

***ECONOMIC  
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STUDIES***

**BUSUTTIL  
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YASA  
FILIAS**

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**ECONOMIC  
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## PREFACE

The Departments of Economics and of Applied Economics of the Royal University of Malta have undertaken to publish a series of economic and social studies with particular reference to Malta and the Mediterranean. One hopes that, in this way, one is creating a medium for the dissemination of research work, relating primarily to socio-economic investigations of the Maltese Islands with occasional papers connected with other parts of the Mediterranean.

The present introductory volume contains four articles: Dr. I. Yasa and Dr. V. Filias, from Turkey and Greece respectively, tackle urbanization problems arising out of industrial development, Mr. A. Rote, formerly of this University, dwells on state provision for old age in Malta, while the undersigned appends a note on cost-effectiveness approaches to development, with particular reference to industrialization in Malta.

Salvino Busuttil  
Professor of Economics  
General Editor

Royal University of Malta  
January 1971.

# A NOTE ON COST-EFFECTIVENESS APPROACHES TO DEVELOPMENT WITH PARTICULAR REFERENCE TO INDUSTRIALIZATION IN MALTA

By SALVINO BUSUTTIL

## I GENERAL CONSIDERATIONS

It may be said that cost-benefit analysis is, in some respects, as old as economic science, and in other respects, a new technique. It is a scientific tool which attempts to establish, from different economic standpoints, the relative efficiency of investments.

The main aim of cost-benefit analysis is to act as a guide in the process of decision making. Essentially, in a macro-economic sense, it seeks to establish the costs or disadvantages, and the benefits or advantages, entailed by each of several alternative courses of action.<sup>1</sup> Such courses of action could be different ways of channelling investment from government sources into productive sectors of the economy; or, as in the present context, the efficiency of a given mode of government investment carried out according to a specific blue-print of industrial development.

In this sense, one must distinguish cost-benefit analysis as that form of project appraisal used to assess the viability of, for example, water resource developments, dams, transport and urban developments<sup>2</sup> from a form of appraisal of, for example, the cost-effectiveness of a government programme for economic growth. We are concerned here with this second type of approach.

<sup>1</sup> Cf. Peacock and Robertson, *Public Expenditure – Appraisal and Control*, London, 1963, p. 18.

<sup>2</sup> For discussions of several cost-benefit analyses and references to others, see John V. Krutilla and Otto Eckstein, *Multiple Purpose River Development*, John Hopkins Press, 1958; Otto Eckstein, *Water Resource Development*, Harvard University Press, 1958; Jack Hirshleifer, James C. Dettaven, and Jerome W. Milliman, *Water Supply, Economic Technology and Policy*, University of Chicago Press, 1960; Michael Beesley and D.J. Reynolds, *The London-Birmingham Motorway, Traffic and Economics*, Road Research Technical Paper, No. 46, London, 1960, Part II.

It may be useful here to elaborate on the nature of this approach since misunderstandings might arise concerning the goals and the limitations of this type of analysis. In approaching the cost-effectiveness of an industrial programme such as Malta's, one is essentially dealing with two completely different systems. For, one has an industrial programme stemming on the one hand from Government's role as the planner of development and on the other hand from the role of Government's partner (in the mixed economic system) which is the executor of that programme – namely, private enterprise. In effect this may imply different weights and measures as well as, in some respects, different aims.

In the case of Malta, the principal aim of Government policy has been the maximisation of investment measured primarily by the yardstick of employment while the aim of the private sector which has been channelling that investment into productive activity has obviously been the maximisation of profit. This distinction is of vital importance since in an industrial programme such as Malta's, one has two mechanisms at work; that of Government which may be basically socially-oriented and that of private enterprise which is basically economically-oriented.

Hence, in assessing the cost-effectiveness of such a programme, one must bear in mind that one is not necessarily comparing like with like – the benefit of the output may have a meaning for Government which is different from that which the private entrepreneur would give it; thus, for example, the uninhibited operation of the price mechanism is not normally considered by governments to be a useful yardstick of social benefit.

