

**Debate No. 31 of 31.10.06****ORAL ANSWERS TO QUESTIONS****SALARY COMPENSATION JULY 2006**

**The Leader of the Opposition (Mr N. Bodha)** (*By Private Notice*) asked the Deputy Prime Minister, Minister of Finance and Economic Development whether, in regard to the payment of a salary compensation to workers since July 2006 and, in view of the recent increase in the price of a number of essential commodities, he will state –

- (a) the number of workers who benefited from such compensation, indicating the amount disbursed, and
- (b) if he is aware that there has been a decrease in the purchasing power of all the households since the payment of such compensation and, if so, whether Government is proposing to reconvene the Tripartite Committee to address the issue, as a matter of priority.

**The Deputy Prime Minister, Minister of Finance and Economic Development (Mr R. Sithanen):** Mr Speaker, Sir, with your permission, I shall also reply to PQ No. B/1224.

Mr Speaker, Sir, as Members of the House are no doubt aware, the established policy and practice has been to provide compensation based on the inflation of the previous year. A full salary compensation of 5%, which was the estimated inflation rate for financial year 2005/06, has been provided in Financial Year 2006/07 to those drawing a monthly salary of up to Rs2,700. For those drawing a salary of more than Rs2,700 per month a compensation of Rs135 has been granted.

Mr Speaker, Sir, some 35,000 private sector workers and 225,000 pensioners have obtained the full compensation of 5 percent and all other workers have obtained at least the minimum of Rs135. The total number of workers obtaining compensation amounts to 420,000 of whom 96,000 work

in the public sector. The total cost to the economy is estimated at around Rs 1.5 billion annually of which Rs365 m. are for pensions and social security benefits.

Mr Speaker, Sir, in view of the difficult economic predicament and taking into account the need to alleviate the hardship of the lower rung of the income ladder, we had proposed a minimum compensation. However, we have also asked that all economic sectors that have the capacity to pay should do so. Many companies, particularly in the tourism, financial, and telecom sectors, have indeed awarded a much higher compensation.

This new approach has enabled enterprises which are facing difficulties to preserve their current level of employment and for those doing well to better reward and remunerate their employees.

I wish to inform the House that even when inflation has been high there is no precedent for granting an additional salary compensation during the year. Indeed, Mr Speaker, Sir, we have a close analogy to the salary increase granted in 1982/83. In that fiscal year the salary increase granted to those at the bottom of the ladder was limited to 8 percent even though inflation in the previous year on which the compensation is usually based was significantly higher at 13.4 %. Moreover, even though inflation in calendar year 1982 i.e from January to December ran into double digits at 11.4 percent, there was no new tripartite convened in 1982 nor was any additional increase granted.

Mr Speaker, Sir, there are also other financial years when the rate of inflation forecast or estimated exceeded 10 %. Thus in 1988/89, inflation skyrocketed to 16 %, in 1989/90, it reached 10.7 % and in 1990/91, it climbed to 12.8 %. And the Tripartite Committee was never ever reconvened to address the issue of either higher prices and/or declining purchasing power.

Mr Speaker, Sir, we would very much have wanted to give a higher salary increase, but we, unfortunately, cannot afford to do so in view of the catastrophic economic inheritance and the daunting challenges posed ..

*(Interruptions)*

**Mr Speaker:** Order! Order! Order, please! I'll ask the Minister of Finance to continue please.

**Mr Sithanen:** Mr Speaker, Sir, in view of the catastrophic economic inheritance and the daunting challenges posed by the international economic environment. Everybody is aware of the very difficult predicament legated to us in July 2005. No less a person than the former Prime Minister sum up the situation rightly when he stated –

*“on est en état d’urgence économique, la crise est sans précédent et la situation est dramatique”.*

*(Interruptions)*

**Mr Speaker :** Order !

**Mr Sithanen :** Mr Speaker, Sir, as the House is aware, we inherited an economy characterized by falling economic growth, very high budget deficits, unsustainable public debt that absorbs over a quarter of revenue, growing unemployment, rising balance of payment deficits and a deterioration in standards of living. In addition, we discovered unaccounted for expenses, popularly known as skeletons of about Rs4 billion that had not been properly provided for in the Government accounts.

Mr Speaker, Sir, in broadly conforming to past practice in setting the compensation for this year we have also taken into account the rights of the unemployed.

