



The Optimum Role of the Government in the Maltese Economy

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Both internationally and locally, unions have always been in favour of a strong government especially with regard to its responsibility in managing the economy. The reasons are simple to grasp. First, it was through government intervention as a producer that societies attained sophisticated education and health systems. These were areas where, if it weren't for the intervention of the government in the economy as a provider, we would still be faced with widespread disease and illiteracy.

Secondly, we have got to face the main problem of capitalism - the extensive economic fluctuations as a result of the cyclical nature of the system. Government's intervention, through fiscal and monetary policy, in this area brought about damping of such fluctuations, which bring about much social hardship and tension. Whatever the position one takes, supply or demand side, all believe that the government has a role to play in the economy.

Unions see that the role which government has to play within the economy is still prominent. Governments are obliged to see that their economic policies do lead to the creation of wealth to all. Moreover, unions are very attentive that the fiscal measures taken by government do not negate any benefits that they have attained through collective bargaining at the firm level.

The General Workers' Union's statute defines the role of the union as an organisation which strives to secure the best conditions to workers and their families. The General Workers' Union is also conscious of the particular situation of Malta. Whether we like it or not, we must face the problem of size. This affects our economy in significant ways. If we consider two factors, size and the market structure which results from size, we would immediately realise the impact of the government intervention in the economy. These two factors have always determined the role of government and consequently the social contract.

The social contract that still prevails throughout Maltese society is one where the government, in the eyes of the citizen, is still obliged to provide direction of the economy, intervention where either the market or the private sector fails, and controls inflation. Apart from being responsible to manage well the economy, and thus responsible to see that the economy grows, government is also responsible to see that the wealth which is being created, is distributed in a way, which not only preserves the social texture, but also makes all stakeholders in this project.

On top of this, the government is expected to provide a fully-fledged welfare state that ought to guarantee a spring board from when one is facing hardships or is on pension. Moreover, government is expected to assure the best conditions for all, from the cradle to the grave, at no cost to the taxpayer as others will pay for us. Unfortunately, this is not a fairy tale. The present government was elected on such a ticket.

On the other side, our size and our economic structure together with the changes occurring on an international scale, brings us face to face with reality. The opening of markets and

globalisation requires that we restructure our economy. The days when the government was supreme are now gone. This does not mean that Adam Smith's perceived conception of the role of government suits the General Workers' Union's values or that this role suits the conditions particular to Malta.

The General Workers' Union still believes that the government still has an important role to play - but a different one. The functions, which were previously assumed, have been divided and assumed by different actors. It is now accepted that the government's role in the development of society should not be that of provider of all services which bring about common good, but as a promoter and/or facilitator of change, creating the necessary space for the civil society to develop in a healthy way.

There is nothing wrong with trying to change the social contract. In fact we believe that the government should be the promoter in such an area. The General Workers' Union believes that the social contract should be one that promotes economic growth within the context of the current global economy and be consistent with our social mores. However, this must be done through social dialogue.

The General Workers' Union as a responsible social partner has always been ready to take part in any reforms needed to make Malta a prosperous and a socially conducive society. The only condition that the General Workers' Union makes is that the process of social dialogue is genuine and that the government is ready to listen. Evading the issue or changing the social contract unilaterally brings about problems. The industrial strife that the General Workers' Union, last year, had with the government was directly related to this issue.

As I already mentioned, the Nationalist government was elected on the ticket of maintaining the present social contract. Yet, through last year's budget, the government tried to change the social contract without a proper public discussion and without any consultation with the social partners. Last year it was the middle class and the wage earners who were the target. This year, it was the tourist industry's turn.

Changing the social contract by imposing draconian measures through budgets or increasing tariffs without any consultation will only create social tension. The General Workers' Union has always insisted that such changes can only be achieved through effective social dialogue. We already have the structure through which we can have such an effective social dialogue to prevent social tension and industrial strife.

