

---

# THE SOCIAL PACT

*POLITICAL CONVENIENCE OR NATIONAL PRIORITY?*

A RESPONSE TO THE

**DRAFT SOCIAL PACT**

prepared by U.H.M.

Presented by

*Alternattiva Demokratika*  
*Economic Policy Working Group*

---

## CONTENTS

<b>EXECUTIVE SUMMARY</b> _____	<b>1</b>
<b>INTRODUCTION</b> _____	<b>3</b>
<b>BARRIERS TO SUCCESS</b> _____	<b>5</b>
THE CULTURE OF POLITICAL CONFRONTATION_____	6
BUDGETARY INDISCIPLINE_____	7
THE ABSENCE OF A NATIONAL INDUSTRIAL POLICY_____	9
<b>PRIORITY 1 - ENHANCING COPMPETITIVENESS</b> _____	<b>11</b>
<b>PRIORITY 2 - INCREASING EFFICIENCY OF THE LABOUR MARKET</b> _____	<b>14</b>
<b>PRIORITY 3 - PROMOTING INNOVATION</b> _____	<b>17</b>
<b>PRIORITY 4 - TACKLING BUREAUCRACY</b> _____	<b>20</b>
<b>PRIORITY 5 - ACHIEVING A STABLE ECONOMIC FRAMEWORK</b> _____	<b>23</b>
<b>PRIORITY 6 - ENHANCING OUR TOURISM PRODUCT</b> _____	<b>25</b>

---

## EXECUTIVE SUMMARY

Alternattiva Demokratika is presenting this report as an official response to the Draft Social Pact presented by Union Haddiema Maqghudin. Essentially AD believes that because of the twin challenges of globalisation and our entry into the European Union, a Social Pact has become a national priority and together with UHM we believe in the importance of establishing and institutionalising this social pact. It is of vital importance that this Social Pact does not turn out to be another instrument of political convenience and indeed we believe that the Pact should act to create an environment of certainty within our country in order for us to survive and prosper in this age of globalisation and its consequent uncertainty.

Our report identifies with the six priorities identified in the Draft Social Pact presented by UHM. We wish to see that this Pact gives due regard and weight to the overriding principles of Economic, Social and Environmental Sustainability. Indeed we wish to contribute our local and foreign expertise to auditing the final draft of the Social Pact in order to ensure that all measures meet the Sustainability standards that are expected from the European Union.

Our primary contribution in this report is to identify three barriers to the success of the social pact, being

1. The Culture of Political Confrontation
2. Budgetary Indiscipline
3. The Absence of a National Industrial Policy

Unless a number of strategies and initiatives are in place to gradually lower these barriers, we strongly believe that the Social Pact will risk failure at a very early stage out of a lack of economic and political focus. We truly cannot afford to miss this historic chance to work together after serious debate and compromise.

---

Our key comments to the six Priority areas are:

- We must move away from a culture of lifetime employment to lifetime employability by investing in the upgrading of our national skill base, in line with a national industrial policy.
- A stable economic environment can only be achieved if government draws up a realistic and credible medium-term financial plan (6-8 years) that aims at bringing our budget deficit initially to 3% and eventually targets a balanced budget.
- We believe that it is unrealistic to expect government to commit to not increasing taxes, however we believe that for a number of years government should ensure that its recurrent expenditure does not increase by more than the average inflation rate, whilst allowing its revenue to grow by the nominal rate of growth. This can contribute to lowering the budget deficit by about 1-1.5% of GDP per year.
- The competitiveness issue must move beyond price stability and the cost of labour. Competitiveness is primarily dependent on the quality of our human resources rather than the hourly cost of labour. The concept of “clusters” should be given more attention in order to improve technology and knowledge transfer.
- The upgrading of the skills of the unemployed should include enduring training and apprenticeships. Supplementary educational stipends can be provided to students who undertake courses that **Malta Enterprise** targets in line with industry requirements and the national industrial policy. The additional stipends should be funded by Malta Enterprise.
- We need to have a coordinated strategy to assist creative individuals in taking their ideas from the “garage” to the market. Innovation needs to be supported within the framework of a National Industrial Policy.
- Malta is primarily a service-driven economy. Our understanding of innovation must move beyond product innovation into service and process innovation.
- Bureaucracy must be tackled through openness, action and follow-up. We are recommending a simple process in which bureaucratic measures are categorised into **Useful Bureaucracy**, **Necessary Bureaucracy** and **Useless Bureaucracy** and dealt with accordingly.

