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A question of sovereignty? Iceland and Malta

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ABSTRACT: Does sovereignty make any significant difference to small island territories? In the case of Iceland, this question arises starkly when that country is compared to Newfoundland, especially given their sharp divergence as fisheries economies. Sovereignty raised its head again when fiery nationalist Dom Mintoff made the case for Malta's economic success as a sovereign nation in the 1970s and shifted Malta's foreign policy from a western alliance to a more balanced or neutral position. This paper will examine how far sovereignty contributed to the economic success of Iceland and Malta during their early years of independence and its continuing relevance and resonance in these countries today.

Keywords: development, economic policy, fisheries, Iceland, Malta, sovereignty

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Introduction

Iceland (population: 382,000) and Malta (population: 525,000) are the two smallest island states in Europe, and located at the respective north-west and southern edges of this continent. Emerging from long periods of colonial rule, the countries secured their independence in the mid-twentieth century under uncertain economic conditions, albeit dissimilar. In spite, or because, of their smallness, both countries have been modestly successful in pursuing their economic development goals during the post-independent era.

This paper seeks to examine how far sovereignty has contributed to the economic success of Iceland and Malta during their independence – that is, Iceland from 1944 and Malta from 1964 – and its continuing relevance and resonance in these countries at the present times. It will begin with a brief overview of their main sovereignty steps, the post-independent growth challenges and main economic activities. Subsequently, sovereignty influences will be compared through four key themes which are of a comparative interest and relevancy: foreign trade, currency, security and economic policy. The paper will finish with a conclusion that revisits the research question. The research that went into this paper is part of doctoral research currently underway by the author (Jónsson, 2023).

Evolving sovereignty

It is argued here that, for small island territories like Iceland and Malta to become fully sovereign, both politically and economically, they must meet the following three criteria. Firstly, achieve a formal, sovereign political status, i.e., be a recognized and formally independent state. Secondly, be able to stand on their own feet economically and not having to rely on financial support from a patron or benevolent 'mother country'. Thirdly, as small open economies, be able to trade successfully with other countries, as independent states, and without any undue restrictions or encumbrances. In both island states under review, sovereignty evolved in steps over a long period and through different paths.

The British government granted Malta its first self-governing constitution, a Legislative Assembly and its first Prime Minister in 1921. When Italian influences grew in Malta after the election in 1932, the British government revoked the constitution and dismissed the cabinet in 1933. Self-government was re-introduced in the 1947 constitution but was suspended in 1958, after a political crisis. In essence, the unrest was caused by the decision of the British government to run down the military bases and reduce the workforce at the Malta dockyards. Self-government was briefly introduced again in 1962 until Malta became independent in 1964, with Queen Elizabeth II as the head of state. Malta became a republic in 1974, with an elected president (Fenech, 2014). At its independence, about half the Maltese working population worked for the government, the outgoing British Services and in the dilapidated naval dockyards. The economy was in dire straits and many people emigrated. In 1972, an agreement was reached with the UK government with respect to the use of military facilities in Malta. The agreement was to remain in force until 31 March 1979 when the British Armed Forces left Malta for good. Pursuant to Article 7, the UK government paid the Maltese government around £100m over the continuance of the Agreement, after which Malta transitioned to other forms of revenue and became economically largely self-standing.

The relationship between Iceland and Denmark and the drive for independence dominated the political scene in Iceland in the late 19th and early 20th centuries (Hálfdánarson, 2006). The parliament, named Althingi, was re-established in 1845, with an advisory role at first. Iceland got its own constitution in 1874, stating that legislative power would be shared between Althingi and the King of Denmark. Home rule was established in 1904, with executive power transferred to Iceland and the first Icelandic minister appointed. Political relations remained intact but Iceland had by the turn of the century become more or less financially independent from Denmark. It was granted sovereignty in 1918, with the King of Denmark as the head of both states. In 1944, Iceland declared full independence with a president elected by popular vote as the head of state.

Foreign trade was disrupted during the First World War and Britain replaced Denmark as Iceland's main trading partner while trade was established with the US as well. Reykjavík had during the war become Iceland's main entrepôt through which imports and exports of local merchants and co-operatives were directed. The Icelandic economy expanded notably during the 1920s, mainly based on exports of salt cod to southern Europe, particularly Spain. Although the Danish trade had been significant for Iceland for centuries, it was no more of any economic or strategic importance for Denmark. At the end of the War in 1918, Iceland had more or less become fully sovereign, both politically and economically, except for the head of state. From then on, political links with Denmark were a mere formality as nearly all trade links with Denmark had been eliminated. Iceland was occupied by British and US forces during the Second World War, i.e., from May 1940. At independence in 1944, Iceland was still protected by the US forces.

Sovereignty and foreign relations

Due to certain fundamental differences in their economies, strategic choices, growth sectors, politics and international relations, dissimilar foreign trade policies emerged in Iceland and Malta. Sovereignty allowed both states to expand their own foreign markets and to access goods and services from abroad at their own choice, allowing them to participate in the global economy. Their long run economic progress has depended on exports of goods and services and imports of consumer and capital goods and technology. Foreign relations and trade have been fiercely debated between the main political parties, especially Iceland's participation in NATO and in the European trade co-operation, and not at least the presence of the US Forces

at the NATO base in Keflavik. Foreign trade and relations were also debated fiercely in Malta with regards to Malta´s application to join the EU, especially in the 1990s.

