

# The Birth of the ‘Maltese Model’ of Development, 1945 – 1959

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## Introduction

In spite of the small size of its landmass and population, and its lack of natural resources, during the second half of the 20<sup>th</sup> century Malta experienced a significant process of export-led industrialisation driven by foreign direct investment and foreign technology (henceforth ELIFIT)<sup>1</sup>. The growth generated was sufficient to replace jobs lost with the rundown of British and NATO military bases (making further mass emigration to Australia, Canada and the US unnecessary and even to encourage return migration during the 1970s) and to pay for an expensive welfare state and a system of free public education up to and including university<sup>2</sup>.

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<sup>1</sup> The acronym is taken from Sklair, Leslie, *Assembling for Development: The Maquila Industry in Mexico and the United States*, Center for U.S.-Mexican Studies, University of California, San Diego, 1993, and stands for Export Led Industrialisation Fuelled by Foreign Investment and Technology. It refers to development policies based on attracting foreign capital for the setting up of export-oriented manufacturing industries. See Brincat, Mario, *Export-Led Industrialisation and Development in Malta, 1955 – 2000*, unpublished thesis (PhD), University of London, 2008; Muscat, Joseph, *Fordism, Multinationals and SMEs in the Periphery: the Case of Microstate Malta 1964 – 2004*, unpublished thesis (Phd), University of Bristol, 2007; Vella, Mario, “That Favourite Dream of the Colonies: Industrialization, Dependence and the Limits of Development Discourse in Malta (1994, 2009) for discussions of ELIFIT in Malta”, in *Maltese Society: a Sociological Enquiry*, Sultana, Ronald and Baldacchino, Godfrey (eds.), Malta, 1994; Vella, Mario, *Post-industrial or plain small and stunted? Deconstructing mainstream images of Malta's post-colonial economic development*, in Cutajar, J. and Cassar, G. (eds.), *Transitions in Maltese Society*, Malta (forthcoming).

<sup>2</sup> The history of the Maltese welfare state awaits detailed study. It can be traced to the entry into force of the National Insurance Act on 7<sup>th</sup> May 1956, followed by the National Assistance Act in early June. For some recent statistics about the current extent and level of expenditure see Government of Malta, *Responsibility, Sustainability, Solidarity: Budget 2009*, Malta 2008; Economic Policy Division, Ministry of Finance, the Economy and Investment, *Economic Survey*, November 2008, Malta, 2008, National Statistics Office, *Social Protection: Malta and the EU 2008: Data 2003-2—7*, Malta, 2008; The Today Public Policy Institute, *The Sustainability of Malta's Social Security System: A Glimpse at Malta's Welfare State and Suggestions for a Radical Change of Policy*, 2009.

Malta's location is not irrelevant to its economic history. It has played a significant role in determining the configuration of circumstances linked to the strategic as well as tactical choices made by the various stakeholders involved, nationally as well as internationally. Although this contextual dimension, ultimately a geopolitical one, goes well beyond the scope of this paper, a few indications will help establish the background to our discussion.

It ought to be pointed out at the outset that Malta had already undergone a significant degree of industrialisation before 1945, although the process was directed towards the provision of services (mostly naval repair) rather than goods<sup>3</sup>. It was a kind of industrialisation for which Malta was superbly located from the point of view of the investor (i.e. the British colonial state). This industrialisation process did not, of itself or directly, produce a surplus but nonetheless supported a complex division of labour and a very significant degree of urbanisation. Four features distinguish this industrialisation from that typically experienced in Western Europe and elsewhere. The first is that it was not accompanied by an 'industrial revolution': outside the enclave formed by the naval dockyard most productive activities continued to be carried out by sole traders and small family-owned and managed businesses (pre-capitalist, petty-commodity mode of production)<sup>4</sup>. Agriculture, fisheries, construction and even port operations remained relatively unmechanised<sup>5</sup>. Second, although the process was capitalist in the strict sense of the word (i.e. the labour force worked for a wage), it was not brought about by private businesses run for profit on capitalist lines: the naval dockyard and all its ancillary facilities continued to be state-owned until 1959, when it was privatised by the Colonial authorities. This leads directly to the third difference observed, i.e. that industrialisation produced a substantial (mostly urbanised), blue-collar working class (comprising skilled and unskilled segments) but not an industrial bourgeoisie – although the income generated did support, directly and otherwise, the rise of a substantial class of importers, as well as a petty-bourgeoisie of small traders, craftsmen and 'liberal' professionals. The incomes generated (including multiplier effects), by what can be described as the colonial 'military-industrial' establishment also helped the Catholic hierarchy to enlarge its already considerable wealth<sup>6</sup>, not to mention political and social influence (a process that was for the most part aided and abetted by the colonial authorities). In fact - and this is the fourth distinguishing characteristic of Malta's experience of industrialisation prior to

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<sup>3</sup> A significant volume of customised parts would have been manufactured in-house at the Naval Dockyard as part of the process. Other examples would be the baking of bread and biscuits at the Naval Bakery (Birgu/Vittoriosa) for the naval and military personnel based or passing through Malta, which was carried out on an industrial scale and the assembly of military aircraft during World War II.

<sup>4</sup> See Chircop, John, *Underdevelopment, the Maltese Experience, 1880-1914*, unpublished MA dissertation, Department of History, University of Malta, 1993.

<sup>5</sup> As the various reports quoted below will attest; see also catalogue of the Malta Chamber Of Commerce, Federation of Malta Industries, *Industrial Exhibition 1949, XII – XXVII November*, Malta, 1949.

<sup>6</sup> As the major landowner after the state it benefited from the generalised rise in property values and rents resulting from urbanisation, to which must be added the substantial amounts donated by the faithful.

1955 - it was not associated with anything like the same degree of secularisation as in Europe. In contrast, the sectors leading the industrialisation that took place in Malta after WWII, particularly from 1959 onwards, focused on the export of manufactures (although a production for the local market was not insignificant). It was also financed by private capital, though the fact that this was mostly foreign-owned meant that an industrial 'national' bourgeoisie continued to be absent.

