



The Lisbon Strategy – The Maltese Context

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Globalization is an environmental force that has grouped countries into major trading blocks, with the main international players being the United States, Europe, Japan, India and China. The growth and rapid economic development of economies in the far east is having massive ramifications on the established economies in terms of mobility of investment and also on the demand for raw materials. Classic examples are the effect on the price of oil and steel resulting from the increased demand in China. Certainly one challenge that the world will face in the 21st Century is the extent to which world resources can keep up with the level of economic development. It is known that world resources are insufficient, given the current state of technology, to support a world population that follows the same patterns of consumption as that in the Western world. From a global perspective, the International Labour Organisation, in its report : World Commission on the Social Dimension of Globalisation, sets as a priority a goal of ‘decent work for all’ and emphasises the role of international institutions in achieving this objective. The Malta Employers’ Association is an active participant in this debate through its membership at a global level in the International Labour Organisation, and at European level in the CEEP.

The Lisbon Agenda has to be evaluated within this wider global context. Indeed, in May 2004, the Commission issued a communication to the ILO stating the intention of the EU to contribute to maximising the benefits and minimising the costs of globalisation to serve social and economic goals. The European Union faces a dilemma on how to remain competitive, given this dynamic international economic environment whilst retaining the principles of the ‘European social model’. Faced with the fact that its main international competitors have, or are adopting, a more liberal culture based more on economic realpolitik than on maintaining social safety nets, many EU economies are experiencing an exodus of investment, which is resulting in loss of jobs or sluggish growth rates in employment levels in many EU states. The basic question is: ‘To what extent is the European social model compatible with job creation in the current international economic environment?’

The goals of the Lisbon strategy attempt at reconciling higher employment rates and economic growth targets with those of social cohesion, fairer distribution of wealth and environmental protection. The overall goal of the strategy: 'to become the most dynamic knowledge based economy in the world capable of sustaining economic growth with more and better jobs and greater social cohesion, and respect for the environment' is an ambitious one that establishes Europe as being at the forefront in attempting to reconcile economic growth with social objectives. However, the experience thus far of many economies within the EU demonstrates that the targets set by the Lisbon agenda are not being met, and are not likely to be reached by 2010. Of particular concern is that net job creation has largely slowed down in the EU and it appears that Europe is losing ground to the United States and Asia with respect to economic growth. Whereas, up to a few years ago, the fearful buzzword for many workers was 'restructuring', the term that is more worrying today for job holders and job seekers in Europe is 'outsourcing', and 'delocalisation' as more and more jobs are being lost to China and India.

One main issue is that the US and Asia are not bound to play by Europe's rules. Americans favour more liberal economic policies compared to Europe, and they are comfortable with less regulations, a higher poverty rate and wider income inequalities if these result in higher economic growth rates and more job creation. On the other side of the globe, India and China have far less regulated labour markets that allow them to produce under conditions that would certainly not be acceptable in Europe. Attitudes towards work are different too. For example, workers in the United States aspire to remain in the labour force up till an older age than their European counterparts. Therefore Europe in many respects is not competing on a level playing field with the other major trading blocks. The fact is that, midway along the Lisbon process, the most ambitious goal of the Strategy - that of closing the economic gap between Europe and the United States and advancing ahead of the USA - has not been reached, and the distance to reaching some of the Lisbon targets has actually increased. During the period 1996 – 2003, EU members registered a growth rate of 1.4% against a US equivalent of 2.4%. Contrary to the US, Europe has also suffered from a fall in hourly productivity growth.

If the European Union in general is lagging behind in the attainment of the targets that it has set for itself in the Lisbon Agenda, recent statistics reveal that Malta trails behind many European states, including new members, in many respects. This underscores the dimension of the challenges that face our economy if we really want to be part of the ambitions that the EU has set for itself. It needs pointing out that Malta was lagging behind these targets before joining the EU, and in some respects has managed to narrow the margins between itself and other European economies. For example, although it is true that we do have a lower percentage of youths pursuing tertiary education, the trend over the past years has been one of a steadily increasing number, both in absolute and as a percentage of total cohorts of students at tertiary level.

From an employment perspective, the general Maltese situation can be seen simultaneously as a challenge and an opportunity. Our overall activity rate, at 55% is low compared to the European average, and well below the Lisbon targets, and it is clear that there is no chance of reaching the target activity rate of 70% by 2010. This is partly due to a low participation rate of females, which, at 34% falls far short of the Lisbon target of 60% by 2010, and is also well below the current European average. Another major contributing factor is the activity rate of 31% for persons between 55 and 64 years, which, once again is very low compared to other European countries. The implications of this situation are that those in employment must work harder, and be taxed heavily, to sustain the standard of living for the rest of the non-working population. The National Action Plan on Employment has addressed the fact that the Lisbon employment targets are out of reach for Malta, certainly by 2010, and established goals that are more attainable and realistic given the characteristics of our economy.

The main opportunity lies in the fact that provided that Malta is sufficiently competitive to attract foreign direct investment, and to expand its tourism and services sectors, an expansion in productive jobs and an increase in the activity rate to the targets established by the NAP Employment will generate sufficient economic growth to address the fiscal deficit without resorting to taxation, and to reduce the burdens of pension and health reforms. The key word here is competitiveness, and one criticism to the Lisbon Agenda is that it places too

much emphasis on increasing the supply of labour through strategies such as active ageing measures and family friendly policies, but fails to apply proper weighting to the demand side of labour by improving the climate for enterprise and business. This shortcoming is also present in the NAP.