Iceland evolved during the twentieth century as a staple exporter and a price-taker on global markets, with supply constraints and an exposure to foreign shocks and volatilities. Malta experienced a huge influx of imported goods during the British period and limited exports, but developed after independence a broader export-base of light manufactures, tourism and financial services, engendering a more diverse range of trade partners, risk spreading and hence less exposure to foreign shocks and volatilities than Iceland (Pomfret, 1982; Muscat, 2007; Brincat, 2008; Briguglio, 1991; 1995). Macroeconomic implications of the export-led growth were not the same in the two island states, i.e., in terms of inflation, interest rates, currency devaluation and public debts. Iceland diversified its export-base further in the 2000s and 2010s while Malta's export base was already quite diversified in the 1970s.

Iceland's decentralised and multifaceted political structure is quite intricate. National elections have since independence resulted in at least four parties being represented in parliament at any time. Coalition governments have been formed, with interspersed political spectrum and intermingled cabinet, leading frequently to 'middle-of-the-road' politics (Kjartansson, 2007). The implications have been balanced political intentions and motivations, negotiations between the governing parties, based on their manifestos, and entailing no major social, economic, trade or foreign policy shifts and a weak leadership role of the prime minister. Icelandic politics have contrasted sharply with other parliamentary systems based on the Westminster model. Iceland's foreign relations and geo-politics during the second half of the twentieth century may be summarised as follows:

1. Resilient historical, political and cultural ties with the Nordic countries, and including the subnational jurisdictions of the Faroe Islands and Greenland/ Kallallit Nunaat. Partners with Norway in the European Economic Area (EEA) since 1994.
2. Strategic alliance with NATO and the US. The US developed a large air-force base at Keflavik in the early 1950s under the auspices of NATO and operated it for over 50 years. A post-war export market for frozen seafood developed in the US and a commercial aviation agreement paved the way for Icelandair to fly between the US and Europe via Iceland. Furthermore, Iceland imported cars, aircrafts, machinery and an array of consumer goods from the US (Thorhallsson, 2019).
3. Imports of British goods were significant in the post-war period, including ships, coal, steel, building materials, tools, equipment, and consumer goods. During the twentieth century, the UK was the most important long-term market for fresh and frozen fish from Iceland (Guðmundsson, 2011). British trawlers fished on the grounds off Iceland until the mid-1970s. Four extensions of the fishing limits in the 1950s and 1970s resulted in intermittent skirmishes, import bans on Icelandic fish in the UK and diplomatic conflicts which were finally resolved in 1976.
4. Growing trade relations with Western Europe, at first after Iceland joined the European Free Trade Area (EFTA) in 1970 and then stronger political, cultural and trade relationships with European Union (EU) member states after Iceland joined the EEA in 1994 and Schengen in 2001.
5. Trade and diplomatic relationships with the Soviet Union/Russia and Eastern Europe emerged in the 1950s and have continued until present. Iceland exported mainly frozen seafood and woollen products and imported oil, cars, machinery and consumer goods. The trade was in the past based on barter arrangements, but has changed significantly since the 1990s (Gunnarsson, 2019).

6. In 1991, Iceland recognised the independence of Estonia, Latvia and Lithuania, against Soviet opposition, leading to solid relations evolving between Iceland and the three Baltic states.
7. Starting in the 1970s, Iceland developed trade relations with East and Southeast Asia, which became important markets for Iceland's fish products; while Iceland imported cars, fishing trawlers, machinery and consumer goods from East Asian countries.
8. The EEA Agreement from 1994, and extended membership of EU later by Central and Eastern European countries which followed, have paved the way for thousands of immigrants. At present, immigrants make up around 15-16% of Iceland's population, over half of whom come from Central and Eastern Europe.

In Malta, the political system has coalesced around two main political parties which have practically governed for an equal amount of time since independence. The focus of Malta's foreign policy shifted from a British mother country relationship in the 1960s to a broader European and even global focus at present times, but with some eventful shifts and changes. The foreign policy interests have been multi-dimensional, including trade, maritime affairs, security, stability and peace (Khakee, 2017). Foreign affairs were viewed quite differently by the two main political parties. The Nationalist Party was avowedly pro-West and vocationally European; while the Labour Party pursued neutrality and nonalignment and an active Mediterranean agenda. Changes on the broader scene of international relations, developments in the EU, and increased European awareness and engagement over Mediterranean security issues, have helped bring the two political parties closer to each other on foreign policy. They disagreed during the 1990s and until 2004 on whether or not Malta should join the EU and on the interpretation of the country's constitutional neutrality. Both have emphasised the European character of Malta and agreed, in the national interest, to play a significant role in a pan-Mediterranean development (Fenech, 1997a).