Although British forces (Royal Navy, Royal Air Force and the Army) were to remain in Malta 1979 (fifteen years after Malta obtained independence and forty-four after the end of WWII), it was already evident soon after the end of WW2 that Britain would not be maintaining the same level of military presence as in the past. The succession of unilaterally decided lay-offs from Malta's Admiralty Dockyard in the 1950s and 60s, Britain's diplomatic humiliation following the Suez Crisis in 1956, the cancellation of the Blue Streak British ballistic missile project in 1960, and Britain's definitive decision to withdraw from bases East of Suez in 1968, provide the backdrop to development policy decisions in what had been (at least since the 1840s) one of the Empire's premier naval bases and the headquarters of its Mediterranean fleet.

Malta's history, tied to its particular geographical location, thus created conditions that made industrialisation possible, a process that was assisted by certain legacies of the colonial period. These included a 'reserve army of labour' created by accelerated rundown of British military facilities, which labour disposed of skills accumulated over one and a half centuries of servicing naval and other military hardware (including a practical working knowledge of the English language), and a package of investment incentives promulgated five years before independence with an eye towards potential British foreign direct investors. It was moreover the collapse of the colonial economy, and the consequent need to tap/create alternative sources of income, that created the political space/economic need for Malta's post-war industrialisation, by forcing stakeholders (colonial and ingenious) to come up with politically innovative solutions. Thus Malta's colonial experience gave rise to a set of conditions that help explain the occurrence of a significant degree of industrialisation in a location which would appear to have been unsuited for it<sup>7</sup>.

It is said that necessity is the mother of invention. The development model adopted by the Maltese in the late 1950s – let's call it the 'Maltese model' for convenience - was not the product of a gradual, linear evolution but of rupture with traditional modes of thinking, driven by the brute force of political-economic facts. Its emergence marked the abandonment of a world view - a 'hegemonic paradigm' - that had constrained the

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<sup>7</sup> Malta lacked the resources that have classically provided the basis/incentive for the development of large-scale manufacturing – mineral and/or agricultural resources, large domestic markets or a relatively good location in relation to such markets (e.g. distance from the UK, which provided the first large export market for the FDI-finance industries established in Malta from 1959 onwards). See documents quoted below for perceptions about the potential for industrialisation in Malta. For a very good overview of conditions in Malta at the end of the colonial period see Bowen-Jones, H, Dewdney, J. C., and Fisher, W. B., *Malta: Background for Development*, Department of Geography, Durham, 1961. See also Muscat 2007 and Brincat 2008.

thinking of generations of Maltese. Although a substantial continuity can be observed on the level of 'technical' economic content, the changes in economic and political thinking witnessed throughout the formative years of the model went beyond what would normally be expected to arise from the normal give and take of intellectual and political debate - ideas were not only refined and extended, but literally turned on their heads.

As is normally the case with debates of this nature, intellectual developments reflected and followed changes in the objective material conditions under which the debates were taking place, rather than the other way round. Moreover the conditions that triggered the changes observed below were mostly external to Maltese society. Thus, economic and political thinking about Maltese development was primarily driven (though not quite determined) by political and economic imperatives in London. Indeed, the very idea that Malta was viable as an independent state, and the economic thinking to support this view, appear to have arisen in response to the colonial power's need to disengage itself from a situation the economic costs of which had come to outweigh its political and military benefits. It is a fact that in radical circles similar ideas had been in circulation long before this time - but significant Maltese elites, and naturally the colonial power, took their time before coming round to such views, thus allowing a new historic/hegemonic bloc that would support this new dispensation to emerge. It is clear that the various Maltese elites that were the colonial power's interlocutors only went for full independence within the Commonwealth once other possibilities had been excluded, both internally and externally. The peculiar mode of Malta's integration into the British Empire meant that economic nationalism, if it manifested itself at all during those years, was directed towards economic betterment within the Empire, or what remained of it, rather than outside it.

The evolution of the model, of the various ways in which its various components were articulated and the final emergence of the development strategy can be traced through a number of significant documents, official or otherwise, the majority of which were published after World War II. These documents are significant either because they represent, or are themselves, significant milestones along the route to the development model, or because they are indicative of 'mentalities' or of the type of ideas that were in circulation during particular periods. The key official documents are:

- *Report* by Mr. N. Macleod, October 1943 (Macleod Report);
- *Report on the Finances of the Government of Malta*, September 1945, by Sir Wilfred Woods (henceforth the *Woods Report*);
- *Interim Report on the Financial and Economic Structure of the Maltese Islands*, May 1950 (the *Schuster Report*);
- *An Industrial Survey and Plan for Malta*, May 1950 (unpublished, known as the *Roskill Report*);
- *The Economic Problems of Malta: An Interim Report*, 1955 (the *Balogh and Seers Report*);
- *Report of the Economic Commission*, March 1957<sup>8</sup> (the *Schuster & Scott Report*);

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<sup>8</sup> The Report is dated March 1957 but the Interim Report had been completed in October 1956.

- *Development Plan for the Maltese Islands, 1959/64* (henceforth the *First Development Plan*).

