

Following EU accession in 2004, Malta had to harmonise its standards and practices with those of the EU. Developments in the Maltese Industrial Relations scenario of 2005 and 2006, the years under review in this report, have to be viewed within the context of the policy options which Malta decided, or was forced to adopt, in this harmonisation process.

A Changing Social and Economic Landscape: *A Review of 2005 and 2006*

Tightened Monetary Policy

Prior to EU accession amendments to labour law were made to bring Maltese legislation in conformity with the *acquis communautaire*. The Lisbon Agenda aiming at enhancing employability and increasing the activity rate of people in the labour market was also at the centre of government's labour market strategy. However, the main policy option adopted by the Maltese Government to move Malta towards a higher level of integration with EU was the entry of Malta into the Exchange Rate Mechanism (ERM), on 2nd May 2005, just one year after EU accession. This was later followed by government's decision to join the European Monetary Union (EMU) by targeting to adopt the euro as Malta's legal currency in January 2008. These decisions, albeit being the cause of controversies by economic and social analysts, provided a new impetus to the Maltese economy to be in line with the European model as defined in the Maastricht Treaty. The achievement of the convergence with the Maastricht criteria, listed as prerequisites for EMU membership, became the top priority of government's monetary policy.

The changes induced by this EMU framework could not avoid having an impact on industrial relations. EMU membership entails a strict commitment to maintain a non-inflationary economy. In its vigorous pursuit of this deflationary policy aimed at reaching the EMU Stability Growth Pact by 2007, the government was forced to curtail its former spending policy. Part and parcel of the new policy entailed a reduced recruitment level

in the public sector¹, conducting a restructuring exercise in state owned and financed enterprises and privatising some of the public utilities such as telecommunications. In its wages policy the state also attempted to introduce some austerity measures by calling for a moderation of wage increases. The Central Bank of Malta reports that in 2005 the rate of wage inflation, compared to that of 2004, registered a reduction of 0.8%.²

New Social Compromise

As this tightened monetary policy reduced drastically the room of manoeuvre for adjustments mechanism by the state, the trade unions felt that wage policy was being determined by forces alien to labour. As workers could no longer be assured of ever increasing their economic gains in collective bargaining, the maintenance of the purchasing power of the workers' pay packet became the main preoccupation of the trade unions. Thus the post-EU membership scenario of industrial relations in Malta gave rise to a new form of social compromise.

What made this compromise new was that in collective bargaining, trade unions were constrained to be more concessionary and flexible so as not to be accused of hindering the promotion of the competitiveness of a micro state in a stage of transition. As representatives of the workers, they had to be part of the solution in fending off the ominous threats to the competitiveness of Maltese industry. These pressures were particularly felt in the manufacturing sector, which has always been one of the strongholds of trade unions.

This does not mean however that the trade unions throughout these two years have been in a totally acquiescent mood. They exhibited resolute firmness in their rejection of claims made by employers for less rigidity in the labour market that might translate into a revision of protective measures in labour legislation. In this debate about the rigidities of the labour market, flexicurity has become a key word. Employers argue that in order to put into practice the principles of flexicurity, some relaxation of the employment contract, as promulgated in labour legislation, may be necessary. This type of discourse may make trade unions wary of this concept as they fear that its implementation may make it easier for employers to sack workers or eliminate benefits. By the same token employers fear that flexicurity may be equated with more rights for workers and increasing burdens on employers. Rather than providing

1 *Over a period of one year the number of public sector employees decreased by 2,188 (4.8%) from, 45,221 (July 2005) to 43,033 (July 2006). Central Bank of Malta Quarterly Review 2006:4 page 26)*

2 *Central Bank of Malta 'Annual Report 2005': p.39*

an opportunity for the social partners to find common ground, the issue of flexicurity seems to reinforce the 'us' and 'them' dichotomy between representatives of capital and labour.

Another issue which was a source of bickering among social partners throughout these two years was the curtailment of public holidays. This meant an average of an annual decrease of four days vacation leave for workers. In the budget speech of 2005, the government announced that no vacation leave in lieu would be given for public holidays falling on weekends. Despite trade union resistance to amendments to this effect in the Employment and Industrial Relations Act (EIRA), government amended the National Holidays Act. By this amendment, public holidays falling on a weekend were no longer to be added to the leave entitlement of employees. Government declared that this measure was necessary in order to give a boost to industry by adding an average of four productive working days every year.

On the other hand the General Workers' Union (GWU) claimed that this amendment bypassed the collective agreement process, and presented its case to the ILO. In its ruling, the ILO stated that the Act under which the amendment was made is not in conformity with the spirit of the conventions (Number 87 and 88) that promote and protect the principle of negotiation and collective agreements. The government, backed by the employer associations, is insisting that it will retain the amendment for the sake of higher productivity. On its part, the GWU is contending that clauses in collective agreements could not be overruled by a legal amendment, which according to the ruling of the ILO is an infringement of the right of freedom of association and collective bargaining. The impasse over this issue was still not resolved by the end of 2006.