---

## INTRODUCTION

Alternattiva Demokratika (AD) welcomes the first draft of a Social Pact and commends the Union Haddiema Maghqudin, for kick-starting this initiative we believe has the potential to change the political, social and economic scenarios of our country as we face the twin challenges of globalisation and membership of the European Union. Today, more than ever, civil society recognises the need to change the competitive emphasis from an internal strife (and in a number of cases, a popularity contest) between trade unions, political parties and employers' associations, to a coherent and collective national strategy that enables us to compete on a country vs. country basis, whilst sustaining and protecting the social infrastructure necessary to ensure that the needy classes of society are protected from the savage excesses of the free market.

Whilst the 25 countries that will form the European Union have pledged a considerable level of economic, political and social solidarity amongst themselves, when it comes to the attraction of Foreign Direct Investment and Local Investment, we would be naïve in expecting anything less than a highly competitive environment. At a European level we can at least expect the "playing field" to be levelled through common legislation including laws on the environment, competition, labour and trade.

On a global level, Malta's competitive situation is somewhat more precarious because of the unfair and sometimes inhumane disparity between EU laws and laws in a number of developing countries, including the existence of below-sustenance wages, product dumping, child labour, worker exploitation and wide-scale environmental degeneration. As Greens we cannot but note, with much consternation and sadness, that these abuses are being promulgated by many European and American multinationals, which take advantage of their economic

---

might by convincing foreign governments to “bend” their laws to their investment requirements.

What is a Social Pact?

AD understands that in the light of the realities of globalisation and EU membership, a social pact is an agreement between the government, trade unions and employers’ associations in which the three parties

- Jointly establish our national priorities/challenges,
- Individually state how their policies and actions can contribute towards meeting such challenges, and subsequently
- Arrive through *argument, bargaining and compromise* at a *collective modus operandi* on the manner in which these challenges are to be overcome.

We believe that UHM have correctly identified six priorities, to which (in this report) we are presenting our comments, suggestions and amendments. To these six we wish to include a preamble that

*“The actions that will be pursued from this Pact, must give due regard and weight to the overriding principles of Economic, Social and Environmental Sustainability”*

In this regard, AD is not only willing to collaborate in the compilation of the Social pact, but is desirous of contributing its expertise in auditing the final draft of the Social Pact in order to ensure that any measures meet the Sustainability standards that are expected from a very-soon-to-be member of the European Union.

AD believes that the chief benefit of a social pact is the establishment of *certainty* within an economic domain i.e. Malta, in order to combat the *uncertainty* of the globalised world we are living in. Whilst nowadays it is virtually impossible to provide employee’s with lifetime job security, and to guarantee companies the

---

continuing success of their products/services, a social pact can realistically commit to provide to,

- Employees, credible lifetime employability versus politically-convenient lifetime employment,
- Investors, a platform on which businesses can plan the near future, working in a “no big surprises” economic environment, particularly in regard to dealing with unions and government, and
- Government, a tranquil social environment, improving industrial relations, a growing and sustainable economy, and consequently a more marketable *MALTA*.

We believe that with a well-designed, comprehensive, properly bargained and adequately agreed social pact, the right environment can be created to

- Foster a long-term and sustainable improvement in our country’s competitiveness,
- Encourage profitable local and foreign investment in target manufacturing industries and service sectors,
- Achieve a permanent reduction in business costs (especially those that are capriciously induced by government and non-natural monopolies),
- Increase employment opportunities and improve working conditions, and ultimately,
- Improve our standard of living quality of life.

## **BARRIERS TO SUCCESS**

We believe that your report fails to highlight any barriers that may arise during the compilation of the social pact, as well as barriers that may appear after the social pact has been enacted. Whilst we recognise that it impossible to envisage all the obstacles

---

that may arise, AD believes that, in particular, there are three obstacles which if not tackled beforehand will most certainly result in the wide-scale violation and disregard of the pact. The consequences of the violation of the pact could be politically and socially disastrous, and regrettably could create wide-scale national cynicism towards our country's ability to survive and prosper within the EU and the world. The three barriers we have identified are,

### **The Culture of Political Confrontation**

Alternattiva Demokratika has stressed ever since its foundation, that a country like ours could not prosper under the strangle hold of a system in which only two parties can participate, a system that has, on the one hand fostered wide scale political patronage of various selfish single-issue groups within our society and on the other hand has held successive governments at ransom by the electorate, disabling them to take decisions that were above party politics and in the long-term national interest.

In this scenario the two large political parties have managed to keep roughly half of the total vote each by pandering to the population's basest instincts of daily futile pique and political tribalism at election time i.e. once a year. In this country we have very "ably" managed to split every facet of society including political parties, band clubs, trade unions and even our churches. The political pique, which in the past two decades had somewhat subsided, was vehemently re-kindled last year during the referendum and election campaigns that, once again, brought out the worst in all of us!