The following non-official texts are also important:

- *Some Economic Aspects of the Constitutional Problem* (Henry Casolani)<sup>9</sup>
- *Make Malta Prosperous* (Henry Casolani)<sup>10</sup>
- *An Outline for Industrial Development* (Elias Zammit)<sup>11</sup>
- *In Defence of Malta Industry* (Elias Zammit)<sup>12</sup>

### Changing perspectives

Woods<sup>13</sup> had gone out of his way to disabuse the Maltese of any ambition for an economic existence that would be independent of British military expenditure, arguing that:

A survey of other resources [i.e. other than British military spending] leaves the impression that their development is possible to an extent which might slightly modify but could not radically change this dependence on imported money.<sup>14</sup>

The fundamental question, Woods argued, was whether existing circumstances could be altered in such a way as to create the conditions for Malta's economy to be expanded independently of United Kingdom expenditure in Malta<sup>15</sup>. His answer was that it was not reasonable, "to expect industrial development of sufficient magnitude to add materially to Malta's national income", although there was some scope for a limited industrial development<sup>16</sup>

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<sup>9</sup> Evidence of Henry Casolani to the 1931 Royal Commission on 5 May 1931; reproduced from *The Malta Chronicle and Imperial Services Gazette* of May 7, 8 and 9, 1931. Casolani headed the Emigration Department for several years and was the author of a series of reports including the very interesting "*Report on Emigration and Unemployment*" published in 1926.

<sup>10</sup> Originally a series of articles published in the *Daily Malta Chronicle* in September 1924.

<sup>11</sup> Originally a public lecture delivered at the Headquarters of the Federation of Malta Industries on Tuesday, 19 April, 1949.

<sup>12</sup> Originally a public lecture delivered at the Headquarters of the Federation of Malta Industries on Friday, 17 March 1950.

<sup>13</sup> Woods, Sir Wilfred, *Report on the Finances of the Government of Malta*, HMSO, 1945

<sup>14</sup> *Ibid.*, 2.

<sup>15</sup> *Ibid.*, 5.

<sup>16</sup> *Ibid.*, 7.

The only possibility of such development which was suggested to me is that favourite dream of the colonies, the establishment of a motor-car assembly factory to supply cars to a large adjacent territory<sup>17</sup>. There seems to be no reason to expect anything of the sort and industrial development must be thought of in terms of minor accretions to the national wealth which it is important to encourage but from which much cannot be expected.<sup>18</sup>

However, a mere fourteen years later the Maltese were being told something entirely different. The “Foreword” to the First Development Plan reiterates the long-felt need for effective measures to reduce the Maltese Islands dependence on Service spending, and recognised that Malta’s strategic value had been greatly reduced as a result of changes in Britain’s defence policy resulting from technological developments and changes in the economy. Thus, the wealth which Malta had in the past “derived securely and comfortably as a result of the crucial strategic role will inevitably decline”, and could no longer be relied upon to support the standards of living to which the Maltese had become accustomed. The plan therefore proposed to attract new industries, develop tourism and build up the country’s physical infrastructure.<sup>19</sup> According to the first development plan:

There is, in fact, no real choice. The only practical course is to direct every effort, of investment, administrative measures and legal machinery, and of the skills of the people, towards the achievements of a self-supporting and viable economy which will, of itself, sustain and in due course improve the living standards now attained [...] The aim of economic and political policy must, therefore, be to make a considerable diversification of the economy in the next few years, the shock of the change being cushioned by the still continuing and substantial, though declining, service spending. Put briefly it means that Malta must get out into the world and earn its own living in other ways than it has done in the

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<sup>17</sup> The idea appears to have been in circulation as early as 1926. See pg. 9 of “The Dockyard Question” by “Patriot”, extracted from *The Malta Herald*, nos. 6211 to 6217, (1926). The tone of the article is polemical and the ideas confused, but it is interesting for raising the possibility that foreign capital could substitute for Maltese in Malta’s industrialization.

<sup>18</sup> Woods, 7, 8. Woods mentions a number of industries, some already in existence (manufacture of gloves and briar gloves), others under consideration (manufacture of leather boards, footwear and also cement). Both local and outside capital were said to be interested. Woods believed that small industries should be encouraged, and that their establishment was likely to be facilitated by the large volume of savings that had been accumulated in some quarters during the war. He appears to have been thinking both in terms of import substitution and export promotion, though on a small scale. His ideas about the development of tourism were similar: Woods expected that its contribution would be useful, but minor.

<sup>19</sup> Government of Malta, *Development Plan for the Maltese Islands, 1959-64* (First Development Plan), Malta 1959. The Foreword to the first development plan is dated 14 October 1959. A first draft of the Plan (based on a pre-existing framework) was sent to the Colonial Office in March 1959; the final approval of the Secretary of State for the Colonies was received in August of the same year.

past, when its living was secured by the realising of the strategic assets of its harbours and geographical position.<sup>20</sup>

The model proposed in the first development plan was clearly of the type that was later to be labelled Export-Led Industrialisation Fuelled by Foreign Investment and Technology (nowadays part of the reigning economic orthodoxy):

... by the very smallness of the home market, any significant industrial development must look largely to the highly competitive export markets in the United Kingdom and elsewhere, particularly in the Mediterranean and African markets. The lack of natural resources other than industrial skill, make it imperative to offer substantial inducements for overseas industrialists to invest in Malta. Together with such inducements the basic physical services needed for industrial development (efficient harbour facilities, adequate roads, power and the like) must be provided, together with the necessary administrative background of up-to-date commercial legislation, a suitable tax structure, and modern customs duty and drawback arrangements. Even so the task of winning export markets is formidable, and will demand a high level of efficiency and productivity in relation to wage levels.<sup>21</sup>

The model therefore required investment incentives (over and above the “suitable tax structure”) if it was to work: “As Malta has no particular advantage to offer to potential industrialists, substantial direct aid is necessary if industry is to be attracted to Malta.”<sup>22</sup>

This direct aid was to include the provision of cheap serviced factory space or sites, grants and loans for the establishment of new industries and the expansion of existing ones<sup>23</sup> a ten-year tax holiday and exemptions from import duty on imports of capital goods and material inputs. All of this was to be available through the Aids to Industries Ordinance, published on 14 April 1959.

The idea of encouraging any degree of import substitution appears to have been discounted. Price and other controls that would “distort the workings of a free economy”, such as quantitative import restrictions, rationing and subsidy arrangements would have to be gradually dismantled, thus aligning Malta to the “free enterprise half of the world”, where “the law of the market, and its stimulus to efficiency and competitive operation must be given free play, and the distortions of state intervention reduced to the minimum.”<sup>24</sup>

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<sup>20</sup> Ibid., para. 5.

