



# The living wage pretext to alienate people



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**W**ith Georgieva and her Cabinet, I held meetings to discuss the way forward on the negotiations in Council ahead of the Maltese Presidency of the Council of the EU in relation to the OMNIBUS Regulation, which entailed the revision of 15 pieces of legislation, including a full-fledged revision of the financial regulation of the EU, considered as the bible. The way the Financial Regulation of the EU is designed does not provide enough flexibility to manage the EU Budget in a moment of such a grand scale crisis.

Georgieva knows quite well how the EU budget functions including the Multiannual Financial Framework. She gave a comprehensive overview of the economic woes that are yet to occur also vis-à-vis the European economies. The IMF chief did not rule out a global recession and mentioned that the shortages of gas supplies in Germany can risk bring down the economy. The Ukrainian war is compound-

Last week, I was reading with great interest the interview of the IMF chief Kristalina Georgieva with whom I had the opportunity to meet and exchange ideas when I was posted in Brussels, and she was still Commissioner for Budget, before resigning towards the end of 2016

ing the problem due to shortages of gas supply and the rapid increase in prices of basic commodities. This is exerting pressure on many western economies, which by their own definition are not antifragile to deal with such a crisis. In normal times, the cure to solve the problem of inflation is normally monetary policy. In fact, the Federal Reserve embarked on an aggressive monetary policy programme imposing interest rates hikes to tackle expected inflation. However, the cure is leaving many injured, which means it might not be the correct one. As I explained, repeatedly, the problem is a supply side problem and we are also risking a global famine due to food security, unless the 20 million tonnes of wheat are not released from the Ukrainian depots.

Inflation is rapidly eating away workers' disposable income. Normally, workers receive the cost-of-living adjustment a year in arrears. This is creating a situation where social tensions are already being felt on the ground because prices are becoming too expensive relative to workers' disposable income.

On the other hand, European policymakers are using the pretext of the living wage concept to alienate the electorate. The living wage is a beautiful concept advocated by the former British Labour Party Leader and Leader of the Opposition Ed Miliband, in 2009, to provide a decent income to Londoners. It has been shelved for over a decade, and each time we have a crisis, of any form, populist exponents pronounce and position them-

selves as the discoverers of a philosophical cure, which to their dismay has been around for quite a long time. Unfortunately, the treatment has been left to perish when our policymakers, knowingly or unknowingly, left the prescription on an unreachable shelf. The idea of the living wage is beautifully crafted, but as policymakers our difficulty lies not so much in developing new ideas to solve our own economic problems but in escaping from old ones.

At this point in time, it is no longer possible to convene a discussion on the living wage.

It is impossible to solve the problem of the erosion of disposable income given the rapid change in prices in an unstable political and economic context that is fuelled by the Ukrainian war. We cannot ascertain which policy prescription our authorities must pursue to tackle the surge in prices and to provide a decent level of income to our workers unless we have a stable political and economic environment. Sadly, the most affected are the pensioners, minimum wage earners, students and low to middle income earners.

The war is risking food security and a global famine, which is already being af-

ected by climate change. I will leave climate change for now and tackle the topic in another article, perhaps next week. For now, the most pressing topic for discussion is inflation and the available cures to tame the malaise.

Frankly, the peak of inflation is still distant. Once the cost-of-living adjustments – in an economic slowdown scenario – are demanded by unions and provided by both the government and private employers, wage inflation might further compound the problem of surging prices. This is a tricky period, whereby an upward spiral wage inflation could send many of the European economies astray, risking a prolonged stagnation and a recession. To make matters worse, the euro plunged to record levels trading almost at par with the American dollar. This is expected to exacerbate the problem of inflation due to dearer import prices. I hasten to add that the European Union painted itself into a corner by not carrying a full economic impact assessment prior to imposing sanctions on Russia. The stepwise approach to sanctions, announced on a biweekly basis, wrought havoc to many western economies because economic operators needed time to understand what is being sanctioned. Also, trading and importing commodities from Russia, even if they are un-sanctionable commodities, warranted compliance and due diligence to avoid breaking any imposed sanctions.

Locally, the Maltese government is subsidising fuels and other basic commodities. However, inflation is still being felt, notwithstanding that it is one of the lowest figures in the Eurozone. By subsidising prices, government is avoiding a situation where wage inflation could progressively increase to a point that in the long run Malta would risk losing its competitiveness.

To conclude, if there had to be a wage increase in Malta, certainly it must not be a replenishment to partially cover for increases in prices, but rather to fulfil the living wage philosophy that many are currently reviving in a period of a global crisis, and who are fully aware that it cannot be attained, at least for now.

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