It must therefore be remembered that the effectiveness of private industry in Malta cannot be considered in absolute economic terms for purposes of Government decision making. It has to be a relative assessment subject to the constraints of social utility and to the framework within which industry operates.

This question has no mere academic importance but has also an important practical value. For some may contend that industrial output effected by the constraints of a Government-built infrastructure and of Government legislation and control might not be a good measure of benefit.

These constraints are real. Indeed, when they have reached such an extent whereby price mechanism could offer no guide at all to economic benefits (e.g. areas such as education and health); or where the investment was so large that its costs and benefits could not be conceived as marginal; or where external costs and benefits were very large – in all these areas cost-benefit analysis is well-nigh impossible to apply. On the other hand where, despite the constraints referred to above, the output is sold through the normal market channels and according to the normal price-

mechanism, a cost-benefit approach has its uses.<sup>3</sup> The most important consideration, is that however much some may denigrate cost-benefit analyses because of their constraints, one has to admit that since the 1930s<sup>4</sup> no other process has been developed to assess the cost-effectiveness of government investment.

The problem of the profit mechanism in a mixed industrial programme can to some extent be solved by assigning prices to all goods and services involved in the programme and by trying to ensure that such prices reflect their real costs and their real benefits to society. The difference between such costs and benefits would then be the yardstick of society's gain and would be social profit.

The assumption inherent in the above solution is that 'accounting prices' can be given to social costs and benefits which are quantifiable. It is evident that there is hardly any problem if one is dealing with goods or services which can be given a market value. It might appear that in a cost-benefit analysis of industry, where goods and services are sold, no difficulty arises and that consequently, one could have a completely valid cost-benefit analysis if one has fairly accurate values for outputs and inputs.

In effect, however, this is not always the case, particularly when one is dealing with a programme such as Malta's which implies such a drastic restructuring of the economy that there are bound to be inputs and outputs which are exogenous to pure economic performance. Furthermore, such a programme entails inputs (e.g. training) which produce benefits the measurement of which is not easy to specify or quantify.

We shall deal with inputs and outputs which have a mainly social rather than an economic content in another part of the study. With regard to the second type of inputs referred to in the preceding paragraph certain considerations may be made. The economic benefits of training, for example, may be viewed from three different stand-points:

1. From that of the individual trainee;
2. From that of Government budgeting; and
3. From that of the overall economic situation.<sup>5</sup>

To the individual, the main economic benefits resulting from a training

<sup>3</sup> Cf. *Manual of Industrial Project Analysis in Development Countries*, Volume II, Social Cost-Benefit Analysis, (by I. Little and L.J. Mirrilees), O.E.C.D., 1969.

<sup>4</sup> While the theory of cost-benefit analysis was enunciated by Jules Dupuit in 1844, its real use came into being in U.S.A. in the 1930s with analyses of water resource developments.

<sup>5</sup> Cf. Ziderman, A., *Costs and Benefits of Adult Re-Training* in the U.K. in *Economica*, November 1969.

course are higher pay and improved job security; his principal costs would be earnings foregone during training and any existing social welfare allowances that would no longer be payable at the higher post-training salary or wage level.<sup>6</sup>

From the standpoint of Government budgeting, the expenditure would include the capital costs of the scheme and the recurring operating costs of running training centres and of disbursing training grants, while the benefits would include the net increase in tax revenues payable on a higher post-training incomes.