However, we strongly believe in a radical change within the Malta Council for Economic Development. We believe that this body can become a truly effective structure through which we can have social dialogue to handle such important issues. The General Workers Union has already submitted its propositions on the proposed bill which will set up the Malta Council for Economic and Social Development and believe that our proposals will enhance the effectiveness of such a Council.

I indicated above that the General Workers Union does not believe that the government should dominate completely the economy. We believe that the private sector has a role to play, and we also believe that its role is vital to our economy. However, this does not require total privatisation.

The General Workers Union reiterates its stand against total privatisation of all state corporations, parastatal and public companies which are vital for the well being of the nation in the economic and social areas. The General Workers' Union firmly believes that these public utilities should continue to be under the effective control of the state, or otherwise, privatisation of such utilities will only be on partial basis whereby the citizens, through its Government, will remain the majority stake holders in such utilities.

It is quite evident that the privatisation programme the government embarked upon is inspired by ideological reasons. The General Workers' Union believes that prosperity cannot be achieved once the social aspect of certain entities is discarded. Neither can economic development be genuine if those entities which are vital to the running of the economic machinery of the country are transferred outside the area of the Government who operates on behalf of the people.

The public sector was not created and developed in vain. The growth of this sector was directed to achieve the aspirations of the people at a time when Malta was leaving behind its colonial era. Then the Maltese aspired for access to essential services, to better education and health services. The private sector had to be provided the energy resources, communication facilities, transport etc. in order to expand.

It is common knowledge that many countries proceeded on these lines. Then, they opted for different directions in the early Eighties, when most of them, especially the United Kingdom, embarked on privatisation programmes. Their objective was to minimise the government's domination in the economy of country apart from reducing as much as possible the public expenditure. In most cases, the social aspect was completely put aside as it was argued that "it is difficult and indeed almost impossible to reconcile the rights and interests of the public with the claims of an individual company seeking as its natural and legitimate objective the largest private gain".

The method by which privatisation is being promoted in Malta matches perfectly the way privatisation has been sold elsewhere, particularly in Britain during the Thatcher era. Thus, efficiency, complimented with better service to the general public was set as the main objective for privatisation irrespective of the social dimension.

For the General Workers' Union such a stance is unacceptable since it goes against value system upon which our society is based. I am sure that such excesses are acceptable to none. I wish to ponder on an article, which was reported in last November's Economist issue. The article which was a leader, was commenting on the price of safety on Britains' railway system after a train incident which left over thirty people dead. The article commented this way " Rails have been ripped up all over the country....to sort the problem out. Yet, surely it is worth all the trouble, if even one life is saved? No, it is not. The pictures of mangled carriages are ghastly: the interviews with bereaved relatives heart-rendering. But life involves risk, and calculations about how much money to spend on reducing danger have to be made in cold blood." The article ends this way: "We must set a price on life"

I am sure that most would find such reasoning obnoxious and repulsive. What is even more disgusting is that such an article didn't create even a reaction. I believe this is the result of total disregard to the social aspect. As the largest union in Malta, in our reaction towards the White Paper on Privatisation, we have warned that we are not ready to accept such decadence.

One way put forward to reduce the role of government is privatising the public sector. If the public sector is inefficient, the solution is not to dismantle the sector but to improve and innovate it. It is clear that efficiency is no one sector's monopoly and in no way can efficiency and the private sector be described as an inseparable siamese twins. On the other hand, in no way can efficiency and the public sector be assumed to be incompatible. In as much as public entities be managed professionally, we are convinced that also the public sector can be acclaimed for efficiency.

The excess number of employees, bad use of resources and wastage, lack of controls and outdated work practices, in the White Paper, are indicated as the main problems of the public sector. This situation may have arisen maybe, due to political interference. The General Workers' Union cannot however accept that, political errors or not, the blame be shifted onto the workers. We do not believe that the only solution to tackle these problems rests in privatisation, the more so, if this is meant to be total privatisation. The solution lies in adopting

the criterion of meritocracy rather than political allegiances. Also, new managerial practices should be introduced especially where wastage of resources and lack of controls are evident,

In this background, the General Workers' Union reiterates what it said in 1998 and again last year:

that the "privatisation processes should consider the importance of mixed or partial solutions whereby the state remains the sole owner and involve private investors as partners"

In all cases, privatisation processes should create safeguards and social controls for the protection of the collective interests. Therefore, privatised entities should be made subject to permanent social auditing through appropriate practices and mechanisms.