In Europe this status quo is the recipe for economic disaster, political paralysis and social degeneration! Indeed AD believes that unless the political pique is tamed the Social Pact will be held at ransom by the political parties who are afraid of showing their ability to dialogue and compromise maturely because this is construed as a sign of weakness by an electorate that is addicted to seeing our politicians "butcher" each other. In the meantime the Ship Malta is steadily sinking...

---

## Budgetary Indiscipline

The second barrier AD believes is crucial to be tackled if the Social Pact is to have a good chance of success is the lack of budgetary discipline in Malta. AD believes that the size of the fiscal deficit in the past years (especially 2003) was at an alarmingly high level, and we are quite sceptical of the ability of the government to bring down the deficit level within three years to a target 3% without further sale of the “crown jewels” e.g. further privatisation of Maltacom and Bank of Valletta. Whilst AD is a strong believer in the benefits of Malta adopting the Euro, considering the precarious financial position our government is in, we caution government to consider taking a longer term view (3-6 years) for the completion of monetary integration.

The financial deficit is the greatest strain on our economy. Government expenditure has now surpassed the dangerous (albeit symbolically so) mark of 50% of Gross Domestic Product, and is expected to increase further, especially when considering the obligations undertaken by our membership of The European Union, in areas like agriculture, environment, waste management, diplomatic services, etc... We believe that this situation has been brought primarily by a global economic slowdown coupled by a civil service culture of useless extravagance, wastefulness and outright abuse, aggravated by a chronic lack of long-term planning and unaccountability. When you factor in the fiscal obligations we will soon have to commit to in order to solve the long-term problems in maintaining our national health system and state pensions, then it is easy for the social partners to start losing confidence in our ability to contain and reverse the negative fiscal state of affairs we have been facing since the late 1990s. AD has confidence in our country and we believe that if medium to long-term solutions (certainly longer than the life of this government) are properly thought through and agreed upon not just the cabinet but also by the political parties and civil society in general, then our venture into Europe will be a success. If this financial plan is not properly elaborated and agreed upon by the end of this financial

---

year (i.e. September 2004) then the risk we face is that of becoming the sick man of Europe with all the economic, political and social consequences imaginable!

AD is currently working on a Draft financial plan that we intend to discuss widely with government, the opposition and civil society. The major initiatives in this medium term financial plan (5-8 years) are the following:

- Capping of recurrent expenditure (basically wages and social security payments excluding healthcare) to the average inflation rate of the last three years. This will contain the growth in government expenditure without affecting the real level of salaries and social benefits.
- Ensuring that recurrent revenue (income tax, indirect taxes and social security contributions) increase by the average nominal rate of economic growth over a three year period including the actual rate in a previous year, and the projected growth rates for the current year and the next year.
- We calculate that the twin disciplines mentioned above will result in a lowering of the budget deficit by 1-1.5% of GDP every year.
- Capital expenditure should be prioritised and properly planned on a 5-10 year basis in conjunction with local councils. As far as possible all major capital expenditure should be paid out of related taxation e.g. road works should be paid out of car licences, tourism projects should be paid out of airport taxes, waste management projects should be part financed by eco-taxes etc...
- Very long-term capital projects should be financed primarily from the proceeds of privatisation, secondarily from any contributions of the private sector in Public-Private-Partnerships and only finally by borrowing.

We believe that in order for the financial plan to succeed, wide consensus needs to be obtained for the action that it proposes. The participation of all political parties is necessary whether within MCESD or not. In particular we believe that an optimum result can be achieved if the financial plan is negotiated and agreed by the political

---

parties and subsequently presented to MCESD for opinions, revision and approval. We urge the other political party leaders to take up this historical challenge to streamline our government's finances. There are several other platforms on which the next election can be contested – for the sake of our country, let us not make public finances one of them!

### **The Absence of a National Industrial Policy**

The third barrier to the success of the social pact is the total absence of a formalised national industrial policy. Ever since independence, Malta has been immensely successful in attracting Foreign Direct Investment in various manufacturing industries. In the early years of industrialisation, we witnessed tremendous growth in investment in low labour cost industries, particularly textiles. Many successes were eventually scored in attracting higher value-added manufacturing industries, particularly those relating to electronics and electrical components.

The advent of import liberalisation, as well as the political liberation of Eastern Europe from the stranglehold of totalitarian communism, presented a challenge to locally established manufacturing firms working for the local market as well as a challenge for MDC by introducing several new country-competitors in the market for FDI, especially those ensuing from Eastern Europe and North Africa. In the late 1990s, the widening of globalisation presented more aggressive (and oftentimes unregulated) competition from countries in the Far East, particularly China, India and the Asian Tigers.

AD is of the opinion that the primary reason why Malta has lost competitiveness throughout that decade was the absence of a national industrial policy, exacerbated by an ineffective MDC in the later part of the decade, that was (and possibly still is) suffering from a total lack of strategic direction.