+ For the economy as a whole, part of the cost of the training programme would be created by the circumstance that the economic and other resources used in running the training programme would not be available to the economy for use in other ways – a principle, this, which applies to the whole area of Government expenditure on industrial and similar development. The main benefits which accrue to Government through a training scheme take the form of the increase in the output of goods and services resulting from the subsequent higher productivity of the trainees.<sup>7</sup> In addition there would be several indirect benefits – such as the increased productivity of auxiliary workers operating side by side with the trained men; higher profit margins in those industries employing trained personnel and so on.<sup>8</sup>

The above example has been given in order to highlight the intricacies involved in dealing with the cost-effectiveness of Government investment in industry. If one attempted to carry out such an investigation in depth to cover the whole spectrum of Government investment in all areas which in one way or another affect the social and economic life of the community one would need, apart from several years of research, a very large mass of statistical data relating to each sector of the economy. And even then, because of the considerations made above and because of the many intangible costs and benefits which are interwoven into the texture of any system of economic growth, one would not be sure of a result which would have either meaningfulness or validity.

<sup>6</sup> Where the trainee was unemployed prior to his embarkment on training the unemployment benefits would be included as part of the cost, but there would be no earnings foregone during training.

<sup>7</sup> There may, of course, be disadvantages in that, for example, the trained men may send workers of a lower skill out of work. Cf. Burton, A., Wesbrod, *Conceptual Issues In Evaluating Training Programs* in Monthly Labour Review, October 1966, Page 1095.

<sup>8</sup> Cf. Gerald G. Somers and Ernest W. Stormsdorfer, *A Benefit-Cost Analysis of Manpower Re-Training* in *Proceedings of the Seventeenth Annual Conference of the Industrial Relations Research Association*, December 1964.

In the case of Malta, moreover, such an exercise is ruled out largely by the absence of the relevant statistical data. Indeed, at the present stage of statistical information, it is not yet possible to make a significant cost-benefit assessment of industry broken down in detail by industrial sector. Furthermore, while it may be possible in theory to discuss the effectiveness of investing Government money in one sector of the diversified economy rather than in another (for example, in Industry rather than in Tourism or viceversa) yet it is practically impossible to express a preference in economic terms, for investment in Industry rather than in, say, Education – since Education is in itself an input, albeit not strictly calculable, of industrial development.

It may be pertinent here to quote Dr. McKean of the Rand Corporation 'For one thing, when we set about comparing specific courses of action, we find that it is by no means easy to select good criteria, that is, the tests of the better or best policies. Since all gains and all costs cannot always be measured in monetary units, we cannot use maximum net gain as the test. In desperation we occasionally adopt criteria that are quite irrelevant. Our test of the preferred alternative sometimes turns out to be like that of the high school student who was asked, "Which is more important, the moon or the sun?" and who answered, "The moon, because it gives us light at night, when we need it more".'<sup>9</sup>

A cost-effectiveness approach of industrial development which has validity in Malta is one which aimed at establishing simple cost-benefit ratios over a fairly narrow spectrum of monetary costs and benefits. It would not attempt to take account of the opportunity costs of the resources involved. Nor would it measure the indirect effects of industrialisation to the tourist amenities of a small island or the social effects of factory work as against domestic or other employment. The ratios calculated could not be used to make comparisons with other Government programmes. To assume otherwise would be, in our view, something of a chimera and could produce results which, however sophisticated, could smack of sophism rather than of science.

It must also be borne in mind that a comparison of cost-benefit ratios in the broad spectrum of Government social and economic investment would be a highly subjective exercise. By definition, it would be coloured by the valuer's subjective attitudes to the framework and policy of Government's programme of development. Even if such a comparison could have statistical significance, it would have little relevance for assessing the economic validity of past performance or for guidance in the shaping of

<sup>9</sup> Roland N. McKean, *Cost-Benefit Analysis and Defence Expenditure in Public Expenditure – Appraisal and Control*, Edinburgh 1963.



future policy. Arthur Smithies has stated that 'Judgement plays such an important role in the estimation of benefit-cost ratios that little significance can be attached to the precise numerical results obtained.<sup>10</sup>' While this view may be an exaggeration, yet it is useful not to forget it altogether.

