. Efforts to control abuse of welfare systems should be continued, and training should be mandatory to registered unemployed, particularly to those who claim to be illiterate or unskilled.

1.4 The Environment

Sustainability should also be the underlying principle in the management of Malta's natural environment to strike the right balance between economic development and longer term environmental objectives. Besides the purely ecological considerations, this is also a key element that contributes to the development of the tourism industry.

Malta has made considerable progress in waste management in recent years, and there should be political consensus on a strategy for waste management and disposal in the coming years.

Amongst the Lisbon targets that Malta has to reach, and in which it lags behind, are those related to the environment. It is expected that during the next legislature there will be a stronger emphasis on encouraging the diffusion of energy saving technology, both for domestic and industrial use, through investment in such technology and added incentives to both employers and consumers. For example, Malta's pollution emissions can be reduced through the better use of electric vehicles, and photovoltaic technology. As the price of oil is expected to remain unstable, it will become all the more important, for both economic and environmental reasons, to shift Malta's energy demands to more stable forms of energy.

The idea that was floated by the Prime Minister to make Gozo dependent on alternative energy sources should be taken up. It can also be supplemented by a proposal made by MEA to transform Gozo's agriculture to organic farming as a means to upgrade and brand its produce and make it a more attractive destination for high-end tourism.

2. Competitiveness

Government cannot lose sight of the fact that the aspirations of Maltese citizens can only be actualised if Malta is competitive as a destination for investment and job creation. Over the past three years, the economy has passed through a period of rapid restructuring, and, in spite of a number of relocations by established firms, has managed to generate sufficient employment opportunities to absorb most of the lay offs and create new and better job opportunities.

These achievements have been partly due to hard decisions that were taken to improve competitiveness, and, in spite of the fact that there has been substantial investment in higher value added industries over the past years, political parties are urged not to ignore the needs of many companies who are in a vulnerable state and survive on small margins. The current positive employment figures cannot be taken for granted. This is why MEA is against the idea of reversing the decision regarding public holidays falling on weekends. Political parties must acknowledge the increase in labour costs arising from a range of legal notices in the past years that have affected the costs of many enterprises in various sectors. MEA has never resisted improving conditions of employment in principle as long as these do not jeopardise the survival of companies and threaten the employment of many.

The decision to supplement COLA with an additional wage increase as announced during the last budget is inflationary set a dangerous precedent which political parties should commit themselves never to repeat. The fact that both major political parties were willing to depart from the COLA mechanism is even more worrying as it is an indication that economic realities are being sidelined in favour of political opportunism.

In the same way that both political parties today embrace the operation of the free market for goods and services, so must they resist tampering with the mechanics of the labour market. The role of government in this respect should not go beyond determining minimum conditions of employment, and protecting employees against discrimination and exploitation. The current increased demand for labour is in itself raising wages in many sectors, as employers compete for a limited labour resource. Changing wage relativities are also guiding young people to follow courses that offer the best options for career progression. Tampering with the minimum can result in loss of employment for the most vulnerable groups in the labour market.

Given the current situation in the labour market, and assuming that the healthy influx of investment is maintained in the coming years, irrespective of who is in government, one of the priorities is to formulate a national human resources strategy to match demand and supply of labour. This will entail having a faster mechanism to process applications for foreign labour to work in Malta and also active labour market policies to encourage a higher participation rate in the labour market than the current 55%. The labour market must also be flexible to cater for the different needs of both employers and employees through a legal framework that allows for atypical work arrangements, such as temporary agency work. The Association also supports measures to encourage employees to remain active beyond the retirement age, such as those introduced in the last budget.

MEA has also made recommendations on increasing the labour participation rate through family friendly work arrangements. These are best determined at enterprise level and any measures that are introduced at national level should be cost neutral to employers. For example, school hours can be extended to accommodate an increasing number of working mothers.

Labour cost increases that result from labour shortages, rather than through enhanced productivity can also be detrimental to Malta's competitiveness. There is also a situation whereby labour costs in the private sector are increasing because employers are competing with government to attract human resources because of collective agreements signed with government entities. This can also have a negative effect on competitiveness.