---

A national industrial policy will establish the manufacturing industries and service sectors in which Malta has (or can obtain in the short to medium term) significant and sustainable competitive advantage. In short, as a nation, we need to

- a) Establish what we are *very* good at doing and,
- b) Focus our resources in order to ensure that we do it well.

We have been taking too many shots in the dark, because we have not been able to focus. Perhaps the best example of this culture has been the voting of Lm 40million (in the last budget) for the building of factories. Once again government has propagated the myth that empty factories should find their tenants. Nobody owes us a living. An industrial policy should not be a wish-list of the industries and sectors we fancy having, but a realistic assessment of the businesses we are able to nurture baring in mind, amongst other things,

- Trends in global investment flows,
- Our existing and prospective skill base,
- Our geography and infrastructure, and
- Our financial resources.

It is obvious that, for a microstate like ours battling in such a competitive global economic climate, a niche policy is the only possible strategy. We recommend that the basis of our national industrial policy can be:

- Nurturing and growing existing business
- Promoting Research-based industries
- Promotion of Green technologies, including a Green Park
- Tourism & Hospitality
- Financial services and International Trade
- Education & Cultural Services.

---

In addition we believe that government should develop a strategy towards industrial “clusters” in line with the industrial policy. By grouping related and complementary industries within the same estates i.e. clusters, we will be able to spread the rate technology and knowledge transfer.

A national industrial policy is an absolute necessity, if we want to build a meaningful social pact. Otherwise we will be continuing to spread our already-very-limited marketing, educational and financial resources too thinly, risking gross failure in attracting investment to our shores. AD believes that the social pact could be the collectively agreed strategy for our medium to long-term prosperity. However without a proper industrial policy, our social pact will at best become a national survival kit and at worst a two-inch doorstopper!

#### **PRIORITY 1 - ENHANCING COMPETITIVENESS**

The issue of competitiveness has been discussed widely in a variety of fora during the last few years. There seems to be wide consensus that Malta’s international competitiveness benchmarked to other countries is continuously being eroded. We believe that in the Social Pact a definition of the major factors upon which our competitiveness depends is to be agreed upon and inserted in a set of preambles that precede the body of the pact. We propose that the definition could be:

*“Our competitiveness is dependant on the ability of the social partners to jointly establish, through discussion and compromise, a predictable and sustainable politico-economic, social and ecological environment that is conducive to competing for and attracting regular and economically significant local and foreign investment in a variety of high value-adding target industries and service sectors. This investment will provide remunerative and fulfilling work that will contribute directly and sustainably to the betterment of the quality of life and standard of living of our citizens.”*

---

There seems to be inherent agreement by the parties that we must not and indeed cannot, focus out ability to compete on the availability of low cost unskilled or semi-skilled labour. However the proposed Draft is clearly suggesting that the hindrances to our competitiveness are primarily the cost of labour and inflation. We believe that Malta's competitiveness structure vis-à-vis labour cost (and related skill-base) cannot be changed in the very short term, and therefore it is inevitable that in the coming years the country will experience further industry-specific redundancies. Our ability as a nation to counter-act the negative consequences of these job losses is dependent on the level of social support that the state can afford and our ability to retrain the persons made redundant in skills and abilities that are relevant and valuable to the target industries and sectors we seek. As a nation we must ensure that the unemployed receive adequate financial support if they show willingness and enthusiasm to acquire new skills during their time in unemployment. The greatest risk we face is not that more people are made redundant, but that because of the lack of an appropriate strategy for dealing with unemployment, the unemployed become unemployable!

*None of the social partners can credibly guarantee anyone lifetime employment, but with the right social and educational support structures we can guarantee every capable, responsible and enterprising citizen lifetime employability.*

The report correctly refers to the importance of maintaining price stability. We recognise that the government has a number constraints in this regard, namely

- The burgeoning fiscal deficit has limited the government's ability to make any rash promises to contain increase in both direct and indirect taxation. In is the opinion of AD that in the short-term government is not going to be able to realistically commit to not increasing taxes. We recognise the political and economic importance, and contractual necessity of eventually adopting the euro. Before this is possible our fiscal deficit and national debt must fall within

---

the thresholds stipulated within the Growth and Stability pact. *Therefore we believe that before any rash commitment is made not to increase taxes, government must have established a detailed and realistic financial plan (for the same period to be covered by the social pact) that shows unequivocally how the fiscal deficit and debt levels are to be reduced to the target 3% and 60% of GDP respectively.* It is important that in the social pact nothing is over-promised because it is more than likely that, as oftentimes happens, after some time we would all have to admit to having under-delivered on our promises!