The expressed disappointment by Romano Prodi, upon leaving his office at the end of 2004, that the Lisbon Agenda did not live up to its expectations, has been shared by many and the mid term review of the Agenda, as expressed in the Kok report, has seen a reorientation the main goals to ones focusing more heavily on growth and employment. This is being proposed amidst fears that in the face of international competition and an ageing population, growth could soon decrease to 1% per year (more than half of today's growth). The fact that this is being acknowledged at European level by countries that are much closer to achieving the Lisbon targets than Malta makes it all the more essential for us to wake up to economic realities. We should act in parallel to the recommendations to project the Lisbon agenda as a partnership for growth and jobs, and to mobilise support for necessary reforms. This is being proposed at European level and it certainly needs to be acted on locally by the social partners. The aims of the Commission - i.e. to make Europe a more attractive place to invest and work; to generate knowledge and innovation for growth and to create employment opportunities – should apply to Malta as well.

The Malta Employers' Association agrees with this refocusing, not because it believes that social objectives should be sidelined, but because social objectives can only be attained through competitiveness. MEA sympathises with Commission President's Barroso's defence of the renewed strategy's overall objective of sustainable development when he compared the three pillars of the Lisbon Agenda (i.e. to create high growth and employment rates; advance social cohesion, and environmental protection) to three sons and argued that: 'If one of my children is ill, I focus on that one, but that does not mean that I love the others less.'

This has been the main rationale behind the proposals of the MEA when it issued the document: 'Generating Productive Employment – A National Priority', which contained proposals on how to create productive employment in the

private sector. These proposals were discussed at length at MCESD in the hope of agreeing on a social pact for the coming four years. It is understandable that some of the measures were not palatable for the trade unions but these had to be evaluated in view of the current domestic and international economic conditions. Restoring competitiveness remains a priority even in the absence of a social pact if Malta is to aspire for better social services, sustainable pension schemes and an improved standard of living.

Therefore the main challenge remains that of generating productive employment through the creation of sufficient demand for jobs in the private sector to absorb surplus labour in the public sector and to cater for a higher activity ratio, particularly among the ageing and the female segments of the population. The greatest social achievement of a society does not lie in governments' ability to give cash handouts, but in assuring that every person has the dignity of living up to his/her potential as part of the labour force or as an entrepreneur. This would also be the best strategy to control the fiscal deficit, which in turn would enable us to achieve the fiscal targets that are required to adopt the Euro now that Malta is part of ERMII.

MEA urges government to continue with its efforts to improve the quality of education in Malta, and agrees that there should be closer links and cooperation between employers and educational institutions. This may not necessarily imply increased expenditure but a redistribution of resources to areas that truly enhance the stock of the nation's human capital and to channel resources into areas that will address industry's needs. The number of persons leaving the educational system without skills raises the threat of social exclusion, since the demand for unskilled work will fall, and the relative earnings of unskilled persons will decrease. The report: Employment in Europe 2004 issued by the Commission makes a reference to the prediction of standard trade theory that 'further integration of the world economy leads to further inter-industry specialisation' and this often leads to a decrease in job opportunities and wages of the unskilled. **Clearly the way forward for Malta is to enhance the skills content of our work force, and to foster a culture of life long learning and innovation that will have its roots in our educational system. We are still far from becoming a 'knowledge economy'.** This policy should also be

complemented by others that motivate qualified persons to stay in Malta to offer their expertise to Maltese industry and society in general.

We should also design our industrial policy in manner to make our industry less susceptible to outsourcing. Large-scale manufacturing is particularly prone to relocation to production sites that are close to growing markets or sources of potential demand. However, not all economic activity is subject to relocation. Malta can focus on product upgrading, innovation, expansion of leisure activities and services. Malta can be an attraction in cases where services are outsourceable, as is the case in financial services.

Our natural and cultural environment also has considerable untapped job creation potential. Gems like Fort St. Elmo, Strait Street and many others all over Malta and Gozo cry out to be turned into prime tourist attractions. It is felt that decisions take too long to be taken and there is too much debate and too little action. Waste management is a classic case. Other countries have long been reclaiming land through waste disposal. Malta is still a long way from generating the targeted 5% of its electricity from alternative energy sources. This is another case where a problem can be turned into an opportunity.

It is high time to proceed with port reforms, and to redesign the general infrastructure to create a better environment for entrepreneurship. In the same way that the EU is seriously considering a reduction in the burden of rules and regulations that stifle businesses, and also to simplify the targets of the Lisbon strategy, Malta should also be creating an environment that facilitates business start-ups and to make such businesses less subject to unnecessary bureaucracy. MEA continuously calls on government to take action in the national interest even if there is lack of consensus on certain issues. At the same time, MEA works continuously to improve the process of social dialogue with the Unions, and to have a convergence of ideas to the greatest possible extent.

In view of intensified global competition, the goals of the Lisbon Strategy are all the more significant for Malta. There is a need for a sense of ownership of these targets

and a more coordinated effort by the social partners to design and implement the necessary reforms to overcome the challenges that face our society.