This type of analysis can usefully fulfil three functions in assessing industrial development in Malta:

(a) to show the impact of the industrialisation programme on Government revenues;

(b) to evaluate its effectiveness in creating National Income and contributing to the Balance of Payments;

(c) to assemble data on the actual cost of the principal measures in the incentive package as a first step to appraising their cost-effectiveness.

In Malta the only attempts to evaluate the programme have been confined to relating the costs of grants, loans and factories to the single benefit of employment. Yet there are other costs, for example, tax revenue foregone and administrative costs of the programme, which require deeper assessment. This broader concept of costs should be related to the overall impact of the new projects in generating increased National Income rather than to employment.

#### THE NATURE OF COSTS AND BENEFITS

It may be said that the essential task for the analyst would be:

- (i) to establish which costs and benefits are to be included;
- (ii) to evaluate and discount them; and,
- (iii) to identify the relative constraints.<sup>11</sup>

The last part has in fact already been largely covered by the foregoing. We can therefore comment on the other two aspects of the problem.

#### BENEFITS

At the risk of stating the obvious, one must clearly distinguish between the enumeration and evaluation of benefits.<sup>12</sup> With regard to *enumeration* in the case of industry in Malta, it is evident that many different forms of benefits accrue and it may be difficult to enumerate them all without some measure of double counting. Some benefits may be included in other types

<sup>10</sup> Arthur Smithies, *The Budgetary Process in the United States*, New York, 1955, p. 344.

<sup>11</sup> Cf. A. R. Prest and R. Turvey, *Cost-Benefit Analysis: A Survey in Economic Journal*, December 1965.

<sup>12</sup> This matter is discussed at some length in Prest and Turvey, *op. cit.*

See also W.R.D. Sewell, J. Davis, A.D. Scott and D.W. Ross: *Guide to Benefit-Cost Analysis*, Ottawa 1962.

of benefits and different beneficiaries may be deriving benefits which are not always clearly distinguishable.

#### MAIN BENEFITS

One has again to distinguish between primary or direct benefits and indirect or secondary benefits. In the case of Malta it may be said that the ultimate aim and therefore the main benefit of industrialisation, has been and is, a potential improvement in the welfare and standard of living of the nation as a result of a higher National Income stemming from the contributions made by industry. In the measure that these additions to the wealth of the nation are expressed in a rise in the National Income, it is possible to evaluate benefits through National Income computations. On this basis, one would argue that direct benefits are derived from the expenditure on the products of aided industries either as exports or as import substitutes in the domestic market. It could furthermore be said that industrial enterprises contribute directly to Malta's National Income in two principal ways:

- (i) through remuneration payable to their local employees;
- (ii) through payments for and yields from capital in Malta.<sup>13</sup>

To (i) one would add payments made by industrial enterprises for services received, e.g. professional services. To (ii) one would add rents payable by industries for factories and land.<sup>14</sup>

Some criticism may be advanced to the effect that the payment of interest and rent should not be considered as being a direct contribution to National Income on the ground that the contribution to National Income is in this case made by those who provide the capital for plant and machinery and for factory premises.

Such an argument is, of course, a very tenuous one for a variety of reasons. In particular, in a macro approach the overall consideration is not *who* made the contribution to Gross National Product but whether a contribution was made as a result of, and only because of, industrialisation. It is evident that capital inputs imply costs of capital and, if one were to reduce the argument ad absurdum, one would argue that had there been no industrialisation at all, there would have been no capital costs. Equally, it would be somewhat naive to argue that the capital involved in industrialisation could have been used more productively for other investment

<sup>13</sup> To the extent, of course, that interest is paid on loans locally and that profits are retained in Malta.

<sup>14</sup> One would normally take account of the taxes that a project pays but as virtually every firm in the aided sector has a tax holiday, this is reflected in larger profits. The sum of these payments is the direct contribution for the programme to National Income.

projects – unless one could adduce convincing reasons to show that opportunity costs would have favoured an alternative use of capital.

