



Raising the Minimum Wage

Introduction

Despite the growth in the economy, not everyone is benefitting from the economic boom, a fact that government itself has admitted. Malta is witnessing worrying phenomena like poverty, social exclusion and a decrease in the real wages and purchasing power of people in low paid jobs. Indeed, a chasm is being created between those who are thriving and those who are struggling to make ends meet, with the financial, psychological and human suffering the latter entails. Especially for those in the lowest-echelons of society, trickle-down economy may not work, a fact that the Prime Minister himself has admitted. We are ending up in a situation where those in ‘the lowest echelons of society may gain nothing’¹ from economic growth. This requires that the state intervenes to correct the failures of the economic market.

This document aims at making suggestions regarding a group of people that is generally not thriving at the moment, hoping to enhance the well-being, dignity and situation of members of this group. The group in question are employees who are on a minimum wage. Obviously, they are not the only group that is facing difficulties in the current situation, and our proposals should not be misinterpreted as suggestions aimed at solving all social ills, even for members of this group. If our suggestions are implemented it would only be a small step in relation to one issue in particular, which steps should be comprised in a wider program aimed at creating social justice and enhancing the well-being of the least well-off in society.

Minimum wage – the basics

- As things stand, employers are bound by law to pay their employees a minimum wage.
- Minimum wage is the minimum amount of money that employers are legally bound to pay employees per hour.
- COLA², which is a compensation received by every employee, is not in itself an increase in the minimum wage even though in practice, every wage is increased as a result.
- Minimum Wages in Malta vary according to age and sector. The lowest minimum wages payable in Malta are:

¹ Joseph Muscat on TV program *Hu Siggju*, 19th April, 2016, One TV

² The cost of living adjustment, calculated on the basis of the mechanism agreed with social partners, will be of €1.75 per week and will be received in full by pensioners and persons on social benefits. As a result, the minimum wage shall increase from €166.26 to €168.01 per week.



- Age 18 years and over - 168.01 Euros per week for a 40 hour week (4.20 Euros per hour)
 - Age 17 years – 161.23 Euros per week for a 40 hour week (4.02 Euros per hour).
 - Under 17 years – 158.39 Euros per week for a 40 hour week (3.92 Euros per hour).
 - National Insurance is subsequently deducted from these amounts.
- Minimum wage established in 1974. For many years, the value of the minimum wage in Malta has not been revised except through COLA (cost of living adjustment). This stagnation failed to reflect changes in the living standards and needs of the Maltese population.
 - The current minimum wage then, is clearly not enough to allow the families of lowest paid workers to meet their basic needs, especially considering the ever increasing cost of living (ex. rent, food etc.) This is evident if one considers the (very conservative) basket of goods required for decent living published by Caritas (A Minimum Essential Budget for a Decent Living – 2016). The minimum wage is glaringly insufficient if one considers the price of property (even the most basic) and rent.
 - In 2015, there were 18,625 employees on minimum wage. Of these, only 3,241 are employed on a full time basis.³
 - Organisations working on social issues, trade unions and even some economists believe that the minimum wage ought to be revised.

What we are proposing

- That, in addition to the Cola, the Minimum wage increased by 3.5% for three consecutive years. According to the economist Karm Farrugia, econometric data related to Malta's economic performances suggests that, given the positive performance of this economy in the past few years, our economy can sustain a 10 to 12% increase in the minimum wage. To prevent tremors however, this increase could be spread over three years; with the minimum wage increasing annually by 3.5%.
- That the mechanism through which Cola is assessed be revised to faithfully represent the cost of living.
- That mechanisms concerning tax-bands and benefits aimed at protecting those who earn least, are automatically adjusted to reflect the new minimum wage.