Currency

Along with many other countries, Iceland and Malta were engaged in the same international monetary system which evolved and matured after the Second World War. Both island states relied heavily on foreign trade in goods and services and encountered different experiences in international financial integration and foreign exchange policies. In comparison, the foreign exchange policies were more eventful and unstable in Iceland than in Malta, and at times overbearing.

The Icelandic króna was first issued in 1922 and was at that time at par with the Danish krone (DKK). In 1927, Landsbanki was assigned the sole right to issue notes and served from then on as a central bank, along with its commercial banking activities. In 1961, an autonomous Central Bank was set up. Article 3 of the Act no. 10/1961 specified the bank´s chief mandate as to retain the value of the ISK and to uphold price stability. Iceland experienced acute monetary instability in the 1970s and 1980s, reflected in soaring inflation, high interest rates and regular devaluations of the ISK, attributable to a series of factors. Firstly, the break-up of the Bretton-Woods system 1972-1973 where the gold standard was abolished and floating exchange rates introduced. Secondly, the volcanic eruption in January 1973 in the Vestmanna Islands, which had severe economic consequences. Thirdly, the first oil shock in October 1973, with relentless fiscal and monetary effects. Fourthly, the government-supported 'over-investment' program, based on extensive foreign borrowing, in a large fleet of new stern-trawlers and fish plants, initiated c 1970-1972 but implemented throughout the 1970s. Fifthly, the trade unions pressed for and negotiated higher wages for their members to meet escalating domestic costs, after which the Central Bank devalued the ISK to enable the export sectors to

pay higher wages. Foreign inflation, economic stagnation in Europe and North America and a second oil shock in 1979 did not help. The vicious circle of price escalations had begun and it went around vindictively for the next 15-20 years until it settled down, after a social dialogue led to a national conciliation accord in 1990. The ISK lost its value against the Euro by 50% over 2000-2020 and experienced higher inflation than Malta during the same epoch.

The British Pound (£) was the currency of Malta until 1968 when the Central Bank was founded and began to issue Liri, the national currency of Malta. It was pegged to Stirling until the late 1970s. The Maltese Lira (Lm) grew in strength 1980-1982 but weakened thereafter. During the period 1980-2000 it lost its value against the basket of international currencies by around 30%. The Lm retained its value outright against the Euro 2000-2007. In January 2008, the Lm was replaced by the Euro. During the last quarter of the twentieth century, the balance of payments was negative in merchandise trade, but slightly positive in the services trade, resulting in an overall negative trade balance. The bulk of merchandise exports consisted of clothing and textiles, and electrical tools and machinery. The most important source of service exports were expenditures connected in the 1960s and 1970s with the British forces based in Malta, but later from tourism and transportation. The trade deficit was partially offset by investment income from abroad. Another source of foreign exchange on the current account were transfers which consisted of remittances and pensions to households and foreign exchange grants to the Maltese government. The inflows and outflows of foreign exchange, resulted in surplus in the overall balance of the current account (Briguglio, 1988b, 1989, 1995).

A national tripartite agreement on industrial relations in 1991 helped secure a mechanism for establishing statutory cost of living increases based on changes in the consumer price index. Malta joined the EU in 2004 and the Euro in 2008, which helped maintain low interest rates, price stability, lower costs for businesses and travellers and enhanced trade.

Security

Security policies and arrangements evolved along different paths in Iceland and Malta in the post-war era. Iceland joined NATO in 1949 and signed a security and defence agreement with the US in 1951. A military airport was built at Keflavik during the Second World War by the US armed forces. In 1951 the airport was enlarged and a military base built. It later developed into Iceland´s main international airport (KEF). US Forces left Iceland in 2006.

The British Armed Forces stayed in Malta for nearly 15 years after independence, as previously mentioned. The Labour Party, led by Dom Mintoff, won a narrow victory in the 1971 general election, resulting in an immediate change of political direction. Mintoff was known for his non-alignment foreign policies and new directions of foreign relations, including links with the Arab world, including Palestine, and the communist countries, encompassing North Korea and China. Malta built up a strong relationship with Libya and received financial support from Gaddafi. His foreign relations made some of his western allies edgy and apprehensive, especially the US and NATO, which had set up regional headquarters in Malta in 1953 and left the country in the autumn of 1971. Malta, this previously quiet island in the Mediterranean, was suddenly making headline news all over the world. Malta's foreign affairs policies and activities during Mintoff's tenure were wide-ranging, sporadic and at times spontaneous. A few years before Mintoff took office, or in 1964, the CIA issued a report which was only made public in 2009. The report mentioned complicated politics in Malta and the powerful influence of an unusually conservative Catholic episcopate. The report (CIA Special Report, 1964) states quite candidly:

> The Malta Labour Party (MLP) opposition, led by an erratic neutralist who is given to flirting with Moscow and Cairo, is not only determined to change the constitution but is more dynamic than the ruling Nationalist Party.

and

> The new state contains NATO's Mediterranean command headquarters, but NATO is undecided on what terms it will offer Malta for continued participation in the alliance. This, together with the prospects of an MLP government, raises the spectre of a Soviet toe-hold in the middle of NATO's present defence perimeter (CIA, 1976, p. 1).