#### SECONDARY BENEFITS

It is important not to ignore, in the enumeration of benefits, a wide area of advantages which accrue not only to Government (and to the Gross National Product) and to the industrialists themselves but also to those persons or bodies who thereby increase in one way or another their physical production possibilities or the satisfaction that, as consumers, they can derive from increased productivity.<sup>15</sup>

The upshot of this distinction (which admittedly may not be easy to maintain in practice, since there may be benefits which are partly technological and partly monetary) is that one has to eliminate from a cost-benefit assessment those items which are simply transferred or distributed; for one is obviously concerned principally with the increase of output arising from industrialisation and not with the increase in the capital value of assets. Hence changes in the pattern of demand and in the distribution of income may be considered as social benefits arising out of industrialisation not necessarily as pecuniary benefits.<sup>16</sup>

The extent to which Malta's National Income benefits indirectly cannot be measured exactly. Indirect benefits, like direct benefits, are just factor payments within Malta but they are the result of the expenditure of the income created as direct benefits. This is the multiplier effect of the factor payments of aided industries. The size of the multiplier is obviously crucial to the resulting cost-benefit ratios.

#### MAIN COSTS

The main costs of administering the industrial programme for Malta fall broadly into capital costs incurred directly as a result of the investment incentive scheme and the current costs which are principally the annual administrative charges arising out of the implementation of the industrial programme.

#### COSTS – CAPITAL

The capital costs include grants, loans and payments for factories and for the capital costs of services connected with industrialisation. These services include a certain part of the infrastructure which was directly required by industrialisation. Certain capital costs listed in the budget es-

<sup>15</sup> This important distinction between technological and monetary spillovers is discussed at length in R.N. McKean, *Efficiency in Government Through Systems Analysis*: N.Y. 1958.

<sup>16</sup> Cf. Prest and Turvey, *op. cit.* p. 688.

timates under Industrial Development (e.g. improvements in approaches to the industrial estates) are averaged over a number of years. Grants may be counted as costs according to the manner in which they were disbursed.<sup>17</sup>

One must consider loans and factories from a different standpoint to the one that one adopts towards disbursements à fond perdu. For Government, a loan would be an investment. Provided the rate of interest was not concessionary there would be no long-term cost<sup>18</sup> – unless it could be proved that there was a de facto opportunity cost amenable to computation.

It must also be pointed out that though the Government borrowing rate is often used as an easily applicable measure of costs (for the twin reasons of its being a financial cost for investment by Government and because it is a risk-free rate of interest) yet in effect it has not yet been shown that the marginal efficiency of private investment is de facto equal to the interest rate. And even if it were possible to make such a measurement, the significance of the result would only be limited to the area where the costs evaluated were made up completely of displaced private investment.<sup>19</sup> In the event the calculation of opportunity costs for the use of this capital tends to become an academic problem which is not readily open to a satisfactory solution. Again in Malta's instance it is hypothetical, to say the least, to postulate the availability of the funds for industrial development had they been required for purposes other than this investment. Because of these considerations, therefore, considerable caution must be exercised in interpreting the social opportunity cost rate.

#### COSTS – CURRENT

The principal current costs of industrial development in Malta include the costs incurred, primarily in terms of wages and salaries, in keeping Government staff to operate the programme. In the main, it has been the cost of running the Department of Trade and Industry, and, as from January 1968, the Malta Development Corporation. Some allowance, although necessarily arbitrary, would have to be made for administrative costs incurred by other Government departments involved in the industrial programme.<sup>20</sup>

<sup>17</sup> This system may not be entirely satisfactory since disbursements on grants varied from year to year; but it is of course difficult to average the grant over the life of the machinery and equipment.

<sup>18</sup> When repayments are deferred or interest is charged at a concessionary rate, the cost to Government would be the difference between the concessionary and the commercial rate.

<sup>19</sup> Cf. Prest and Turvey, *op. cit.* pp. 698-9.

