

## Budget 2016

### Proposals

Hereunder are Union Ғaddiema MagҒqudin (UHM)'s budget proposals:

1. Fiscal consolidation is deemed necessary but the continued shift towards indirect taxation with the 'effective income tax rate' much lower than it was in the past remains a concern from a social justice viewpoint. Whereas higher income earners have benefited from improved tax ceilings, low income earners remain as vulnerable as ever. We earnestly await the results of the new Household Budgetary Survey (HBS), not only for how it could impact the estimation of the Cost of Living, but also to determine the expenditure of households by income. Now, according to the NSO, HBS in 2008, those households between income octile of €8,001-€10,000 euro numbered 18,850 households. If we consider the average spending by these households estimated by NSO as €11,109, this exceeded the basic wage (€9747.4), which the NSO refers to in its calculation of COLA, by €1,361.6. This implies that households were dissaving. Though UHM cannot ascertain whether this level of dissaving has increased, it is unlikely to have reduced given that the basic wage has virtually remained unchanged. This situation needs to be addressed and the results of the new Household Budgetary Survey published as early as possible. UHM also would like to seek assurances about the weighting to be applied for goods and services purchased by households.
2. The above issue needs to be considered also in the context of apparent wealth creation generated by economic activities, such as property speculation and investments, part of which are undeclared. Whereas these activities lead to individuals increasing their holdings, cash or otherwise, tax compliance in such activities is weak if non-existent. UHM insists that tax authorities need to be more effective in ensuring tax compliance in economic activities such as property speculation. Tax compliance needs to be supported by a strong institutional set up.
3. There also needs to be a study to gauge the extent of the underground economy and what the cost of this is in terms of lost tax revenue. This would explain, in UHM's view, the growing inequalities within Maltese society within salaried individuals declaring all incomes and individuals who, by virtue of cash transactions, non-declared or under-declared economic activities, evade and/or avoid tax payments.

4. Some important in-roads have been made in terms of active labour market policies. However, the labour market is rapidly changing with an increasing influx of workers from Eastern Europe and from North Africa. What is the impact of this influx and future developments on the wages paid for low-skilled, medium-skilled and high-skilled workers? Are average compensation levels being distorted by the increase in public sector employment? What is the impact of this influx on the workplace? Are non-Maltese workers displacing Maltese workers in particular jobs? Is there pressure on wages not to rise because of this influx? Are Maltese workers preferring to seek jobs in the public sector and therefore availing themselves of the opportunities created by this Government to relax previous targets for public sector employment? We need answers to these important questions which impact upon the labour market and needs answers to shape policies. For this reason, UHM is proposing that active labour market policies be supported by an institutional set up made up of a nucleus of labour market analysts (typically economists) who carry out on-going research. This set up would need to be credible and UHM proposes that trade unions be represented on its board of governors. This set up would help shape policies in a rapidly changing labour market which risks losing the protection of trade union membership.
5. Malta's active labour market policies also need to give more consideration to the changing demographics of the Maltese population, not just the ageing process, but also the projected increase in the population as projected by EuroPop 2013. These new projections differ substantially from previous projections and therefore their impact positive or otherwise on the labour market cannot be ignored.
6. There is also a need for a holistic approach to labour market policies with a stronger link between education policies and labour outcomes. The role of education institutions is critical and assurances need to be given in the Budget that all curricula in all institutions have an effective link with a labour market and an economy that is increasingly dynamic. Specifically, for trade union members, UHM proposes that a discount, or subsidy of 10 per cent, be applied on training, vocational or higher education provided by licensed private or public institutions including post-graduate studies at the University of Malta and part-time studies at MCAST.
7. The Pre-Budget Document refers to supply-side policies. For a comprehensive picture of education-labour market linkages, however, supply-side analysis needs to be complemented with demand-side analysis. The supply of adequate jobs for the labour force is a central concern of any policy maker. However, the issue is not simply an adequate number of jobs for the workforce, but whether these jobs are of adequate quality. The two groups of issues that need to be explored from the demand side, therefore, include policy issues related to markets other than labour markets and policy issues that affect the operation of labour markets. The former might include government policy on foreign direct investment (FDI) or technological advancement, whereas the latter might more directly concern labour market regulations and the match (or mismatch) of skills and education in

labour markets. The proposed set up referred to in 4 above would play a key role in carrying out this analysis.