- Whilst monetary policy (primarily through the setting of interest rates) can currently be leveraged to affect price inflation, with our eventual adoption of the Euro, we will lose all ability to use monetary policy which will then be within the exclusive remit of the European Central Bank, and
- The ability to reduce the cost of services and products provided by public utilities and entities is severely limited because of the financial dire straits in which many public companies are facing due to irresponsible management and outdated working practices found in many of these companies. These companies will soon have to face reality and undergo severe restructuring. What can be stipulated in the social pact is until such time that these utilities have either been privatised and/or restructured, and apart from any uncontrollable externalities (e.g. price of oil), prices set by public utilities for business will only increase by an industrial prices inflation measure (to be set jointly by MITI and Employers' Association). We recommend that for specific target industries in infancy stage, Malta Enterprise should be in a position to subsidise public utility prices in order to nurture these industries until such time that the same public utilities are in a position to offer competitive prices directly to business.

We believe under such conditions the government can take more direct action to contain other possible price increases. Specifically the following can be indicated,

- 
- The Office of Fair Competition must undertake regular investigation to ensure that no price collusion is being undertaken amongst any public or private entities.
  - All the anticipated decreases in the prices of imported products resulting from the removal of levies and “double duties” as from 1<sup>st</sup> May 2004, must be passed on to consumers via lower retail prices. **Any blatant abuse must be revealed and corrected – profiteering should be punished!**
  - Government should step-up controls on the evasion of VAT, which has the double effect of keeping retail prices artificially high and cheating government out of its most legitimate revenue i.e. that actually paid for by the consumer. AD supports government in full on any inspective and investigative measures that it may undertake to collect VAT in full. We believe that VAT is the fairest taxation being a tax on consumption rather than a tax on earnings. **The culture of an open cash register must be stamped out!**

## **PRIORITY 2 - INCREASING THE EFFICIENCY OF THE LABOUR MARKET**

Overall we believe that this priority is well tackled in the report, however we would like to refer to the section entitled “Developing the right skills base”, in order to develop an issue that we feel warrants particular attention i.e. the lack of a national industrial policy.

### National Industrial Policy – The Key to Increasing Labour Market Efficiency

The growth of the industrial manufacturing base in the late 60s and early 70s was done on the back of promoting foreign direct investment in industries that were labour intensive, whilst local industry grew on the back of protectionism and the policy of “import substitution”. Further Malta achieved a level of competitive insularity from the fact that many of its potential competitors were locked away in the Eastern European Block. Following the liberation of Eastern Europe from

---

totalitarian communist rule, overnight we were faced by a multitude of competitors who could offer, lower labour costs, cheaper raw materials and in many cases a more educated and better trained work-force. We believe that during this time Malta was caught “star-gazing” and whilst celebrating the newly founded freedom of our European family in the East, as a country we were not sharp enough to recognise this new threat and plan proper defensive action.

The nineties witnessed a severe restructuring in export-oriented manufacturing particularly the closure of several textile firms. Our national industrial policy (even though never formalised) was in disarray, because we were unsure on how the downsizing in many industries would affect the labour market. However the growth in service industry, particularly in the retail/wholesale, tourism and financial services sectors took up a lot of this slack. It is worth noting that the expansion of the University was instrumental in enabling this structural change in the county’s labour force to happen with a minimum of social consequences. On the negative front we note that during this time very little was carried out to restructure public entities apart from the privatisation of a number of Malta’s most successful parastatal corporations. The consequences of this are being felt today in the drastic emergency restructuring programmes that these parastatal companies are being subjected to. Whilst AD agrees that it is best for all the social partners to recognise, deal and compromise on the required restructuring processes, we feel saddened that the persons who responsible for blatantly flawed strategic decisions in many of these entities are not held to account, and in some cases a number of them are either holding elected office or seeking it!

In the late nineties and in the early years of the 21<sup>st</sup> century, it was obvious that the threat was now coming from the dynamic, unregulated and heavily populated countries in Asia. Further the local situation was exacerbated by the global economic recession in the last 4 years and the escalation of terrorism throughout the world. At this point in history AD believes that the country desperately needs to redefine and establish a national industrial policy for the next 20 years.

---

An industrial policy will determine what our core competences as a nation are i.e. what we are capable of doing and doing better than others, taking into account our educational, geographic, politico-economic and social structures. It is useless promoting large industries if we do not have the right skill base, infrastructure and adequate financial resources. Consequently the industrial policy will enable us to channel resources into the promotion of the industries and sectors in which we know, rather than feel, Malta has (and can continue to sustain) competitive advantage. What AD is advocating is not a form of socialist industrial planning, but a recognition that it is not possible (and arguably was never so) to compete in too many business sectors, but rather identify, target and invest in those areas in which *realistically* we know we can excel. If our marketing efforts (via bodies such as Malta Enterprise and MTA and now the Ministry of Foreign Affairs) are not properly targeted, we will be spreading our limited resources too thinly and we risk failing to attract any significant investment. In simple marketing terms, we urgently need a national exercise in segmentation, targeting and positioning.