<sup>20</sup> This allowance has to be marginal also due to the fact that the Department of Trade and Industry had administrative functions other than those required by the industrialisation programme.

## SECONDARY COSTS

Like benefits, so also costs may be incurred in a secondary and external manner. Thus it could be argued theoretically that if a project received some useful input for which it did not pay, this input should be included as a cost and the producer of the benefit would be entitled to an equal recompense. But such wholly external effects would not be likely to be of real significance insofar as Industry itself is concerned.<sup>21</sup>

There are also secondary effects, which are sometimes known as economies arising out of backward linkages. Such effects may arise through a new demand for inputs created by industrialisation itself. Thus the increased demand created by industrialisation for certain inputs available locally could produce economies of scale which are in themselves exogenous to industrial projects.

It would appear that to attempt to assess such benefits vis-a-vis Malta's industrialisation would lead us into an area of over-lapping inputs where it would be extremely difficult to identify the nature and the causality of costs. One would not, therefore, include them.

The use of the ten-year exemption from company taxation in Malta as a major incentive has meant that during the last twelve years, the Government collected virtually no revenue directly from the aided sector. There are no property taxes in Malta that firms are eligible to pay and there are no sales taxes on the products of aided industries. Nevertheless, these firms generated a substantial amount of Government revenue for the income that they pay out to their employees. Moreover, the multiplied income that this generates is part of the Island's tax base. Income tax is paid on this money where it is received as income and indirect taxes as it is spent. The problem of calculating the extent of this contribution to Government revenue would have to be solved by employing a short-run multiplier derived from calculations relating to the growth of the economy as a whole.

## II SOCIAL COSTS AND BENEFITS

It is appropriate, in our view, to include a note on social inputs and outputs. Industrialisation brings with it certain changes which though not essentially economic in character and are, in most cases, unquantifiable, leave an imprint on the structure and behaviour of the community. Such changes cover the whole breadth and depth of social activity in an industrialising country.

While, of course, considerations such as the above cannot be taken into account in the present context, yet perhaps it would not be out of place to

<sup>21</sup> Cf. Little and Mirrilees, *op. cit.* p. 215.

refer to certain changes which are partly social and partly economic.

Thus *tariff protection* and *import restrictions* have provided a favourable local market to certain industries whose products are sold at a higher price than otherwise would be the case. We do not have data to compare prices and whether they are normal or excessively high. To the extent, however, that local market prices are higher than is economically justified, a cost is borne out by the community. The aided industries have been provided with a high volume of public assistance, direct and indirect, and it could be argued that it would be only fair that part of this assistance as well as of all productive activities, would also be enjoyed by the consumer at large in the form of reasonable prices.

Certain inputs of industrialisation stem from the educational and institutional changes which industrialisation itself may have called for. Thus the industrial programme has called for special skills and techniques, new banking facilities and new organisations to deal with the industrial programme and with the emergent economic pattern made possible by industrialisation. Insofar as these are of benefit to the community they may be attributed, as positive factors, to industrialisation. Such factors may in fact have acted (in addition to the incentives discussed in another part of this report) as a catalyst to entrepreneurs.

Again, some of the land used to provide factory space was previously agricultural land. Though there can be little doubt that, in terms of physical space, productivity per square foot is much greater in Industry than in Agriculture, yet there is certainly a cost to the community in the loss of agricultural land. The cost may include higher prices for crops where agricultural output declines as a result of the contraction of land under cultivation.

There is also an intangible but important cost borne by the community due to the utilisation of agricultural land for industry. One refers to problems relating to the landscape – itself one of Malta's most important natural assets and a primary input of its Tourist Industry. Moreover, Industry may have given rise to some measure, however small, of pollution and to noise disturbances.