<sup>21</sup> Ibid., 3, para., 6(ii).

<sup>22</sup> Ibid., para. 34-36.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid., 7, para. 18(iv).

This model - export orientation plus foreign direct investment attracted to Malta by means of investment incentives, a good productivity/wage ratio and adequate physical infrastructures - was to be embraced with varying degrees of success and few modifications by all Maltese administrations for the next forty years.

Thus, over a span of fourteen years, official economic thinking had moved from a purely 'colonial' model that considered the Maltese islands to be nothing more than a British military facility that happened to have a small hinterland attached to it, and for which independence was neither feasible nor desirable, to one where the Maltese islands were expected to find their own way as an independent country<sup>25</sup>. The meaning of 'economic development' as understood in official parlance also changed, from being a financial question centred on the balancing of government finances to one of economic restructuring as the basis for economic viability.

### **Precedents**

The ideas that were combined to produce the model that was officially launched by the first development plan had been in circulation for generations<sup>26</sup>. There was nothing new in the idea that the Maltese economy was pathologically dependent on the British connection - an idea that runs like a thread through all the documents that will be discussed below (the first document quoted below appeared before WWI and anticipated the First Development Plan by forty-seven years). The differences lay in the authors' attitude to this basic fact of economic life: could something be done about it, and if yes, what?

The desirability of some degree of economic diversification, even of industrial development, and the difficulties – cultural and material – in its way had already been recognised by the Royal Commissions of 1912<sup>27</sup> and 1931.

For centuries the people of Malta have never been a self-supporting community. Their own agriculture, industries, and commerce have never supported them. They have always been able to rely on a large expenditure in the Island of revenues drawn from outside sources. This has by no means produced a pauperised and parasitic population, but it has diverted industry from production for internal consumption and external trade to work for the Government and the foreign governing class. [] Doubtless this expenditure has led to immediate prosperity, to an increase

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<sup>25</sup> Independence was not formally on the agenda when the First Development Plan was published.

<sup>26</sup> Chircop, 1993, *passim*.

<sup>27</sup> See HMSO, *Report of the Royal Commission on the Finances, Economic Position and Judicial Procedure of Malta*, London, 1912. The Commission was appointed on 12 August 1911, began to hear evidence on 13 November 1911, and finished on 2 January 1912. The Commission's report was presented to the UK Parliament in May 1912.

of activity, wealth and population, but the basis of this prosperity is artificial and precarious. A sudden withdrawal of the British fleet and garrison would reduce a large section of the population to idleness and starvation.<sup>28</sup>

In 1924, just twelve years after the publication of the Royal Commission's report, Casolani (1924) could write that:

The fact that Malta is, practically, an unproductive country and that it is entirely dependent for her existence on uncertain factors, has long been patent to the mind of every careful observer. In comparison to our imports our exports are a negligible quantity.<sup>29</sup>

[...] the stripped fact remains that all those who go to constitute the fabric of our Society – Ecclesiastics, Noblemen, Landowners, Professional men, Tradesmen, Government Officials and Labourers of every class, have been in the past and are today, absolutely dependent, be it directly or indirectly makes no difference, on the three factors that I have named: the Steamer, the Soldier, and the Sailor of the British Fleet.<sup>30</sup>

Casolani proposed to reduce this dependence by developing tourism on a large and nation-wide scale. He envisaged an important role for the state, which would plan the overall development of the industry, provide sites for hotels, set and maintain quality standards, and market the country abroad – but beyond that the industry would be left to private initiative. Casolani explicitly, and favourably, refers to the possibility that foreign capital and hotel chains could be involved. Seven years later (and twenty-four years before Balogh and Seers would refer to economic fossils), in his presentation to the 1931 Royal Commission, Casolani (1931) described Malta as a 'parasite' which would die if torn from the plant it fed on<sup>31</sup>:

Until we strike gold or oil, our only asset is our unique position in the Middle Sea, which arbitrarily compels us, permanently, to be somebody's ward. As such, our action should constantly be aimed at making the most of that position by amicable bargains with our guardian in the direction of securing the fullest moral and material concessions within the Empire.<sup>32</sup>

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<sup>28</sup> Ibid., 12.

<sup>29</sup> Casolani, Henry, 'Make Malta Prosperous', *Daily Malta Chronicle*, 1924, 2.

<sup>30</sup> Ibid., 2.

<sup>31</sup> Casolani, Henry, 'Some Economic Aspects of the Constitutional Problem', *The Malta Chronicle and Imperial Services Gazette*, May 7-9, 1931, 3-9.

<sup>32</sup> Ibid., 5

World War II intervened, pushing such concerns to the background, but the questions started to be asked again almost as soon as the siege had been raised. In October 1943 N. Macleod had the following to say about the Maltese economy:

Such a large population was able to exist and even to maintain a higher standard of living than the people of the neighbouring Mediterranean countries, because about one man in every five was directly employed by the Navy, Army or Air Force, and probably as many more made a living by selling goods or rendering services to these Departments of the Imperial Government or their employees. According to the Indian sages, the world is supported by an elephant, which in turn stands on a large tortoise; even so the little world of Malta depends on the Fighting Services, and these in their turn are supported by the British taxpayer. No amount of zeal, loyalty or efficiency on the part of the Maltese can make such an economic position other than precarious [...].<sup>33</sup>

The Maltese economy was still as dependent on British military spending as it had been at the time of the 1912 commission. Macleod's analysis also implied that economic conditions were bound to deteriorate once spending returned to its peace-time levels. The reconstruction process could be relied on to stimulate the economy for a while, but there were already those who were thinking ahead to a time when the process would have no longer been able to sustain the economy. In this regard it was not to be official British thinking that would show the way.