From the start, Mintoff's government was being closely scrutinised by the US through the CIA. There was no love lost between the US and the Malta governments while Mintoff was in power (1971-1984). Not so much as a hostility between the two states, but rather an apprehension by the US because of its imputed hegemony over the Western world, including a wish to preside over Mintoff's choice of allies. Washington was suspicious of Mintoff's relations with Libya and Gaddafi, as well as his connections with Palestine, the Soviet Block and China. (More at: - https://www.cia.gov/library/readingroom/search/site/Malta).

In April 1972, Mintoff made a formal visit to China and was warmly received (Mizzi, 1995, pp. 133-137 and Calleja, 2017). He was quoted in Hong Kong, following the visit to China that he had reached an agreement with Chinese officials on matters of economic interest and that a Chinese ambassador was to be appointed to Malta soon (New York Times, 1972). US president Nixon had visited China a few weeks earlier. China had just replaced Taiwan at the UN. Much of the Western world still maintained diplomatic relations with Taiwan; but Malta made the bold step and recognised the People's Republic of China, representing the whole of China, including Taiwan. Both Malta and China had at that time rather cool relations with the Soviet Union.

Mintoff sought political and financial co-operation with the Arab world, especially Libya, employing skilful tactics. He supported Arab unity, but not extremist Arab views against Israel (Vella, 2013). However, he became a spokesman for the Palestinians at international level which was considered anti-western by the US and NATO. The main financial support from the Arab world to Malta came from Libya. He frequently toured the Middle East, the Gulf Arab States and the Maghreb countries to discuss matters directly with the sheiks and the heads of states. He also established direct links with the Arab League. In short, Malta's foreign relations changed radically during Mintoff's reign. Due to economic pragmatism, he turned away from Britain which previously provided the backbone of the island's economy. With Malta being at the crossroads of the Mediterranean, straddling the rich oil-exporting countries of the Arab world and economically stagnant Europe of the 1970s, a change of direction was inevitable. Malta was economically backward and needed financial and economic co-operation with rich countries, which also respected Malta's independence and neutrality (Fenech, 1997b).

The Mediterranean was the southern flank of NATO and of huge political and strategic importance to the US and NATO, as well as to the Soviet Union and the Warsaw Pact countries. Moreover, the US operated the Sixth Fleet in the Mediterranean from 1950, headquartered in Naples. During the Cold War, the fleet was busily engaged in different military or naval interventions and affairs in the Mediterranean theatre.

Iceland's security issues have remained stable since the Second World War, and the country had been considered internationally as a solid Western ally. Domestically, public opinion on the presence of the US NATO base at Keflavik, as well as three different radar stations, was divided and protests and rallies against it were quite regular events, especially in

the 1950s, 1960s and 1970s. A major issue for Iceland's relations with the UK were the four Cod Wars fought over extensions of the fishing limits, which affected the political, diplomatic and trade relations between the two countries. Trade patterns changed in the 1950s, e.g., due to a trade embargo on Icelandic fish in Britain. The Soviet Union and the Eastern Block came in as vital trading partners, replacing the UK. For the years 1956-1960, around one third of exports went to the USSR and Eastern Europe as part of a barter trade. Iceland skilfully played the game of trading simultaneously with the US and the Soviet Union and the Eastern Bloc. Trade relations with the US remained strong nevertheless.

Economic policies

Economic policies have common virtues across different contexts, institutional set-ups and time horizons. The *objectives* of economic policies are wide-ranging: they include economic growth, burgeoning trade and business activities, full employment, relatively equal income distribution, low inflation, stable currency, acceptable standard of living and price stability (Guðmundsson et. al., 2000; Persson and Tabellini, 2000; Tisdell, 2009; Bénassy-Quéré et. al., 2019; Briguglio et. al., 2008).

Closed economy models of large economies have dominated the thinking of comparative political economists during the last half a century, or even longer, while open-economy models are more suitable for the economic analysis of small states like Iceland and Malta. (Armstrong and Read, 2003; 2006). Such models emphasize the intersected relationship between internal and external balances and policies aimed at balancing internal factors which may simultaneously influence the external balance. The choice of the economic policy mix and the appropriate policy instruments is quite challenging for small open island economies. What has characterised their policies in the post-independent era and made them distinct from larger and more closed economies is a greater emphasis on sectoral industrial policies to promote their principal strategic sectors, and on foreign trade policies supporting and strengthening their vitally important exports, cross-border trade and state investments made in such businesses as banks, airlines, power companies, ship repair, mining, oil, fisheries and capital-intensive manufacturing of economic importance. The main reasons for the governments' active interests and fervent participation in such enterprises in the past included grave unemployment, recession, bankruptcies and shortage of private capital for capital-intensive projects.

Four domains of economic policies are strikingly comparable between Iceland and Malta:

- Foreign trade policies and economic cooperation;
- Macroeconomic policies: fiscal, monetary and foreign exchange;
- Growth policies and planning, government interventions and structural reform policies;
- The principal strategic sectors: government priorities, policies and interventions.