Mr Speaker, Sir, let me state very clearly and loudly, in case some people have forgotten, the unemployed also have fundamental rights to decent jobs. We need to create jobs and return to high growth as the only way to sustain an increase in purchasing power for all workers and to bring the unemployed back to productive employment. As the economy grows and jobs are created, the demand for labour will provide workers with the bargaining power to sustained increase in their purchasing power and rising a standard of living without fuelling inflation. Indeed, this approach is consistent with the advice obtained by the previous Government from Professor Lim, an expert commissioned to advise on pay issues, who warned that the existing set up is a vicious cycle of pay chasing prices chasing pay. We want sustainable increases in purchasing power and not the illusion of more pay that is immediately eroded by higher prices.

Mr Speaker, Sir, as in the past when the country has faced similar adversity, compensation for this financial year has largely reflected what the country can afford. However, with a new wage compensation system being proposed, as soon as the economy recovers, workers can expect salary increases that will raise their living standards. Indeed, the flexibility that would be introduced will ensure that unlike in the past workers can benefit as soon as their sectors and firms to recover rather than having to wait for the whole economy to recover. In turn, however, the recovery will be stronger and come sooner the more rapidly and comprehensively we implement the necessary reforms required to shift our economy from one dependent on trade preferences to one driven by global competitiveness.

Indeed, Mr Speaker, Sir, our country is gradually coming out of a period of dwindling economic growth as a result of a bold mix of economic and social reforms for a new economic model and incentive framework. Now that the process is starting to bear its first fruits, with the level of unemployment receding for the first time since 1991, we cannot afford to take such actions that will undermine growth, erode our competitive advantage, keep investors away, and lead to closure of enterprises and job losses. Indeed, Mr Speaker, Sir, we must have a long-term vision that will link the recovery in purchasing power to the recovery in output and exports.

Government is unremitting in its course of action to restore health to the economy, and expand the opportunities for growth and jobs and broadening the circle of opportunities. To transform Mauritius and realize the hopes and dreams of its people, we must be prepared to face the hard realities often arising from external factors, unfortunately beyond our control. And, Mr Speaker, Sir, we have to remain alert to the dangers of resorting to short-term populist fixes that will only make the not too distant future drastically worse.

We must protect the future of our children instead of seeking short-term political gains. The challenge is indeed huge, but the time for action is now. We will not rest until we succeed in building a country of greater prosperity and opportunities for everyone. We are conscious that we are on course in our struggle to create the conditions for the protection of workers and the dignity of the population but we must ensure that we don't make it more difficult to reach our goal by burdening ourselves with unnecessary rigidities and roadblocks.

To quote Prof. Lim -

“A persistent budget deficit at a very high level, a rising trend in the rate of unemployment, a steadily depreciating rupee, plus a falling volume of Foreign Direct Investment, all four put together are a recipe for a future economic disaster”.

This is exactly where the previous government landed the country in July 2005. It was, indeed, Mr Speaker, Sir, a recipe for economic disaster.

And, let me conclude, Mr Speaker, Sir, by quoting what the Minister of Finance in 1982 stated. I quote –

“The painful choice, Mr Speaker, Sir, is between protecting fully the purchasing power of those who have a job and creating jobs for the vast number of the jobless. Unfortunately, we have to strike a balance between resources required for *la relance économique* which is the key factor in the creation of jobs, and the sustainable level of the deficit.”

Unfortunately the choice was not made. And it is precisely for this reason that we have made the choice and we need a new approach.

**Mr Bodha:** Mr Speaker, Sir, may I ask the hon. Deputy Prime Minister and Minister of Finance whether he is aware of the hardship in which most households are in this country after the drastic increase in prices of essential commodities?

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** Is the Deputy Prime Minister and Minister of Finance aware of what is happening outside?

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Sithanen:** Mr Speaker, Sir, I have explained, very clearly, in the response that I have given to the Question posed by the hon. Leader of the

Opposition, what is the state of the economy that was legated to us in July 2005.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** I have also explained, very clearly, Mr Speaker, Sir, what are the challenges...

*(Interruptions)*

**Mr Speaker:** Hon. Miss Deerpalsing! Order Please! Let the hon. Minister answer! It is a matter of national importance.

**Mr Sithanen:** I have also explained, Mr Speaker, Sir, what are the challenges that we have to face on the international front. I have equally informed the House of all the measures that have been taken to protect the income of the low-income group, in terms of direct income support and in terms of the bold measures of the Empowerment Programme.