In the late 1940s and early 1950s Elias Żammit and the Federation of Malta Industries<sup>34</sup> of which Żammit was founder president, were vocal in their lobbying for the adoption of a pro-active industrial policy. Żammit's proposals were probably the most detailed and comprehensive to have appeared so far from any source, Maltese or foreign,

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<sup>33</sup> Macleod, N., *Report*, Malta, 1943

<sup>34</sup> The Federation started out as a splinter group from the Chamber of Commerce; see Vassallo, Mario, *The Federation of Industries: Four Decades of Service to Industry in Malta* (Malta, 1986) for background. A comprehensive statement of Żammit's ideas can be found in "*An Outline for Industrial Development*", lecture delivered on 19 April 1949 and "*In Defence of Malta Industry*", lecture delivered on 17 March 1950 (both of which were published in Malta by the Federation of Malta Industries. Żammit was not the first to call for an industrial policy that went beyond the granting of ad hoc monopolies: the electoral 'Compact' of 1927 between the Constitutional Party and the Labour Party had included agreement on the "removal of customs duty on raw material and the requirements of industry". The two parties had also agreed to promote technical education. In the inter-war period the Constitutional Party was the expression of part of the pro-British bloc, particularly the 'new' middle classes that had come into existence as a result of the changes that took place during the British period. Its relationships with the Catholic hierarchy were often strained. The 'Compact' parties won the General Elections held in August 1927, but their stay in power was short-lived (Cf. J.Chircop, *The Left Within the Maltese Labour Movement*, Malta, 1991), 43-58.)

calling for planned efforts to create new industries, improve and extend production and cut imports.<sup>35</sup>

Żammit appealed for a measure of protection from imports, the revision of the customs tariff schedule, the establishment of a Department of Industry and of an Advisory Trade Board. He called for a “consistent policy in which industries are possibly collectively rehabilitated and possibly not individually patched up” and that would see that basic industries and services – power, water, shipping and other transport, construction and agriculture operated at their full efficiency and power<sup>36</sup> and for “a strong official policy, a concerted action by Government, to secure a permanent organized direction and assistance.”<sup>37</sup> Żammit also took issue with unnamed ‘financial experts’ (most probably Woods) who had repeatedly warned that Malta could not industrialise to any significant extent due to its lack of raw materials. Highlighting the fact that the most industrialised countries of Europe were also the biggest importers of raw materials Żammit pointed to the development of the naval base in Malta as proof that the establishment of complex industrial production in Malta was possible. Malta’s location close to the convergence of several important sea routes gave it access to supplies, and would allow the establishment of many industries were it not for the many restrictions hindering the purchase of capital goods and industrial supplies<sup>38</sup>

At around the same time that Żammit was making his proposals, and a mere five years after the Woods Report the Schuster Report (1950) was already calling for the development – which the authors considered to be difficult but by no means impossible – of export-oriented industries<sup>39</sup>. Schuster’s was the first publicly available official report to suggest that effective measure could be taken to significantly reduce the Maltese Islands’ dependence on UK military spending. Previous reports had understood the desirability of such a change but did not believe it was possible to any significant extent. However, the focus of the exercise was still budgetary, and Schuster considered sound government finances to be a prerequisite for ‘healthy’ economic development. At the same time he confirmed that economic activity was ‘dangerously dependent’ on the British military and predicted that it would decline sharply once reconstruction came to an end, unless new lines of activity were developed. The size and rapid growth of the population compared to slim agricultural resources and non-existent indigenous sources of raw materials made it compulsory to develop new sources of wealth.

Schuster mentions industrial and agricultural development as well as tourist traffic. However, industrial development had to be outward-looking: new industrial production would only improve matters if efficient industries were created that were capable of exporting their output and thus help pay for essential imports. It is worth noting that in

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<sup>35</sup> Żammit, 1949.

<sup>36</sup> Żammit, 1950, 4-9.

<sup>37</sup> Żammit, 1949, 6.

<sup>38</sup> Żammit, 1950, 20.

<sup>39</sup> Schuster, Sir George E., *Interim Report on the Financial and Economic Structure of the Maltese Islands*, HMSO, 1950, XVIII.

spite of his relative optimism (compared to Woods, for example), Schuster did not believe Malta could do without what he described as a properly balanced emigration policy. Schuster suggested that a figure of 10,000 emigrants *per annum* for the next few years would be a reasonable target<sup>40</sup>. He also emphasised the need for an increase in the number of skilled people as a proportion of the labour force. Schuster considered this to be essential for the success of industrial development, especially in view of the intensified emigration policy that was being proposed<sup>41</sup>.

### **Integration proposals and the First Development Plan**

By end of 1954 the constitution<sup>42</sup> was unanimously acknowledged to be in need of radical revision, but the production of a formula that would satisfy both the aspirations of the Maltese (which by then included rapid economic and social development) and imperial military interests was proving to be extremely difficult. Controversies about constitutional arrangements tended to obscure the fact there was substantial agreement about economic fundamentals. The Progressive Constitutional Party called for ‘quasi-dominion status’, involving the transfer of Maltese affairs to the Home Office on lines described as similar to, but broader than that those applied in the case of the Channel Islands. The Nationalist Party looked towards a form of Dominion Status in which London would retain responsibility for defence and foreign affairs and the Maltese parliament would be responsible for all other issues, while the Malta Labour Party’s preferred option was union with the United Kingdom, with ‘self-determination’ as a fall-back position should ‘Integration’ prove to be impossible<sup>43</sup>.