The global political and economic context within which the post-independent economies of Malta and Iceland evolved, somewhat narrowed their choices of foreign policies and trade strategies. Both island states required robust trade policies and political alliances with their main trading partners, especially as barter was common until the 1970s and early 1980s. Although the contents, composition and foreign trade networks were dissimilar, the international relations and trade policies of Iceland and Malta shared some characteristics, e.g., custom duties, excises, trade licences, barter trade and import-substitution policies. Like other small island states, they were dependent on the economic and political shelter provided by larger states and international organisations including EU and EFTA. The US, NATO, EFTA

and to some extent the EU, provided shelter for Iceland, at different times and in varying measures (Thorhallsson, 2018; 2019). Britain provided an economic shelter for Malta until the 1970s, with the EU taking over much later (Mizzi, 1995).

Foreign trade policies were marked by the dichotomy between protectionism and free trade. The former endeavoured to restrict trade with other countries in order to protect domestic business activities, while free trade created large open markets for goods and services. Protectionism prevailed in Iceland and Malta during the postwar era until the 1970s. The first steps in liberalising foreign trade were made around 1970, as Iceland joined EFTA and Malta signed an Association Agreement with the EEC, calling for the creation of a customs union, based on free trade between Malta and the EEC. Similarly, Iceland benefited from a customs union with the EFTA countries. These steps had substantial economic impacts on both island states, which were felt gradually over the next decade, as trade and customs barriers protecting local production were removed in steps, to the detriment of various small-scale producers. However, the export sector, the driving force of both island state economies, was strengthened. Imports were of vital importance to both Iceland and Malta: they both needed to secure imports across a whole range of products and staples, including fuel, cars, capital goods and technology, building supplies, consumer durables, clothes, and food. Malta did also develop a significant entrepôt trade.

The road to European co-operation was long and arduous for both island states and their final objectives were different. The Maltese government applied first for EU membership in 1990 but the application was shelved after Labour took office in 1996. After the Nationalists returned to power in 1998, the application was resumed and negotiations continued until full membership was achieved in 2004, but with Labour opposing it. Meanwhile, Iceland signed the EEA agreement, effective from 1994 and applied for EU membership in 2009, with the application being put on hold four years later after a change of government.

While Iceland restricted inward foreign investments and the participation of foreign firms in the fisheries and power production, but not in power-intensive industries, Malta attracted foreign investments to its overall advantage. Countries rich in natural resources and with the technology to utilise the resources, have in the past tended to protect these domestic resources by raising barriers to outside investors. Meanwhile, countries devoid of export staples, have needed to develop an international outlook and attract foreign participation and inward investments. Icelanders were probably greater speculators and risk-takers than the Maltese and more lionhearted in investments abroad. Icelanders invested heavily in their capital-intensive fisheries and domestic power production, funded mainly by foreign loans. The Maltese were more careful and smarter by borrowing less than Icelanders and seeking foreign investors instead. Their prudent approach reaped benefits in due course.

The foreign trade policies of both Iceland and Malta were in general more restrictive and characterised by duties and licences during the 1960s and 1970s, but became more open and liberal during the 1990s. Globalisation, beginning slowly in the 1980s, became more forceful in the 1990s, and was a process through which national economies became more and more integrated and interdependent. While imports and exports as % of GDP grew immensely in Malta 1970-2000, their share of GDP in Iceland remained almost unchanged, witnessing greater impact and reverberations of globalisation of trade in Malta than in Iceland.

The fiscal policies of Iceland and Malta were non-comparable until the late 1970s, owing to weighty British financial inputs in Malta and Iceland's long-established independence in financial matters since the beginning of the 20th century. The policies became more

convergent in the 1980s and 1990s. Fiscal policy was more complex and challenging in Iceland due to two government levels and many quasi-government bodies and entities, involving numerous transfers and cost-sharing arrangements. Malta with one central government level, was less engaging in transfers and redistributions. Malta taxed its citizens and businesses overall at lower rates. Taxes as a share of GDP grew in the post-independent era and the welfare systems expanded. Tax policies and tax structures were more contrasting than comparable between the two island states; but the two tax systems evolved along similar paths in the 1990s and 2000s as a part of EU/EEA enhanced co-operation (Olgeirsson, 2013; Imbroll, 2014). The Icelandic government borrowed notably abroad and invested in infrastructure and commercial enterprises, while the Malta government borrowed less and mainly domestically, but attracted a suite of foreign investors. Public debt did however grow in both states during the 1980s and 1990s. Economic cycles were more extensive and dramatic in Iceland than in Malta, due to fluctuations in the fishery, affecting GDP, employment, incomes, inflation and the exchange rate of the ISK. Economic cycles were generally smoother in Malta and the fiscal stability greater (Jonsson, 2023).