This is amply clear that the White Paper on Privatisation, with regard to jobs or job losses, is verging on the unknown apart from the fact that the government is already indicating clearly of abdicating its responsibility to safeguard jobs. This is unacceptable to us. The General Workers' Union in spite of the fact that it took an initiative to set the ball rolling in setting up a strategy for job creation still holds the government as finally responsible for the economic and social impact of unemployment.

The unfortunate thing is that, at present, we are rather facing a different problem from what we were facing some ten, fifteen years ago. At present the government is abdicating its role of giving direction to the economy and seeing to it that we start the process of restructuring in a planned manner so as to alleviate the hardships which the restructuring and privatisation process inevitably involves.

I take two cases which illustrate this point. If we take training and the retraining of workers, I think that the first decision that must be taken within the context of the role of government in the Maltese economy, is who should shoulder the burden. Just as workers are being made to assume responsibilities and costs, we believe that local industry should start to assume a heavier burden.

It is the government's task to provide the means to achieve this. Should the government shrink its role in this sector? And if in the affirmative, how much responsibility should the local industry assume in this area? Can it share the burden? If the local industry takes a share in the burden, how are we going to ensure that this training and retraining is taking place to guarantee that we would succeed in the restructuring process?

Whatever the burden that the private sector could assume, the government would still assume some responsibilities in this sector, at least in the short run. But the problem here is that there is no planning on the part of the government. Both privatisation and restructuring can result in some job losses. However there are no training and retraining schemes even though the General Workers' Union has for long been insisting on the introduction of such programmes. This fact inspired the General Workers' Union in 1999 to insist that the Board of Directors of the Employment and Training Corporation should be composed of the social partners who are sensitive to the labour market needs. Hence they would contribute towards our country's adaptability to the changes that are taking place in the labour market.

Let's take another example. It is also well known that IPSE's exercise of giving "financial assistance" in return of a business plan for an eligible company has not quite produced the desired results. They made it understood that none of the SMEs knew how to draw up a business plan! If this is true one would have assumed that a rigorous awareness campaign and a series of seminars would have been organised to "teach" SMEs how to draw up a business plan to correct the situation.

Other initiatives aimed to promote networking, subcontracting and strategic business alliances were launched in March 2000. It is too early to know what is the success rate of these

programmes. The NPAA states that *"in the coming years, various measures will also be taken to improve the conditions for enterprise creation and development, with particular focus on small and medium sized"*. Why in the coming years? Why not now? It is very well known that SMEs are not receiving the assistance they should be receiving to succeed.

The NPAA states that SMEs face *"various obstacles as regards access to finance and that there is low availability of funds for Maltese SMEs which is limiting the number of small business start-ups, their capacity of currently uncompetitive enterprises to restructure, and the growth of appropriate technology and innovation in small companies"*.

The Maltese Furniture Industry report which was commissioned by IPSE shows that the industry is in a sad state and it is not at all prepared for the removal of the levies. It will not be able to effect any of the necessary changes to innovate within the next two years and what the report does not say is that many of the employees in the furniture industry will become unemployed if the levies are removed in the very near future. The report also does not say how the industry can restructure in the medium or long-term, if provided with the alternative that the levies would not be removed in the near future.

Ironically one of the options suggested in the report is *"to cease manufacturing and concentrate on distribution of imported goods"*. It does not say what happens to the employees should a manufacturer decide to adopt this option - or if all manufacturers were to decide on this same option.

This present situation is one where the government's procrastination is costing us heavily. In fact, all the reports that the General Workers' Union have had, indicate that the main problem that Malta is facing is that the government in its effort to join the EU at all costs, is disregarding the problems that the nation and its economy are facing. The main problem is that whatever may happen on the EU question, we are still in a poor shape to face tomorrow's challenges. This is the main problem. This is the problem that is creating uncertainty both to workers and industry. The more the government procrastinates the heavier is the economic cost to both industry and its workers. This also means a higher social cost.