The details of the competing proposals need not detain us here. For our purposes it is important to point out that none of those involved believed that it was possible for the Maltese economy to do without the British, or that the British would agree to surrender, or even to share, control of Malta’s harbours, airfields and airspace. Both the Nationalist and the Labour Party proposals aimed to make the British to pay a ‘fair’ price for their use of Malta as a base for their military operations, and both major parties appear to have accepted that the British would not grant full political independence. Pirotta argues that the “British connection” was taken for granted by the majority of the Maltese, who believed that Britain would never voluntarily give up the islands, and that in any case Malta would not be able to survive without the British. The Integration proposal therefore appeared to allow a convenient compromise between economic development, security and national pride<sup>44</sup>. The proposal made a virtue out of necessity – recognising the fact that in economic terms Malta was then, and was expected to remain for the

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<sup>40</sup> Ibid., XVI.

<sup>41</sup> Ibid., X.

<sup>42</sup> The 1947 constitution re-established responsible government and the diarchy (a system whereby powers were divided between the Governor and the Maltese parliament).

<sup>43</sup> See Malta Labour Party, *Electoral Manifesto*, 1955

<sup>44</sup> Pirotta, Joseph M., *Fortress Colony: The Final Act*, Vol. II, 1955-1958, Malta, 26, 27.

foreseeable future, a mere extension of the British military complex by integrating it into its metropole. In so doing (its backers argued) Integration would also have created conditions that could have been conducive to economic diversification: London would have been obliged to make substantial contributions to development budgets, while political stability would have inspired business confidence.

The MLP's preference for Integration almost certainly reflected its class basis: an alliance between the industrial working class of the harbour area and a 'modernising', anglophile fraction of the middle classes. Integration would have protected the employment of the first and aided the agenda of the second. The then leader of the Malta Labour Party, Dominic Mintoff – by profession an architect, the son of a 'respectable' working class family from Bormla/Cospicua (a part of the harbour region and one of the most closely associated with the Naval Dockyard) who went to Oxford on a Rhodes Scholarship and married an Englishwoman – was himself an excellent example of the range of the social/cultural/economic milieu to which the idea appealed.

The MLP manifesto for the 1955 described the Integration proposal as the "gradual incorporation of Malta into the political, financial and social institutions of the British Isles". It was foreseen that this objective would be reached over a 20-year period. Malta would have its own representatives at Westminster and "enough safeguards to keep intact the full rights and privileges of the Roman Catholic Church in these Islands". The UK would guarantee that aid "to raise the social status of the people of these Islands to heights recorded in Great Britain" would be forthcoming<sup>45</sup>.

Following the MLP's electoral victory on the basis of the above, the British government agreed to discuss the Integration proposal. In doing so it was to a certain extent adapting its policies to Maltese realities. Malta's function as a fortress, and the essential role that Maltese civilians played within it, meant that Maltese sensibilities had to be taken into account. In the mid-1950s the British opted to support Integration (in spite of some misgivings in London) as an alternative to Independence, which London considered to be 'intolerable' but which it would have to accept if the two main political parties were to make common cause as a reaction to British inflexibility<sup>46</sup>.

The *Interim Report* submitted by Balogh and Seers to Prime Minister Mintoff (who had commissioned it) on 14<sup>th</sup> June 1955, was technically speaking an economic policy document, but its implications can only be fully understood against the background of the constitutional debates mentioned above. It was perhaps the best example, up to that time, of an attempt at coherent policy making on the part of a section of the Maltese elite<sup>47</sup>. It

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<sup>45</sup> *Times of Malta*, 25 Jan. 1955.

<sup>46</sup> At this point the only alternative (i.e. to a British connection of some sort) option available to the Maltese that was both (perhaps) politically and economically feasible would have been to offer the naval facilities to the US.

<sup>47</sup> Balogh and Seers comment that "*The strategy required is neither novel nor hard to devise*", as it had already been outlined by several experts who had reported before them, particularly Woods (who is also credited with the idea that Malta would benefit from a series of five-year plans), Schuster and Roskill (*Balogh and Seers Report*, xxiii, para. 89).

was also the first time, in a Maltese context, that a concrete programme of export-led development based on foreign direct investment was officially proposed<sup>48</sup>.

Balogh and Seers (1955) is a detailed 44-page report divided into six major sections. The more interesting for our purposes are Sections II on “The Fundamental Economic Problems of Malta” and Section IV on “The Strategy for Development”<sup>49</sup>. The outline given in the Interim Report explicitly confirms the findings and recommendations made by previous reports, chiefly those by Woods, Schuster and Roskill. Balogh and Seers concluded that there appeared to be enough skilled labour available to support a higher level of industrial output, and that Maltese workers were adaptable, versatile and capable of matching British workers “for the same jobs given the same tools”, providing that management was good and exercised adequate supervision. The scarcity of managerial cadres was held to be a major obstacle to the development of private industry in Malta, but the involvement of foreign capital was even more essential. Balogh and Seers believed that successful industrialisation depended on Malta’s success in attracting foreign firms, ‘especially British ones’.<sup>50</sup>

The main attraction of Malta must be to firms with relatively large labour costs. Materials and fuel are usually expensive in Malta for obvious reasons. But there is a large body of intelligent and adaptable labour at wage levels which must (in the best of circumstances) remain below those of the United Kingdom for some time to come. This is the greatest attraction of Malta to overseas firms, and therefore it must play a big part in stimulating the birth of industrialisation. In due course, the difference between wages in Malta and in the United Kingdom would narrow, but by that time industrialisation would have acquired a certain momentum.<sup>51</sup>

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<sup>48</sup> See, for example, paragraphs 97 to 109, on pages xxv and xxvi. The project echoed the experience of Puerto Rico, which like Malta was under foreign rule (that of the US) but enjoyed a substantial degree of internal autonomy. The legislature of Puerto Rico adopted the Industrial Incentives Act of 1947 which, as amended in 1948, granted private firms a ten-year exemption from insular income and property taxes, excise taxes on machinery and raw materials, municipal taxes, and industrial licenses. The exercise has become known as ‘Operation Bootstrap’ and bears interesting similarities to what was being proposed by Balogh and Seers in the economic sphere and by their patron Mintoff in the political. These are not explored in the report, though it can reasonably be assumed that the trio were aware of them.