Monetary policies developed from an embryonic state around 1960 to a more advanced and extensive policy over the next few decades. In comparison, Malta's monetary controls were more efficacious, measured by inflation, interest rates and the strength and stability of the local currency. From the 1960s onwards, Malta had employed more prudent and stable monetary policies, perhaps a reflection of a more balanced and diversified economic structure and less volatile economic cycles (Briguglio, 1988b; 1991; 1995). IMF reported regularly on their findings of the Maltese economy during the 1990s, all available on their website. Monetary policies are challenging to resource-based countries like Iceland, relying profoundly on a single export staple during the best part of the twentieth century (Gylfason, Herbertsson and Zoëga, 1999; Gylfason and Zoëga, 2003; 2006). The exchange rate of the Icelandic króna tended to fluctuate wildly, in step with changes in the local fishery. Iceland's monetary policy was ineffective and even destructive for the national economy during the 1970s and 1980s: extreme inflation, high interest rates and repeated devaluations of the local currency (Guðmundsson and Andersen, 1998). The monetary control improved somewhat during the 1990s with reduced inflation and a more stable currency. Iceland's eventful macroeconomic policies in the 1970s, 1980s and 1990s were regularly reported on by both OECD and the IMF; all the reports available on the websites of both organisations.

Fiscal and monetary policies and control are interrelated and their influences reciprocal. The 1970s were quite challenging for fiscal and monetary policies, including the abolition of the gold standard, the oil crisis in 1973 and again in 1979, rising unemployment, surging inflation (stagflation) and accentuating public debt. After the mid-1970s, economic policy makers were left in a quandary and Keynesian policies became less appealing. Macroeconomic debates shifted to a Friedman-style monetarism, accompanied by a rising faith in the self-regulating virtue of markets; liberalism rose to prominence in the economic sphere. Fiscal policies became less popular and inflation was addressed in many countries by limiting the supply of money. Futile and unstable monetary control in Iceland, chiefly caused by volatilities in the fisheries, had a negative impact on the country´s fiscal control, and disrupting effects on economic activities, labour markets and real incomes. The relatively balanced monetary policies in Malta nurtured more durable and stable fiscal policies (Briguglio, 1991; 1995; Grech, 2015).

Both island states adopted direct planning and investment steering as a policy approach in the 1960s and 1970s, involving various public sector investments: housing, infrastructure, education, health care and state-owned enterprises, with full employment as a target.

(Gunnarsson, 1989). Malta adopted comprehensive development planning with infrastructure investments and financial support across different economic sectors, funded significantly by the British government (Baldacchino, 1998). Through a British initiative, as there was no self-government in Malta at the time, the first 5-year development plan was launched in October 1959 for a 5-year period. Subsequent development plans followed after independence and until the 1980s, but were different in scope and content and with much reduced political aspirations after 1971.

Meanwhile, economic planning in Iceland was heavily sector-based, dominated by the fisheries sector (Jónsson, 1984; Árnason, 1994; Árnason and Agnarsson, 2005). Malta built up export-led manufacturing in the 1960s and 1970s, fuelled by foreign investments and technology, a trained and English-speaking workforce, tax incentives, industrial parks and factory buildings for lease (Brincat, 2008). Iceland's focus was on developing the fishing industry, agriculture, transport infrastructure, the energy sector and associated industries.

The pandemonium of the 1970s was pervaded by the abolition of the gold standard, rising oil prices, growing unemployment, stagnant national economies, inflation and escalating public debt. The tide turned in the mid- and late-1980s and more forcefully in the 1990s as both states set in motion a privatisation process which involved extensive sales of state-owned enterprises. The public policies of the 1990s and 2000s promoted structural reforms, deregulation, growing liberalism and new realms of legislations, such as those relating to the environment, competition policy, freedom of information and public administrative procedures. Globalisation was also an overarching factor influencing structural economic reforms in the late twentieth century and the first decades of the twenty-first century. Winds of change were blowing through sectors such as education, health care, housing, state institutions and local government by such practices as mergers, outsourcing, and competitive tendering. Other influences pushing for structural reform and legislative change were the EU accession process for Malta (and membership from 2004) and the EEA agreement for Iceland from 1994.

The principal strategic sectors of Malta and Iceland were the key drivers of growth in the two island states through export revenue, taxes, investments, employment, productivity gains, R&D and new markets. The British government had intended in the 1950s and 1960s to run down the dilapidated dockyards, which was politically controversial and sensitive for the Maltese, involving losses of jobs and income for many families and an economic and social breakdown for the affected communities. The three principal strategic sectors which evolved in post-independent Malta, supported by the government, were: export-based manufacturing from the 1960s onwards, tourism from the 1970s and thereafter, and international financial services which emerged in the late-1980s and the 1990s, but which expanded after Malta joined EU in 2004. Linked activities and spin-offs which developed, following the growth of manufacturing and tourism, included property and real estate, construction, commercial aviation, transshipment, aquaculture and various business services. Growing taxes paid for expanding infrastructure and public services, e.g., education, social housing and health care.

In Iceland, the fisheries were the most lucrative economic sector during the best part of the twentieth century; it had developed into a fully-grown seafood industry by the close of the century. Energy production and power-intensive industries emerged slowly as economically significant activities in the late-1960s and 1970s but had assumed greater importance by the end of the century. The policies supporting these two principal sectors were of overriding political significance. The performance of the fisheries and their success or failure in export markets predominated public policy choices in the post-war period and until the 1990s. Policy

approaches before the 1990s were mainly about interventions, control and restrictions, e.g., ban on foreign investments and ownership, and enforced co-operation in export marketing.