We believe that without a national industrial policy, we cannot tackle the problems in Labour Market Efficiency in a structured and focused manner. Indeed we believe that without a National Industrial Policy, a Social Pact would be too unfocused to achieve one its primary objective i.e. coherence, agreement and synergy in industrial, economic and social policy. We welcome the inclusion of foreign investment within the portfolio of the Ministry of Foreign Affairs.

Apart from the very valid suggestions made in this section of your report, we would like to add the following,

- Childcare facilities should be organised as a Private-Public partnership between interested private sector operators and local councils. These would achieve the social objectives of easing the commuting for parents between, home, work and centre, as well as the economic objective of providing the local councils with additional funds to channel into other local projects.

- 
- Whilst AD welcomes the suggestion on Apprenticeships, we feel that this would be more beneficial if specific apprenticeships programmes were arranged for the unemployed. This would enable the long-term unemployed to gain on-the-job training in new skills, whilst minimising the cost to the sponsoring employer. What unemployed people need is a social assistance program for the short term and a skill set and CV for the longer term. We believe that, apart from proven and valid medical and psychological conditions, and the existence of a basic “safety net” for the unemployed, participation in these apprenticeships programmes should be conditional for these persons to be entitled to supplementary unemployment benefits.
  - We believe that short courses for the unemployed do not supply the unemployed with adequate skills to compete on the job market. What are needed are intensive courses, followed by apprenticeships and continuing day-release tuition for updating of their skills and knowledge.
  - The report is courageous in referring to a change in the University and Junior College “stipend” system as a tool for channelling our educational efforts into industrially relevant careers and professions. AD does not agree with “numerus clausus” provisions and or the lowering of any of the existing stipends, which we feel was one of the major social achievements of the last two decades. What we advocate is that **Malta Enterprise** retains a fund to provide additional financial incentives to students embarking on educational programmes/degrees, which **ME** considers crucial to the attainment of its objectives, in line with the National Industrial Policy. These funds are to be extended to students attending **ITS** and **MCAST**, as well as any other educational institution that ME approves.

### PRIORITY 3 - PROMOTING INNOVATION

AD believes that innovation is the area that has the greatest potential to stimulate growth in the Maltese economy. In a country without physical natural resources it is

---

the nurturing and fostering of intellectual power and creativity that can enable a country to maintain healthy and sustainable economic growth. The statistics presented in your report are somewhat alarming, but not surprising considering the almost total absence of a national culture towards innovation and creativity.

We believe that whilst the Maltese individual is capable of showing extraordinary innovation and creativity, as a nation we lack the teamwork culture and correct infrastructure to assist creative individuals in taking their ideas from their “garage” to the market. Creativity is a spark within the human mind, but the success of one’s creativity depends on the existence of an entrepreneurial class that is capable of commercialising innovation. The culture of real entrepreneurship in Malta in the past decades has been very inward looking, being based around the importation of global brands, high street retailing and the growth in construction and related property speculation business. These business activities may require considerable business acumen, but by their very nature they are relatively risk-free and require minimal innovation if any at all. The export side of commerce was left to foreign multinationals that were given the necessary resources (e.g. cheap factories) and fiscal support (e.g. tax holidays) to use Malta as a manufacturing base for export markets, on the assumption that they would employ the Maltese. We note that in the past twenty years, very few Maltese businesses have tried to develop a serious export orientation to their business. However those companies that have successfully managed to build an export market (e.g. Foster Clark, GFI) have done so because of product, service and marketing innovation.

In addition to your valid suggestions, we wish to propose the following structured approach to fostering innovation.

- A national strategy on Innovation must include service and process innovation as well as product innovation.
- Innovation must be financially supported in line with the National Industrial Policy as detailed in the previous section.

- 
- Our primary and secondary education systems should foster the learning of science subjects, and creative thinking should be encouraged through the national minimum curriculum.
  - The definitive link between Industry + Education + Enterprise + Capital, has to be made.
  - The University should develop part-time evening and/or day-release courses in Entrepreneurship and Business Planning for prospective innovators, who have the creativity and technical skills but the business organisation skills.
  - Action must be taken to make Venture Capital Funds available to innovators who have come out with a valid product, process or service in order for the innovation to be properly commercialised. Considering that numerous Maltese investors risked and lost several million liri in the bubble bond markets of Argentina, it is a pity that the local creative entrepreneur has virtually no access to any risk capital. Fiscal incentives should be introduced for investors and/or financial institutions that build/contribute to venture capital funds.
  - We believe that Venture Capital Funds should not be controlled by government or public entities. This will create more bureaucracy and foster lethargy as witnessed, for example, with the Venture Technology Fund that was proposed in the budget for year 2002, but still hasn't quite taken off.
  - Government should provide full funding for the registration of Malta-made intellectual property rights, including patents in the EU patent office.