<sup>49</sup> A detailed programme for industrial development is not included. Balogh and Seers intended to make detailed proposals in their second report, but as far as is known this was never completed.

<sup>50</sup> Balogh and Seers, 1955, XXIII, XXV, XXVI. Balogh and Seers accompany this paragraph with a footnote giving Puerto Rico’s publicity campaign in the USA press as an example of what could be done for Malta.

<sup>51</sup> *Ibid.*, XXVI.

It was foreseen that the “inducements” in the form of tax concessions would be necessary (para. 107), and that a long-term plan stretching over a number of four or five year periods, as proposed by Woods, would be required (para. 128).<sup>52</sup>

Any considerable expansion of Malta’s national income (apart from employment in United Kingdom Services) will have to come from more intensive exploitation of the land, or from production for export markets of the limited range of consumer goods which her resources in labour make possible. (para. 124)

The development of Malta must be based on a programme of lifting productivity in all sectors of the economy – in the dockyards, in manufacturing and in agriculture, to name the most important. Then, and only then, would a general increase in wages and in living standards have a firm foundation. (para. 125)

Balogh and Seers (especially Balogh) were strong supporters of Integration with the United Kingdom but were at the same time realistic about the economic implications:

...Malta’s development and stability would be automatically assisted under the “development area” arrangements for dealing with economically backward areas within the United Kingdom, Maltese social expenditures would be raised with external help towards the United Kingdom standards, and a much more direct political channel would be provided for influencing Service expenditure. The effect would be to open up new and permanent sources of finance. Naturally, while these consequences would greatly help Malta, they would have to be introduced carefully and gradually over a period of years so that the integration would be a natural growth, as we have emphasised before. Otherwise there would be a severe economic dislocation, e.g. arising out of the abolition of tariffs which now protect Maltese industry, apart from serious administrative problems.<sup>53</sup>

...fiscal integration and equalisation of wages can only be gradual. British taxes, wage levels and social services have been gained by raising productivity. Malta’s moral case is that she should be enabled to do the same, not that she should be given these standards before earning them.<sup>54</sup>

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<sup>52</sup> Balogh and Seers also made recommendations on fisheries, oil exploration, tourism, and agriculture (ibid., XXVI, XXVII).

<sup>53</sup> Ibid., XXXIII.

<sup>54</sup> Ibid., II.

The emphasis, therefore, was on creating the political and economic conditions for sustainable development through industrialisation. Some of Balogh's comments during the Parliamentary Round Table Conference illustrate the above statements in greater detail. To Clement Attlee's question as to "what particular advantage you can hold out to private business to do something in Malta", Balogh replied:

Just the availability of labour. There is labour relatively cheaply available, that is the only attraction of Malta. There is an additional advantage and that is that it is very near to very important markets in the Mediterranean.

Balogh believed that British heavy industry, particularly exporters of capital goods, could be persuaded to establish depots for servicing their clients in the region, but admitted that this could not happen unless the port was reorganised<sup>55</sup>. Extension of the Industrial Location Act to cover the Maltese Islands would also be essential.

Thus the Balogh and Seers report shares with the first development plan a belief in the need for export-led diversification of the Maltese economy and in the key role of foreign direct investment. The most important difference between the two documents (over and above the idea of representation in Westminster) lies in the Interim Report's attitude towards the colonial authorities – Balogh and Seers promote the idea that years of loyal service to the British empire had created obligations towards the Maltese that could be redeemed by means of substantial economic assistance<sup>56</sup> towards the creation of a new economic structure to replace that which the British had themselves created in Malta.

We have urged, however, that Malta's case is primarily a moral one: Britain should now contribute to the diversification of an economy that has become so specialised, and should help Malta move towards home standards of living.

This was precisely the type of ideas that authors of the First Development Plan would eventually describe as 'demoralising' and 'clearly not within the bounds of possibility'<sup>57</sup>

Balogh and Seers' report was presented to the Maltese Prime Minister a few weeks before the Round Table Conference was to be held in London between September and December 1955. The conference confirmed that full self-government or quasi-dominion status were not possible or workable because of Malta's status as a fortress, and recommended that the Maltese should be represented at Westminster, if they so chose. The Maltese parliament would be able to legislate on all matters other than defence, foreign affairs and, eventually direct taxation. It would remain responsible for legislation "on all domestic affairs and in particular on such matters as the position of the Church, Education and Family Life."

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<sup>55</sup> *Times of Malta*, 6 October 1955.

<sup>56</sup> Balogh and Seers, 1955, XXXV.

<sup>57</sup> *First Development Plan*, 1959, 2.

The proposal eventually failed, mostly due to disagreement between the Maltese government and London over the value, nature and timing of the economic assistance to be given to Malta. Concerns over the status of the Catholic religion after integration with a secularised, officially Protestant country (in spite of the guarantees promised by the Round Table Conference) also appear to have been important, as were fears of higher taxation in some quarters<sup>58</sup>. A referendum held in February 1956 gave ambiguous results: of the 149,536 persons eligible to vote, 67,607 were in favour, 20,177 against and 2,559 cast invalid votes. The results (75% of those who voted were in favour, but they representing only 45% of all eligible voters) would both have reduced Mintoff's bargaining power and given comfort to those in London who still sought an alternative to Integration. Negotiations continued but the post-Suez environment was much less friendly to the proposal. The alternative, i.e. independence plus defence treaty and financial aid, which had been described as 'intolerable' by Lennox-Boyd in June 1955, became less so from London's point of view. Failure of the Integration initiative therefore cleared the way for the adoption in 1959 of a programme based primarily on export-led development fuelled by foreign direct investment (ELIFIT) in 1959, and eventually Independence in September 1964.