The controversial fisheries management system and the individual transferable quotas have divided the country since the 1990s. This has led to a concentration of fish quotas into fewer hands and huge profits while some vessel-owners profited from selling their quota. Increased energy production was supported by broad sections of the population in the 1970s to the 1990s, while a minority was opposed to multinational corporations investing in the energy-intensive industries. Opposition to hydro-power dams and lagoons, engineered landscape and the merging or diversion of glacial rivers has become stronger since the 1990s.

The first two decades of the twenty-first century have seen transformations and system changes across the economic sectors in both island states. Malta witnessed an upsurge of tourism after the arrival of low-cost airlines and cruise ships, along with an influx of foreign residents, property developments, growth in commercial aviation, and a significant online gaming industry: the country has been transformed in the space of 60 years (Debono & Baldacchino, 2021). International financial services have grown extensively in the twenty-first century and built up a global clientele, while manufacturing has experienced significant technical advancements and increased efficiencies in production, without increasing the labour force. Meanwhile, the fishing industry in Iceland has instigated an array of related businesses, activities and solutions, through linkages and spin-offs, now commonly referred to as the 'blue economy'. The power sector has reshaped its methods and processes, developed low-carbon solutions, increased energy efficiencies and emphasised a transfer from fossil fuels to renewables. The economy has become more diversified in the twenty-first century, with tourism booming as a new growth sector in addition to the advancement of creative and knowledge-based services, IT and financial services.

Data on gross value added (Table 1) manifest growing economies but do also show a structural difference between Iceland and Malta as well as in the level of GVA per capita and GVA growth rates. The primary and secondary sectors declined in relative importance over time in both island states while services grew in significance. The shift was more discernible in Malta, witnessing a service-driven economic growth, while the more moderate structural shift in Iceland reflected a strong and sustained seafood processing and ascending energy production and power-intensive industries in the 2000s. The economic role of agriculture declined in both island states. GVA per capita was significantly higher in Iceland than in Malta; but Malta (4.3%) surpassed Iceland (3.8%) in terms of the average annual growth rate over the period 1973-2019.

Table 1: Gross Value Added (GVA) of economic sectors in Iceland and Malta: 1973, 1997 and 2019.

Malta

	Agriculture & Fisheries GVA	Industry GVA (incl. Construction)	Services GVA	Total GVA per capita, € at 2020 prices
1973	6.7%	34.3%	59.0%	€3,544
1997	2.5%	28.5%	69.0%	€12,332
2019	0.5%	14.0%	85.5%	€24,456
1973-2019	-6.2%	-20.3%	+26.5%	GVA growth p.a. 4.3%

Iceland

	Agriculture & Fisheries GVA	Industry GVA (incl. Construction)	Services GVA	Total GVA per capita, € at 2020 prices
1973*	12.8%*	36.5%*	50.7%*	€9,965**
1997	9.3%	29.6%	61.1%	€21,856
2019	4.9%	22.0%	73.1%	€55,850
1973-2019	-7.9%	-14.5%	+22.4%	GVA growth p.a. 3.8%

*Based on GDP per capita in Iceland 1973, due to absence of data on GVA.
**GVA is calculated at 86% of GDP for Iceland 1973, based on data from Statistics Iceland. Data on GVA by economic sectors is only available for Iceland from 1997. Iceland: https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__thjodhagsreikningar__framluppgj_ISAT2008/THJ08401.px and Statistics Iceland, Hagskinna, Table 14.5. Malta: https://www.centralbankmalta.org/economic-time-series

Conclusion

The paper has sought to explore how and to what extent, sovereignty has contributed to the economic progress of post-independent Iceland and Malta. Sovereignty influences were compared through four key policy domains: foreign trade, currency, security and economic policies.

In earlier times, foreign relations and trade were mainly directed through the respective mother countries, i.e., Denmark and the United Kingdom. Malta did not pursue its own self-reliant foreign relations and trade policies until the 1970s. In contrast, Iceland broke away from the dominant trade relations through Copenhagen at the outset of the First World War. It further developed the export market for salt cod to southern Europe in the 1920s. Iceland pursued independent trade relations with other countries after 1918, but was formally bound by Danish foreign relations until 1944. Independent foreign relations provided an opportunity for the two small states to pursue their own trade policies and networks, which was previously unthinkable

as it could go against the wider interests of the two mother countries. Denmark would not have jeopardized its important trade interests and political relations with the UK and Germany by pursuing narrow Icelandic interests, e.g., extending the fishing limits in Icelandic waters unilaterally. Icelanders had to fight this out for themselves in the 1950s and 1970s. Neither would Malta in the 1970s have been able to build up foreign relations with the Arab world and China, or develop international financial services in the 1990s and 2000s, had it remained a UK crown colony. Sovereignty did also open doors for growing European trade co-operation by both states, starting in the late 1960s, which by now meant pursuing mainly (but not exclusively) European-wide foreign relations and trade strategies through membership of the EU, EFTA and EEA, in addition to advancing trade and political relations further afield, e.g., in Asia and North America, and with Warsaw Pact countries during the Cold War.