In addition we would like to emphasise that innovation should not be construed only as that relating to industrial products. The Maltese economy is dominated by the service sector, and we would like to see a drive in innovation in services, which we believe hold the key to future economic growth. We believe there is much scope for innovation in the following service sectors,

- 
1. Financial Services (best left to operators who are innovation and professional)
  2. Port and Shipping Operations (a sector strained by a few selfish interest groups)
  3. E-gaming (a sector crying for regulatory stimulus/support by banking sector)
  4. Logistics, Purchasing & Trade (Duty Free + North African trade route)
  5. Travel (Air travel, Cruise Liner Business)
  6. Tourism & Hospitality (including promoting Malta as a retirement centre)
  7. HealthCare (leveraging our medical profession and Mater Dei, once complete)
  8. Back Office Operations (very neglected in our opinion)
  9. Education (Language tourism & University of Malta)
  10. E-commerce (with an emphasis on the opening markets of North Africa)
  11. Product Market Testing in Malta (an EU country, the size of a European town)

The above list is certainly not exhaustive, but we believe that a serious drive to stimulate these sectors could accelerate economic growth and provide the right kind of employment opportunities.

#### **PRIORITY 4 - TACKLING BUREAUCRACY**

The high level of state bureaucracy in Malta is a result of a civil service that was for generations working within a British system that relied on a never-ending chain of form-stamping, from which we never evolved. This was further exacerbated by a local culture that does not foster responsibility, ownership and accountability for decisions taken.

We must admit to disagreeing with some of the solutions proposed in this section of your report. Whilst we agree fully that bureaucracy is stifling initiative and creating useless costs and burdens on business, we disagree that bureaucracy should be

---

tackled either by instituting any new government department/unit or through the action of a government ministry. Using bureaucrats and/or bureaucracies to tackle bureaucracy is an effort pre-ordained to failure. Our solutions to the bureaucracy issues are concise and prescriptive and include,

### **Attracting Foreign Investment**

When dealing with potential foreign investors Malta Enterprise should allocate a Customer Relationship Manager who is sufficiently knowledgeable and properly empowered to deal with each and every request made by the potential investor(s) without sending the investor on a wild goose chase from one government department to another. It is not only ME that needs to be a one-stop shop, but every Customer Relationship Manager must be act as a one-stop shop.

### **Dealing with Local Bureaucracy**

Regarding bureaucracy faced by existing operators in our economy we believe that the solution must be simplified. A small task force (max. 6 persons) could be set up that is representative of the social partners that should be entrusted to survey and collect from members a short(?) -list of the day-to-day bureaucratic issues they face. Every bureaucratic measure identified can be classified into three categories and dealt with in the following way:

1. **Useful Bureaucracy.** (e.g. Pharmacies filling in forms to report on dispensation of narcotics)

**Solution - Rationalise and automate** (e.g. e-enabled filling)

2. **Bureaucracy we must have.** (e.g. Every SME is now filling statistics forms)

---

**Solution** - *Minimise the effort within the parameters of the law.* (e.g. There is no need for all SMEs to do so. Sampling within sectors and extrapolation will do the job just as well)

3. **Useless Bureaucracy we do not need.** (e.g. Every individual must have an Income Tax Number and a Social Security Number)

**Solution** - *Eliminate immediately* (e.g. eliminate the social security number)

The above system might seem simplistic, but any complex solution to reducing bureaucracy is an oxymoron!

In particular we note that as a member of the European Union, Malta will be faced with an increasing number of laws/regulations that are conducive to creating more bureaucracy. On a quarterly basis the task force should meet to review any new bureaucratic measures that government is proposing to introduce and these measures should be passed through the categorisation procedure detailed above.

Whilst AD strongly advocates that Malta becomes and remains respectful and adherent to EU regulations, as a nation we must be able to understand the spirit of EU laws and we must be able to clearly distinguish between being law abiding and law compliant!

We cannot help but agree with your comments about the oftentimes irresponsible and sometimes scandalous manner in which the Auditor General's reports are being systematically ignored. Follow-up from the Auditor's report needs to become truly mandatory with specific timeframes for rectification/action of points noted. In the years to come, the government will be asking every Maltese citizen to make sacrifices in order for the country to improve its fiscal position, economic performance and social infrastructure. No government can have the moral authority and rectitude to

---

demand sacrifices when it refuses to comment (let alone act) on internal audit reports that reveal situations that, if applied to the legal responsibilities of a company's directors, would be considered criminal.