Government needs to protect and promote legitimate business by ensuring a level playing field between established operators and others such as parallel traders. It is a fact that many companies, having hundreds of employees are finding it hard to compete with parallel importers who have lower costs of operation by flagrantly avoiding VAT, income tax and also eco tax.

Needless to say, competitiveness also depends on sustained investment in education, training and life long learning. Considerable progress has been registered in this regard through more resources allocated to University and one can also define the MCAST as a success story. In spite of these accomplishments, one needs to analyse why Malta still lags behind the Lisbon targets in certain characteristics of education, such as the worrying rate of school dropouts and design targeted solutions. The proposal to introduce an additional year of schooling between kindergarden and primary school is too generic and treats all students as a homogenous mass irrespective of ability and social background. A better idea might be to extend school hours and offer facilities and added tuition to students who require special attention.

The Business Promotion Act is in need of updating to reflect the economic restructuring that Malta is passing through. The incentives to training activities have to be extended to cover other industries besides manufacturing.

MEA calls for further reductions in government induced costs on businesses to stimulate enterprise and employment. The port reforms have not lived up to the

expectations of the business community and many companies report that port charges remain too expensive. Also there is the need for a weekly shipping service to the UK, as many companies are facing difficulties in their exports and importation of raw material from UK. The situation for the past 6 months is that major manufacturing companies have been suffering from an irregular service causing havoc in customer service and incurring double costs by reverting to trailer service, which more than doubles the cost of transportation in containers by sea.

The efforts by the Ministry for Competitiveness to reduce bureaucratic procedures for business should be sustained in the coming years.

3. Proactivity

Survival in a globalised world depends on adapting to the demands of a business environment that is in a constant state of change. Maltese society needs to harness its creative resources to ensure that it is proactive in the face of global developments.

Restructuring is not a phase, it is an ongoing fact of life and government, together with social partners and civil society must be forward looking. Malta has been successful in attracting investment in diverse areas – IT, e-gaming and others. It may well be that not all these sectors will remain in Malta indefinitely, and one will need to think ahead of competing countries to sustain economic momentum. The principle of pro-activity has to be applied to all sectors of the population through employment flexibility, job mobility and life long learning.

Pro-activity also entails seeking new segments in established industries. For example the tourism sector can benefit from venturing into new areas like medical and health tourism. The IT and pharmaceutical industries also offer a range of segments in which Malta can offer specialised services.

Malta should also capitalise on the opportunities offered through the development of Islamic banking on the island. This will complement its strategy as being a centre for excellence in the financial services. MEA members report that there is mounting interest in many Arab countries to use Malta as a hub for financial services. This will have a synergetic effect with the Smart City project that is attracting considerable attention in Middle East countries.

Membership in the European Union, and the recent adoption of the Euro proves that Malta has got what it takes to compete successfully with much larger economies. Ultimately, the benefits of the Euro currency and EU membership will depend on the extent to which the country is sufficiently proactive to participate fully to influence EU decision making in Malta's favour.

4. Dialogue and consultation

No political party can govern in isolation. It should draw support and cooperation from the social partners and civil society to take decisions in the national interest. In spite of much criticism, the MCESD is a powerful institution that should retain its role as a consultative body to which the government can turn to seek advice and constructive recommendations. This is evident in the way social dialogue has played a central role in the formulation of the national budgets in recent years. The ideas and discussions at MCESD have also been constructive in designing policies that have enabled government to tackle serious economic issues such as the oil price increases, and the fiscal deficit. The discussions about the social pact, although inconclusive, were still positive as they led to a convergence of ideas that influenced collective bargaining at enterprise level with the realisation that improvements in working conditions are linked to competitiveness.

In conclusion, political parties should strive for convergence and consensus: there is a difference between constructive debate and pointless rivalry, between having divergent ideas and destructive opposition. The country loses out when an issue becomes tangled in political bickering. A case in point is low cost airlines. These might have been introduced earlier if there was agreement on both sides of the House. There have been some positive examples where common sense has prevailed, the most recent being the approval of the EU Reform Treaty by both sides of parliament. The proposals submitted for the regeneration of the Grand Harbour also included extensive common ground between both major political parties.

Whatever the outcome of the election, the message that should be conveyed to employers is that the economy will continue to progress without any unnecessary shocks to the system that may threaten business confidence.