There have been certain increases. I am the first one to admit it on this part of the House, but there are increases in the prices of commodities that are beyond the control of anybody, Mr Speaker, Sir.

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Sithanen:** We are going to do everything to protect the lower income groups of our society, Mr Speaker, Sir.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** Is the hon. Deputy Prime Minister and Minister of Finance aware that the price of flour has increased by 92%, the price of rice by 54%, the price of bread by 60%, the price of *grains secs (lentils, gros pois, dholl, etc.)* by 122%.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** The price of *gaz ménager*, “*petrol lampant*”, ...

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** Is the Deputy Prime Minister and Minister of Finance aware that the strict minimum of compensation given, the Rs135, was totally insufficient? I am going to lay a copy on the Table of the Assembly.

**Mr Sithanen:** Mr Speaker, Sir, those people that have raped the economy are now....

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** Those people who are responsible.....

*(Interruptions)*

**Mr Speaker:** Order! Order, I said!

**Mr Sithanen:** Those people who are responsible for having squandered public money to the tune of Rs500 m. in the Cyber Village...

*(Interruptions)*

**Mr Speaker:** Order! Order!

*(Interruptions)*

**Mr Sithanen:** Mr Speaker, Sir, we have no lesson to take from them!

*(Interruptions)*

**Mr Speaker:** Order! I am warning the House that if this situation continues, I am going to suspend the sitting.

**Mr Sithanen:** Mr Speaker, Sir,...

*(Interruptions)*

**Mr Speaker:** Order! Order, I said! Order, please!

**Mr Sithanen:** Mr Speaker, Sir, anybody with a modicum of commonsense, instead of wasting of Rs500 m. in building a white elephant, would have put up the athletes in a hotel for accommodation at the cost of Rs20 m.

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Sithanen:** These are the people who are telling us that we are not managing the economy well, Mr Speaker, Sir!

*(Interruptions)*

**Mr Speaker:** Order, please! Hon. Bhagwan, please! I am calling you to order! If you have any question, you stand up and put your question!

**Mr Sithanen:** Mr Speaker, Sir, even the holes, in which trees were supposed to be planted, have disappeared.

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Sithanen:** Mr Speaker, Sir, let me come back ....

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** Mr Speaker, Sir, let me answer forthwith the question raised by the hon. Leader of the Opposition. I have stated, very clearly, that there is no evidence...

*(Interruptions)*

I have checked! There is no departure from the established policy and practice of granting additional compensation in the currency of the year...

*(Interruptions)*

**Mr Speaker:** Order!

*(Interruptions)*

**Mr Sithanen:** I have given the example of 1982...

**Mr Speaker:** Order! Hon. Bhagwan, this is the last time I am calling you to order! You are interrupting the proceedings of the House. You stand up and do your job. I am not preventing you, but not from a sitting position.

**Mr Sithanen:** Mr Speaker, Sir, I don't want to enter into petty politics. In 1988/89...

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Sithanen:** Mr Speaker, Sir, we don't know with accuracy what would be the final rate of inflation for financial year 2006/2007. We don't know. This is a forecast. Mr Speaker, Sir, in 1988/89, it was 16%.

*(Interruptions)*

So, with 16% they don't suffer! With less than 10% they suffer!

*(Interruptions)*

**Mr Speaker:** Order! Address the Chair, please!

*(Interruptions)*

I am sorry. Hon. Leader of the Opposition, you are interrupting. I am sure you have many questions to ask, in fact you are wasting your own time.

*(Interruptions)*

Order!

**Mr Sithanen:** Mr Speaker, Sir, in 1990/1991, the rate of inflation was 12.8% and there was no reconvening of the Tripartite Meeting, there was no discussion. So, I was just replying to the hon. Leader of the Opposition to say that there is no practice, there is no policy of doing this, Mr Speaker, Sir.

**Mr Bodha:** Mr Speaker, Sir, may I ask the hon. Deputy Prime Minister whether he himself did not campaign and he committed himself...

**Mr Speaker:** That does not...

*(Interruptions)*

I am sorry, I am standing...

*(Interruptions)*

This House is not concerned with what happened outside. This is the rule; this is the Standing Order. The hon. Leader of the Opposition cannot bring in the House what happened outside.