#### **PRIORITY 5 - A STABLE ECONOMIC FRAMEWORK**

The Maltese economy is an open economy, meaning that we have little insularity from the economic, social and political changes that are happening around the global. It is ironic that the major impact on the global economy in the last two years has been the criminal and barbaric acts of a long-forgotten but soon remembered group of Islamic terrorists living in barren mountains of Afghanistan. The developed world was used to (and to an extent had acquired some expertise in) dealing with economic crises that were brought about, in the past thirty years, by a "scarcity" of oil.

The Malta Government and the majority of the social partners have accepted, by voting for membership of the European Union, that globalisation is the way forward. Perhaps as a nation we have been somewhat naïve in not realising that globalisation carries a number of threats to economies that lose speed in the global economic race. The developed world has lost speed in the past 5 years, whilst the developing economies of Asia have accelerated their pace. Whilst this phenomenon contains an ironic element of global economic justice, as a result Europe and the US have become very sceptical of their ability to sustain target real rates of economic growth of between 2.5% - 3.5%, without resorting (at least in the case of the US) to excessive deficit spending and/or unsustainable tax cuts. As a nation our ability to maintain healthy economic growth rates is currently in severe doubt, definitively so if we factor in the excessive, and in our opinion, artificial wealth being "created" by yet another property boom.

---

As a political party we believe that the nation-wide idea (promulgated since independence by successive governments) that the construction industry and property speculation are the backbone of our economy is false. This has brought about a culture that stifles and discounts personal initiative, creativity, enterprise and hard work, whilst fuelling the culture of “get-rich-quick-at-all-cost” and encouraging illicit commercial exploitation, tax evasion and environmental degradation.

On a positive note, AD firmly believes that the major economic benefit of membership of the European Union is the stability in economic affairs that the Union advocates, most notably the fiscal discipline that is promoted. Whilst one can argue that of late this discipline is being eased (perhaps unfairly in respect of the German and French economies), it must be remembered that up to ten years ago, many countries in the Union were suffering from unsustainable budget deficits, double-digit inflation and nation-wide recession. The European Union has not made Europe immune to recession, but it has certainly helped to cushion the social impact that successive recessions in the early 70s, 80s and 90s had brought about. This the EU has managed generally through fiscal and monetary conservatism and more specifically through the mechanism of Cohesion and Structural Funds, as well as the overriding principle of Solidarity amongst the people of Europe.

We recognise that the major barriers to achieving a stable economic framework are:

- Primarily we believe the government’s fiscal deficits registered over the past eight years (resulting in a tripling of national debt) have placed enormous strain on economic growth. Indeed following the last budget, the share of government spending as a percentage of GDP has surpassed the 50% mark – in reality government’s activity in the economy now accounts for more than half of all economic activity. What is more worrying is that this deterioration in public finances is happening in an environment where the ability of the state to provide free universal healthcare, education and other basic social services is clearly in doubt. **Government must produce a financial strategy for the**

---

next six to eight years in order to explain to the social partners how it intends to rein in the excessive budget deficit. AD believes that one of the three barriers that can hinder the success of the Social Pact is the fiscal deficit. This can be tackled with the creation of a medium term financial plan for government. Without this, the social pact will become an exercise in intention – a futile wish list, rather than a serious and committing endeavour in arriving to a mutually agreed *modus operandi* on how to tackle our country's most urgent challenges.

- Our ability, as a nation, to adopt the Euro, which in turn is dependent on the government's ability to reduce the fiscal deficit and national debt to 3% and 60% of Gross Domestic Product, is crucial to the achievement of a stable economic framework. Whilst adopting the Euro will necessitate that our Central Bank cedes almost all monetary sovereignty to the ECB, we believe that ultimately The Euro will bring about a more stable economic environment, by easing the existing burden on our current account deficit, containing inflation and interest rates and ultimately supporting our economic growth. Malta must never have to resort to currency devaluation as a mechanism to fend off a looming economic crisis.
- On a medium- to long-term basis, government's involvement and participation in the economy must be reduced. Government spending of more than 50% of GDP is unsustainable in an open economy, because what is happening at present is that, rather than facilitating private enterprise the government is competing with them for resources, mostly human resources, resulting in crowding out.

## **PRIORITY 6 - ENHANCING OUR TOURISM PRODUCT**

AD acknowledges that the area of growth in Maltese economy is in the service sector, the most important of which is undoubtedly tourism, our largest "foreign currency earner" and largest employer. We commend the points that you have raised in this

section, with the assistance of Dr John Grech who has first-hand knowledge of the major issues in tourism.

AD is currently revising its policy on *Tourism and Hospitality*, in which we are studying various innovative policies to improve and widen the marketability of *Destination Malta*. Within the coming months we will be communicating our report to all interested bodies.