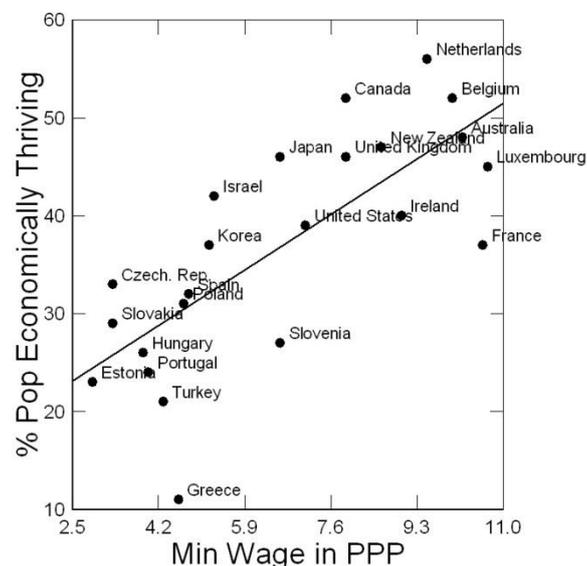
Arguments for Raising the Minimum Wage:

- Every employee is entitled to a decent wage, regardless of one's employment status.

³Annual Labour Force Survey 2015.

- An increase in the minimum wage is a step towards a fairer society where wealth and resources are better distributed.
- Raising the minimum wage will lead to a general increase in wages, especially in the lower-income brackets. The latter would have an overall positive effect, since wages in Malta are generally low.
- Increasing the minimum wage will not necessarily mean that the economy will stop growing. A number of countries where the minimum wage was increased have also witnessed an economic boom.

The Minimum Wage and Economic Well-Being



4

- Increasing the minimum wage will have a positive domino-multiplier effect, since it will result in increased spending, thus leading to a greater circulation of money in the economy.⁵
- Many economists think that the effects that a moderate increase would have on the costs of most firms and on the growth of employment in an economy is minimal.⁶
- The main sources of foreign investment (financial services, on-line betting etc.) are not attracted to Malta by the low remuneration they are bound to pay by law, but by laws and

⁴ www.scholarsstrategynetwork.org/brief/evidence-higher-minimum-wages-improve-economic-wellbeing

⁵ See Melchior Vella, 'The Effect of Minimum Wage on Employment in Malta' in *Bank of Valletta Review*, Number 49, Summer 2014

⁶ See for instance www.timesofmalta.com/articles/view/20160531/opinion/Higher-minimum-wages.613833,



fiscal incentives which make Malta financially attractive to such ventures. Hence increasing the minimum wage will not affect Malta's competitiveness in this area.

- The construction industry and tourism, which are labour intensive industries but generally local, will not move elsewhere if wages are increased. Moreover, these are sectors which in the past few years have experienced growth and prosperity, so most of the businesses involved can afford to pay more decent wages.
- Even with regards to business, studies show that increasing wages can decrease worker turnover (which can be quite costly in certain sectors) and enhance productivity.⁷ Moreover, such increases will augment the disposable income, which will likely increase the demand for a variety of goods.
- If what remains of the manufacturing industry finds the low level of wages attractive and an incentive not to consider moving elsewhere, government might consider fiscal and other incentives that would offset possible effects that raising the minimum wage might have on the attractiveness of Malta to such industries.⁸ Analogous remedies may be put in place in relation to small firms that may be similarly affected.
- If the minimum wage is not adjusted to current needs and requirements, there will be a disincentive for people who are on welfare to seek employment.⁹

Coda

Though our campaign focuses specifically on making the minimum wage a living wage, one should note that there are categories that are on the verge of poverty and whose income does not provide them with the means sufficient to enjoy adequate living.

Also, regarding minimum wage, government should be vigilant in relation to illegal employment, and see that employers do not actually pay wages that fall below the minimum stipulated by law. This is especially so in relation to some migrants who are in a vulnerable position. These ought to be employed regularly, and enjoy the same duties and rights as other workers, including the right to the legally-stipulated minimum wage. This will protect them from exploitation, and other workers from unfair competition.

⁷ See for instance <https://hbr.org/2006/12/the-high-cost-of-low-wages/ar/pr>

⁸ Similar measures may, following assessments and audits, be applied to small local firms who are finding it hard to break even and might face similar financial difficulties.

⁹ *Ibid*