The chronicle of the local currencies, i.e., the Icelandic króna (ISK) and the Maltese Lira (Lm), shows stark contrasts after they became comparable around 1980, when Malta ceased to peg the Lm to the pound sterling. Monetary policy was more effective in Malta than Iceland in maintaining trust in the local currency from around 1980 until 2008 when Malta adopted the Euro. During the nearly three decades when the Lm and ISK were comparable, the ISK lost its value against the Lm massively. The root cause in Iceland was the preponderance of volatile fish exports. Declining catches, decreases or shifts in demand and lower export prices, obliged the government to devalue the ISK regularly. Malta used its sovereignty wisely by taking a rather prudent approach in currency matters, while it faced more moderate monetary challenges than the unpredictable Iceland. The history of the ISK over the last half a century, or even longer, is probably a lesson of unsuccessful foreign exchange policy and monetary autonomy. Iceland has not played its cards wisely in currency matters in the past, as evidenced by colossal devaluations of the ISK since 1922.

Security matters were fiercely debated locally in both countries during the Cold War era. Post-independent Iceland has probably shown greater stability than Malta here. The politically charged debates were Iceland's membership of NATO since 1949 and the US operated NATO base at Keflavik for over half a century. To the outside world, Iceland was a strong and resilient ally in western security matters, while domestically it was not at unity. Malta's security matters were in British hands, formally until 1964 and through an agreement with the British government which retained armed forces on the island until 1979. After Mintoff came to power in 1971 he changed Malta's foreign policies from a western alliance to a more balanced or neutral position. Relationships were developed with China, North Korea and some Warsaw Pact states, Libya and support given to the cause of Palestine. Malta built up a strong relationship with Libya and received financial support from Gaddafi. Relationships with the US and NATO remained tepid. His foreign relations made some of his western allies edgy and apprehensive, especially the US and NATO. Malta, this previously small and quiet island in the Mediterranean, was suddenly making headline news over the world. Malta's foreign affairs policies and activities during Mintoff's tenure were wide-ranging, sporadic and at times spontaneous.

The review of economic policies has shown how challenging the choices of economic policy mixes and the appropriate policy instruments can be for small open island economies like Iceland and Malta. Despite sharing some policy priorities, experiences and approaches since independence, the economic policies and instruments adopted have been quite dissimilar. The principal strategic sectors of each small island state are fundamentally different and their spin-offs and linkages to the rest of the economy non-identical, including repercussions on

macroeconomic and foreign trade policies. It is no coincidence that sectoral industrial policies have played a major role in Iceland and Malta, like in many other small open economies.

The paper has shown how Iceland and Malta overcame the disadvantages of small island statehood and adopted a good mix of public policies, with positive implications. The economic progress of the two island states was achieved through different strategies and political economy approaches in the pursuit of economic growth and development. Both island states enjoyed sustained economic progress despite being swayed by a geographical separation and 'islandness'. Iceland´s economic level (GDP or GVA per capita) was higher but Malta's long term economic growth rate exceeded that of Iceland.

The paper has indicated differences in the impact of the electoral systems on government strategies and policy choices under dissimilar proportional representation systems, i.e., multi-party politics and coalition governments in Iceland and two-party politics in Malta with alternating one-party governments all the time, a topic which might warrant separate research. The paper has revealed how a dependence on a rich natural resource and one over-riding export stable has shaped, influenced and challenged economic progress in Iceland, as well as political strategies and public policy formulation, with a preponderant 'one industry' policy focus. Contrarily, the lack of natural resources and growing economic diversity, i.e., after the de-industrialisation of the dockyards, did probably contribute to a greater macroeconomic stability in Malta.

Sovereignty has been unequivocally conducive to economic growth and societal progression in both Iceland and Malta. Each island state would probably have been in a different and less favourable disposition at present had they not gained independence during the mid-twentieth century. This 'sovereignty' leap is also visible when the two small states are compared to non-sovereign islands and territories in their respective neighbourhood. Iceland set the pace with successful control, management and marketing of its fishery in its internationally recognized seas following the 'cod wars' of the 1950s and 1970s; while the Canadian province of Newfoundland and Labrador found itself without jurisdiction and helpless under federal indifference in fisheries matters (Hilborn, 2007). Malta also emerged as a successful and diversified Mediterranean economy, while the other islands of the 'Sicilian archipelago' languished at the mercy of national policies, determined in a remote capital, and under the control of local power networks (Baldacchino, 2015).

This study of Iceland and Malta demonstrates not only the virtue of sovereignty for small states but also its superior utility. Compared to larger states, small states tend to be generally quicker, less bureaucratic, more responsive and courageous in taking advantage of opportunities that rise on the horizon, and are more focussed and knowledgeable on local issues. They tend 'to make hay while the sun shines;' while larger nations are inclined to hang back and to dither amidst competing perspectives. In short, small states can be better sovereigns.

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