**Mr Bérenger:** Can we know from which document he quoted outside this House?

**Mr Speaker:** He quoted from his report, I think.

*(Interruptions)*

**Mr Bodha:** Mr Speaker, Sir, the issue of precedent has been raised. Isn't it an exceptional situation today where we have a Government which promised that prices would not increase, where we have a Government today which has mismanaged the economy for the last 15 months?

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** Where we have a Government today which is responsible for inflation at 10% and the devaluation of the rupee.

**Mr Speaker:** What is the question of the hon. Leader of the Opposition?

**Mr Bodha:** The question is: this is an exceptional situation where they have to face the reality...

**Mr Speaker:** I am sorry to interrupt. This question has been put and it has been replied.

*(Interruptions)*

**Mr Sithanen:** Mr Speaker, Sir, I have explained very clearly how the economy was mismanaged and how we have been legated a very poor economic heritage.

*(Interruptions)*

If they want me to explain again, I will explain again, Mr Speaker, Sir.

**Mr Bodha:** The salary compensation has been swallowed, Mr Speaker, Sir. May I ask the Deputy Prime Minister what he expects the workers to do for the next 10 months from now up to July 2007?

**Mr Sithanen:** Mr Speaker, Sir, let me ask the hon. Leader of the Opposition what did the workers do in 1982/83, in 1988/89, in 1989/90 and in 1990/91. What did they do?

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bodha:** The households are going to do for the next 10 months because of the devaluation of the policy, because of their policy.

*(Interruptions)*

**Mr Speaker:** Order!

Isn't it a repetition of the question the hon. Leader of the Opposition has just put? The answer has been given.

*(Interruptions)*

Yes, the answer has been given. The hon. Leader of the Opposition cannot force the Deputy Prime Minister to answer.

**Mr Sithanen:** Let me say in this House that they played politics with the exchange rates for the last two years. Everybody knows that, Mr Speaker, Sir.

*(Interruptions)*

Let me refresh the memory of the Members, Mr Speaker, Sir, if they don't know. There have been many instances in the past where the trade union movement had requested for a reconvening of the Tripartite Committee because they feel that the pace of increase of inflation is too high. There are many Members on the other side of the House who have been Ministers many times, Prime Minister, Minister of Finance...

**An hon. Member:** Good Minister!

**Mr Sithanen:** I am not sure about that. But, Mr Speaker, Sir, they are trying to play cheap politics to score some points.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** We have explained that under the current circumstances, this is the best that we can do and we hope with the wave rising, with economic growth back to 5%, 6%, with unemployment coming down, with the Export Processing Zone - for the first time in five years there is growth in the Export Processing Zone. Mr Speaker, Sir, after five years of recession, there are at least 10,000 jobs available in the country. We hope that workers will be in a stronger bargaining position when the economic

improves, when jobs are available so that they can get higher wages; and with higher wages they will be able to meet these challenges and their standard of living will increase, Mr Speaker, Sir.

**Mr Bodha:** Can I ask the hon. Deputy Prime Minister how the workers are going to bargain against the private sector?

**Mr Sithanen:** The hon. Leader of the Opposition should know. Everybody knows that when the economy improves, the bargaining power of the workers increases, whereas when the economy is not improving it is the workers who are going to be worse off. And then we remind the hon. Leader of the Opposition that when you have a recession - they have experienced recession for five years in the EPZ - when one industry closes, when one firm closes, it is one *patron* that is recycled. There are 500 people who lose their job *et qui sont sur le pavé*. We have been able to stop this, Mr Speaker, Sir.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** For the first time, the EPZ is improving, in textile we have increased the number of jobs; export is rising, the domestic economy after a recession for the last two years is growing by 3% this year. The indirect investment was Rs1 billion for six months last year, it is already Rs2 billion this year, Mr Speaker, Sir. This is what we need to do. We need to enhance...

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** ...the bargaining power of the workers so that they can improve their wages.

**Mr Bodha:** Mr Speaker, Sir, the Deputy Prime Minister said that the economy is going to recover and he said "soon". May I ask him how soon is soon?

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Sithanen:** Let's be very modest about it. The green shoots of recovery are there, Mr Speaker, Sir. It is not enough! And let me tell my friends on the other side, Mr Speaker, Sir, it is better to have a growth rate of 4.7% than to have one of 2.3%. Everybody in this House would have preferred 7%. It is better. Mr Speaker, Sir, it is a significant improvement over what it was last year. Unemployment rate is being rising since 1991. True it is that a decrease of only .2% is not enough, but, as I said, Mr Speaker, Sir, it is better to have a draw when you are playing match than to lose by 5 zero. This is the situation. In many sectors, it has improved. But let me say in other areas it is still difficult, the debt is still high, the deficit is still high, we still have problems with the external balance, but there are some green shoots of recovery. I think we should work on this so that the poor of this country are going to improve their lots.