I have already indicated that the size and our social fabric makes certain requirements on the size of government and thus its role. One area is where the size dictates that the service provided, whether in the public or private sector, will still be a monopoly. This is the situation in basic services.

The General Workers' Union points to the social aspect of all essential services. The latter being basic rights must be protected by society to guarantee that nobody is socially excluded. In this respect, the government, which is the collective, must guarantee these rights by securing the majority shareholding in these entities.

Such entities should see that both the social aspect and the viability of the enterprise should be given their due importance. On the other hand the General Workers' Union believes that because of our size, such vital and strategic enterprises should maintain a government majority shareholding. The airport, ports and public transport are typical examples.

To guarantee consumer rights it should be pointed out that such entities should ensure consumer satisfaction. These interests can be secured by direct consultations both with consumers and their associations. All monopolies whatever their ownership structure, must ensure that the social aspect and economic viability should be given their due importance.

But the most important role for any government is that it gives direction. If one looks at what is happening with our bid to join the EU, one finds the same situation of government procrastination. One would have thought that since restructuring is the centrepiece of the acquis the local economic gurus would have come together and drawn up a national plan how

this could be achieved. So far the government has handled this issue in a piecemeal fashion as is obvious in the NPAA.

On the other hand a rational government would have first come up with a philosophy, a vision for Malta's industries which then would be followed by a strategy and a national plan for implementation. Then a national debate between all stakeholders should have ensued to discuss what regional or global alignments would be beneficial for Malta. This debate could have led to a social model shaping itself with all parties striving to work towards a common good.

The General Workers' Union has long recognized the need for the restructuring of the local industries but wants this to be done with great attention so that no loss of jobs occurs in the process. Therefore it has undertaken to study in depth the whole issue of restructuring and the EU and how this will effect the Maltese worker.

As more time passes it is obvious to the General Workers' Union that we have to start from the beginning and create a national dialogue that would lead to a strategy and a National Implementation Plan. In this strategy everybody is a stakeholder especially if that stakeholder generates and effects work and/or employment. Another factor that is not being considered at present, concerns the effect these drastic restructuring measures will have on Maltese society. Will it change the Maltese social mores?

A real social partnership model needs to be identified. Such a model has generated confidence in economic and social policies and boosted business activity and productivity, resulting in high levels of investments and job creation in countries like Ireland. And of course continuous monitoring of the success and failure of restructuring has to take place to re-adjust the criteria for restructuring.

I will finally look briefly at the role of government within the welfare scene. The government should see that unemployment benefit schemes be brought to the point of reasonable effectiveness as regards frictional, cyclical and structural unemployment, notwithstanding the overriding emphasis and concentration rightly given to the priority aim of providing employment.

It should be considered that the primary goal must always be the adoption and implementation of an effective employment policy, which would minimise unemployment, accepting that the degree of a successful policy of this kind would be linked to the state of the national economy. Social security could not be isolated from or taken out of such a wider employment strategy.

Thus the General Workers' Union believes that the government still has an essential role to play in the Maltese economy. Essentially it must take the leadership role, giving direction, promoting rather than dictating the restructuring process that we must face. Moreover, the government should act as a regulator who apart from guaranteeing that the citizen is faced with free and just options, must ensure that each citizen is valued and has a stake; in which no-one is excluded from life-chances and the opportunity to develop their potential. This would give the vital space for the private sector and the other social partners to play their role as stakeholders.

The General Workers' Union believes that the government must take cognizance of what is taking place around it, both locally and internationally. It must heed the signals that all sectors of the economy and society are giving out. It must start addressing the issues that are facing the economy. If it believes that it must change the social contract and thus its role, it must start serious consultation. This would create trust - the essential ingredient needed to rise to the challenges of change but which is unfortunately presently missing.