The Aids to Industries Ordinance, enacted on 14 April 1959, embodied the kind 'inducements' that Balogh and Seers considered necessary for the attraction of foreign direct investment to Malta. The Ordinance provided for assistance to investors by way of grants, loans at preferential terms, and tax reliefs, including a ten-year tax holiday, beneficiaries of which were to be allowed to carry losses forward and offset them against future profits. It also introduced exemptions from customs duty on imports of capital goods, raw materials and components required by exporters. The First Development Plan (also published in 1959) too had mentioned the imperative to offer 'substantial inducements'<sup>59</sup>. Work on the first, government-owned, industrial estate also started around the same time as the launch of the Ordinance. From their very beginning, Malta's incentives for export-oriented foreign direct investment (FDI) have not been circumscribed to a particular area of the country (e.g. specific regions or segregated industrial estates). In effect each factory could be treated as an autonomous 'Export Processing Zone' (EPZ)<sup>60</sup>, a fact that has frequently been seen as a selling point and highlighted by the Malta Development Corporation's (MDC) promotional literature<sup>61</sup>.

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<sup>58</sup> See The Economist Intelligence Unit, *The Fraser Report (Part Four): Taxation in the UK and Malta* (reproduced in the *Times of Malta*, 31 October 1955, 4). The report, drawn up by Campbell Fraser of the Economist Intelligence Unit, was presented to the Malta Round-Table Conference by the Malta Chamber of Commerce, the Federation of Malta Industries and the General Retailers' Union.

<sup>59</sup> Work on the draft of the Ordinance and the Development Plan had begun in 1956, at a time when Balogh and Seers were still advising the Maltese government.

<sup>60</sup> See UNIDO, *Export Processing Zones in Developing Countries*, UNIDO Working Paper on Structural Change, Geneva, 1980 UNIDO, 1980, 6, highlighting the separation of the export-processing zone (EPZ) from the rest of the host country, in both spatial and legal terms, and its reliance on special legislative regimes designed to attract and foster export-oriented industries and/or FDI. Similarly Dicken, P., *Global Shift: Reshaping the Global Economic Map in the 21<sup>st</sup> Century*, London-New Delhi, 2003 (p.130)

Within four years the Aided Sector<sup>62</sup> had become significant enough to make its first appearance in the regular official statistical publications. According to the *Census* of 1963 (published in 1965) the 23 aided establishments in operation that year (compared to 981 non-aided manufacturing establishments) had reported a share of gross output that was out of proportion to their number: Lm 2 million compared to Lm 11.6 million (2.3% of enterprises but 17.2% of total output). Aided industries tended to employ more people, on average, than non-aided ones. Broadly speaking, the data available suggested that aided industries, besides being larger than non-aided in terms of sales and employment, were also more capital intensive and paid higher wages and salaries per capita than older, non-aided establishments. Output and margins per capita were also higher than in other establishments<sup>63</sup>. Textile producers were the biggest beneficiaries in the first years, and by 1966 some 56% of total domestic exports were made up of textile products, particularly yarns, all of which were produced by four heavily-aided enterprises, all of them foreign-owned and capital intensive (total employment 900; one of the firms was still in existence in 2009).

The same publication also provides the first published figures on the contribution of FDI-funded enterprises to industrial production in Malta. The report noted the existence of 20 limited liability companies<sup>64</sup> that were either affiliated to, or owned by overseas companies, and estimated their contribution to total gross output at 22.5%, and to wages and salaries at 15%. No information was given about their exports or market orientation, though it is reasonable to assume that most were export-oriented. The characteristics of this group suggest that it overlapped with the Aided Sector to a very considerable extent. The report concluded that the local manufacturing sector was not at that time (i.e. in 1963) dominated by companies with foreign interest, even though their contribution was significant.

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describes EPZs as “export enclaves within which special concessions apply”. These special conditions usually include special investment incentives and trade concessions, exemption from certain kinds of legislation, provision of all the physical infrastructure and services necessary for industrial activity, usually including premises at relatively low cost or rent, and the waiver of restrictions on foreign ownership. UNIDO 1980 supplies a number of rationales for the establishment of EPZs, including the promotion national and regional development, the creation of new employment opportunities, the earning of foreign exchange, the acquisition of skills and technology.

<sup>61</sup> In many respects the Ordinance offered the same kind of package as the EPZ at Shannon (Ireland), which was itself being launched in the same period (and which has often been held up as the ‘prototype’ EPZ).

<sup>62</sup> The ‘Aided sector’ is the collective term for all enterprises receiving some form of assistance from the Government, initially under the Aids to Industries Ordinance of 1959.

<sup>63</sup> Central Office of Statistics, *Census of Production Report*, Malta, 1963, x – xvi.

<sup>64</sup> Three operated in the food and beverages sector, six in textiles, footwear and wearing apparel, one in printing and publishing, four in chemicals, one in non-metallic mineral products, two in rubber products and transport equipment, and three in the miscellaneous sector. Limited liability companies that were entirely Maltese-owned totaled sixty-seven (Central Office of Statistics, 1963, xvi).

Thus, by 1962 Malta's adoption of the ELIFIT model was well established. Its importance as an effort in 'nation-building' would only be enhanced with Malta's independence from Britain, in September 1964. Give or take a few shifts in emphasis successive Maltese governments would continue to base their development policies on this model.

The export-led industrialisation and foreign investment proposed by Balogh and Seers was retained but taken out of its context. For Balogh and Seers (and their sponsors among the Maltese members of the old hegemonic/historic bloc) this was only half the programme, the other half being political and economic union with Britain. Rather like a 'flexible' business that turns over non-core functions to subcontractors, the colonial power had decided to outsource the running of its Maltese interests. The battleship was to be handed over to its crew. The mutually beneficial 'dependency' relationship (in some ways a symbiosis in which one side was dominant) that had tied substantial sectors of Maltese society to British imperial interests would not be dissolved but redefined, reformed in the light of new economic and political conditions. By the 1950s the original economic basis for this 'imperialist' historic/hegemonic bloc had been eroded: the new Maltese economy that was being born would be associated with a new alignment of forces.