It might be argued that the social dialogue mechanism, based on the exchange of views, did not contribute either to facilitate successful negotiation processes or to encourage consensual or positive sum interactions among the social partners. In other words, in the so called new social compromise, the fundamental differences have not been dissolved and a spirit of mistrust has continued to prevail over consensus.

The Lessons to be Learnt

The lessons to be learnt from the experiences and events of 2005 and 2006 are twofold: (a) A new perspective of social dialogue is needed to complement the spirit on the new social compromise and (b) Malta needs to adopt a more European outlook in its industrial relations system.

(a) A New Perspective to Social Dialogue

The underlying basis of social dialogue is an acknowledgment by trade unions and employers of the existence of a fundamental reciprocity that could lead them to find common ground. Through their labour, workers have to create added value. In return these workers expect that the wealth generated by this added value would provide them with an adequate system of social protection and a level of affluence to enable them to cope with the ever increasing demands of a consumer society. To address these diverse but at the same time complementary needs, social dialogue has to engage in a continuous joint exercise by the trade unions and employers to monitor economic growth and social progress. Such an exercise can be conducive to building trust relations between the Maltese social partners, something which does not seem to be manifest in the contemporary Maltese industrial relations system. High trust relations cannot be generated by appeals shrouded in rhetoric but by building an infrastructure that can serve as a solid base to an effective social dialogue.

Good examples of such an infrastructure are the Dutch and Irish systems of social dialogue. The academic staff of the Centre, together with members representing the social partners, were able to acquaint themselves with these two systems during study visits, organised by the Centre, with the kind support of Friedrich Ebert Stiftung (FES), to these two countries. The institutional framework of social dialogue in each of these two countries embraces a number of advisory and consultative bodies to supplement the work of the tripartite national body of social dialogue. In the Dutch system, government's representatives on the Social and Economic Council (SER), similar in its functions to the Malta Council for Economic and Social Development (MCESD), are not civil servants but persons specialising in the fields of economics, law, finance and sociology. The presence of professional experts on a multi-disciplinary structure enhances its profile and at the same time reinforces its legitimacy.

(b) A More European Outlook

Even before EU accession, Malta had transposed most of the EU Labour Directives. The recent transposition in Maltese law of Directive 2002/14 EC (via Legal Notice 10 of 2006) establishes a general framework on Information and Consultation. This legislation gives employees the right to be informed and consulted about developments in a firm's activities, employment and substantial changes in work organisation or in contractual relations. What is really striking about this transposition and other EU labour directives is that, so far, they have failed to generate any national debate.

The reason may be that the Maltese trade unions do not tend to show the same level of concern about the procedural issues of industrial relations as they do about the substantive ones. One such example is the national concern about restriction of working time. Maltese trade unions, being work-based in structure and traditionally more dedicated to collective bargaining, are wary of institutionalised forms of workplace representation. They are still attached to the role of the shop stewards as their workplace representative. In the institutionalisation of workplace representation through EU Directives, they see the possibility of a limitation of their autonomy and interference in the bargaining role.

This perspective, possibly being part of the legacy of the British system of industrial relations upon which Maltese industrial system is based, is more geared to solve conflict than to build consensus. Industrial Relations systems are already under immense pressure as a result of the pace and tempo of globalisation and this is likely to increase with new production technologies and associated patterns of rationalisation. The European model of industrial relations seems to be better geared than the British one when it comes to coping with the exigencies of the new developments. A shift towards this former model would make the Maltese more European in outlook as well as in spirit. The transposition of EU directives into Maltese law has not so far brought about this shift: the harmonisation towards Europe seems to be more a matter of form rather than substance.

Conclusion

In response to the demands of competitiveness, which entailed rigorous fiscal and monetary measures, a change occurred in national collective bargaining. Trade unions were asked to make more and more concessions. However this concessionary bargaining took place within the same old structure, which consists of a ceiling in the form of workers social rights and a floor ensuring minimum standards. In between these two top and bottom levels, the social partners had enough room to manoeuvre to find a *modus vivendi*. The compromise suggests pragmatism and realism.

One recent change at the national level of social dialogue is the introduction of the pre-budget discussion meetings among the social partners with the Minister of Finance. These enabled the social dialogue mechanism to exert influence at a prior stage and hence enlarge the range of options available. Nevertheless, overall, the negotiations at this level do not engender the required high trust relations among the social partners. Specific measures need to be taken in order to facilitate such high trust dynamics. Providing an appropriate support structure to social dialogue and changing the composition of the MCESD can go a long way towards achieving this objective. The new social compromise has so far not spurred the actors to change the tools of their trade.

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