**Mr Cuttaree:** Mr Speaker, Sir, the hon. Deputy Prime Minister has always said that inflation is a tax on the poor. If you take only three items: bread, milk and rice, an average family of three children, their expenses – you can calculate it – have increased by over Rs700 a month. What I am asking him - apart from the whole political theory he is making - what measure does he think he will implement or he has got in store in order to slow down the rate of inflation?

**Mr Sithanen:** Mr Speaker, Sir, there are three sets of measures that can be taken, and there is no magic solution. We have introduced an income support that will protect approximately now...

*(Interruptions)*

A question has been put. Let me reply!

*(Interruptions)*

**Mr Speaker:** Order! Order! The question is: what other possible policy does the hon. Deputy Prime Minister have to slow down the rate of inflation?

**Mr Sithanen:** Mr Speaker, Sir, the hon. Member says that it is a tax on the poor. I am explaining what we are doing to alleviate the poor. We are also human beings. We have to go to the shop also. First, to alleviate the impact of rising prices on 10% of the population, we have given an income support, and the scope of this income support is being enlarged. Second, Mr Speaker, Sir, the hon. Member knows that, this year, we have been unlucky as many prices have increased. He understands economy and knows very well that many experts make the distinction between headline inflation and core inflation. Because of the exceptional things that have happened this year, we forecast that inflation is going to be high. But, these have been worst - in 1982 and other years, inflation was significantly higher. The only way to beat inflation, Mr Speaker, Sir, is to have higher economic growth. And, the only way to have higher economic growth is to have higher investment. The only way to have higher investment is to create an environment that is conducive for people to come and invest. We must also address the problem of the deficit on the balance of payments. As long as we have a huge deficit in the balance of payments, we will have to import things from outside. And the moment we import things from outside, obviously we import inflation.

**Mr Bérenger:** Mr Speaker, Sir, since the hon. Deputy Prime Minister has been referring time and again to established practices and to past years, will he agree with me that two things make the present situation *sans précédent*? First, if we take just basic things like rice, flour and *gaz ménager*, it is a fact that, every month, households have to find way above five times that poor sum of Rs135. Second, the CSO has predicted that the rate of inflation will be 9% for this calendar year, which means that it will be above 10% for this financial year. This is *sans précédent*, moving from 5% to 10% from one financial year to the other. Being given these two *sans précédent* events, will the hon. Deputy Prime Minister agree that something, outside established practices, must be done?

**Mr Sithanen:** Mr Speaker, Sir, the second point of the hon. Member is totally wrong. There have been many years where the rate of inflation has jumped from a low one to a high one. He knows that very well.

*(Interruptions)*

**Mr Speaker:** Order! Let the Deputy Prime Minister answer, please!

**Mr Sithanen:** Mr Speaker, Sir, we are doing whatever is possible within the tight budgetary constraints, in order to help those who deserve. It is a very tricky situation, Mr Speaker, Sir. But, as I said, we have inherited this situation, and we are trying to do our best to get out of it. And, believe you me, Mr Speaker, Sir, the only way this can be done is to create jobs that pay well to the workers of this country. If we create jobs that pay well, obviously, the standard of living of people will increase.

**Mr Speaker:** Last question, hon. Leader of the Opposition.

**Mr Bodha:** Mr Speaker, Sir, will the hon. Deputy Prime Minister agree *que ce gouvernement tourne le dos aux travailleurs et au petit peuple?* The inflation rate and the situation today is their doing, because of the honouring of their electoral pledges and their policy on subsidy. They are responsible for what has happened to most of the households in the country.

**Mr Sithanen:** Mr Speaker, Sir, they are responsible...

*(Interruptions)*

**Mr Speaker:** Order! I am asking hon. Members to keep quiet and let the Minister reply.

**Mr Sithanen:** Mr Speaker, Sir, everybody knows, all the experts know what was legated to us in July 2005. Now, with the report of the BPML, we will see how many of the skeletons that we talked about have become true.

**Mr Speaker:** Time is over. Questions addressed to Dr. the hon. Prime Minister.