8. Whereas expenditure in absolute terms on public sector wages has risen, UHM would like to know whether this has translated itself in a strengthening of accountability in public services? Why, given the increase in the public sector wage bill, is Government insisting on public private partnerships in health care and other areas, traditionally provided by the public sector? Is Government right in assuming that PPPs are the only solution to address challenges in the health sector given that empirical analysis of PPPs elsewhere has shown that they have not consistently provided the stated benefits put forward by their promoters. UHM believes that the roll out of PPPs in Malta has been strongly influenced by neoliberal ideology without regard to alternative arrangements, namely cooperatives. Co-operatives offer a flexible model for new businesses. They can be set up by employees, consumers, and businesses and abroad already work well in sectors such as healthcare. Trade unions could also play a pro-active role in their set up. The government needs to bring into force the number of persons that can found a cooperative from 5 to 3. Also every cooperative, irrespective of its association, must receive funding.
9. Economic growth is critical to any economy. However, social justice and awareness of sustainable development in all its aspects besides economic (environment, social, and cultural) is just as important and as is happening across the EU, the increasing income inequality between high and low income earners requires effective responses and therefore a social policy that looks beyond measures and understands the root causes of this inequality.
10. On transport, as things stand with heavy levels of congestion, workers and business are losing time travelling by car or public transport. The situation has worsened and this additional cost is being borne by workers and is proving to be an additional financial burden to households. On a macro level, it is also an economic burden. Despite this, Government seems oblivious to the external effects of heavy traffic causing gridlock on our roads. Government needs to seriously consider an effective and alternative means of transport. We await Government's proposals in this regard in Budget 2016 and possibly a commitment to addressing the problem, not through fiscal measures which again impact all households irrespective of income, but through a transport policy that offers commuters a viable and efficient alternative to using their cars.
11. On pensions, UHM maintains that the demographic projections are significantly different from the previous projections with population now expected to rise by 76,000 by around 2060 (previously 408,000), largely due to net migration. Are these projections realistic? Also, how realistic are projections on labour productivity? UHM again questions why second pillar pensions as a viable option to supplement retirement income and induce much-needed

saving in the economy are being ruled out without a study on their feasibility or otherwise? UHM has given its reactions to the Strategy Report on other aspects of the study directly to the Strategy Group.

12. Finally, UHM seeks reassurances about the setting of the prices of diesel and unleaded fuel. Without this clarification, UHM will continue to ask why international price movements of crude oil are not being translated in lower prices at the pump.
13. With reference to Recommendation 27 (Service Pension), as outlined by the Pensions Strategy Group, UHM proposes that the annual amount will be that of €1,000 instead of €200, as proposed by the Pensions Strategy Group. This would help in no small measure to redress the injustice suffered for many years by individuals entitled to a service pension. The Pensioners' Section within UHM is also proposing that the tax ceiling of a single person and that of a couple should be not less than the National Minimum Salary. UHM is also proposing that government must take stock of the National Minimum Pension, and this must not be less than 60% of the national median from 2016 till five years' time. Pensioners must keep on living comfortably at home and not being a burden to society. Hence, government should enhance the well-being of pensioners by, for instance, providing lifts, stair lifts and assists in the modernisation of bathrooms that will be compatible to their needs.
14. UHM is proposing to use technology to enforce the minimum basic rights established by the various labour laws. This can happen through a portal whereby one can: (i) choose the form of contract; (ii) fill contract online with the minimum basic rights taken as default; (iii) upload/download contract online. This initiative will see that all workers will have a contract of work and the minimum rights are safeguarded automatically.

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