One must balance against the above, the intangible benefits reaped by the community in Malta as a result of industrialisation. Paramount among these benefits is naturally the ability to buy more goods and services and thereby to improve one's standard of living. There is no doubt that in Malta this has taken place over the decade under study. Here as well there are indirect intangible benefits relating to the cultural and educational uplifting of the community as a result of industrialisation.

One could refer, for example, to the fact that the congregation of workers in factories, with the attendant sociopsychological pressures and the

interplay between individual mores and those of the industrial group to which one belongs, has improved the general standards of life in the rural areas. Hence, the social cost of the exodus of the farms is, in some measure, counter-balanced by the fact that the industrial worker brings to his whole community in the rural area the higher social and educational standards he has acquired from his industrial group on the factory floor.

The foregoing does not necessarily imply that industrialisation in Malta has improved the quality of life in these Islands – which should be the ultimate aim of state-sponsored activity. One cannot say with any certainty that industrialisation has definitely been good for Malta in human terms. But if we look at some of the indicators of the standard of living in Malta, notably consumption and education, one finds ground for satisfaction. Again one could postulate that such advances would have taken place anyway and an industrial programme, with its heavy economic cost to the community, was not necessary to make possible such material progress. To argue in this way, however, is to remain in the area of hypotheses with no hope of pragmatic verification; it would be an argument bereft of scientific objectivity and hence outside our ken.<sup>22</sup>

<sup>22</sup>The above article formed the theoretical base on which the Department of Economics and of Applied Economics of the Royal University of Malta drew up a confidential report, for the Malta Development Corporation, on a cost-benefit analyses of industrial development in Malta.

# STATE PROVISION FOR OLD AGE IN MALTA

By A.W. ROTE

## INTRODUCTION<sup>1</sup>

AN important question for every individual is how he or she is to live suitably in their old age. The purpose of this study, apart from the collection and presentation of data on social security, is to examine the present system of old age benefits in Malta in the light of the social insurance objective of helping to replace earnings when they cease at the end of a working life.<sup>2</sup> Social security for our purposes can be divided into two sections, each acting independently, being National Insurance and Public Assistance. Before considering each of these provisions in detail it is important to have some understanding of the magnitude of the problem with which we are to deal.

It is evident from Table I, which presents the age distribution of the population of the Maltese Islands for selected years, that the dependent sector of the community (the aged)<sup>3</sup> is enlarging relative to the contributing sector, being those in the middle age group.

In 1948 there were 22,881 aged persons (7.5% of the total population) and according to official estimates it is expected that this figure will rise to 44,600 in 1988 (14.7% of the total population).

The problem created by this 'growing army of pensioners' becomes more obvious if we construct a dependency ratio, that is, by considering the relationship between those in the middle age group and those in the aged we can obtain one kind of measure to assess the burden placed on the former sector. It can be seen that for every aged person in 1948 there were 7.7 persons supporting him. By 1988 however, it is expected that

<sup>1</sup> The author would like to acknowledge the help of members of the Department of Social Services. The views expressed in this study are the sole responsibility of the author.

<sup>2</sup> See J.M. Buchanan: *Social Insurance in a Growing Economy: A Proposal for Radical Reform*.

National Tax Journal, Vol. XXI, No. 4 1968 pp. 386-395.

<sup>3</sup> Aged refers to men over 63, women over 60 unless otherwise stated.



**Table I**

AGE DISTRIBUTION OF THE POPULATION OF  
THE MALTESE ISLANDS FOR SELECTED YEARS

YEAR	TOTAL* POPULATION	UNDER 15	% OF TOTAL	MEN 15-64 WOMEN 15-60	% OF TOTAL	MEN 65 + OVER WOMEN 60 + OVER †	% OF TOTAL
1948	305,991	106,602	34.8	176,508	57.7	22,881	7.5
1959	317,218	120,742	36.9	176,614	54.0	29,862	9.1
1963	328,116	112,873	34.4	184,470	56.2	30,773	9.4
1964	323,591	108,224	33.5	183,659	56.8	31,208	9.7
1965	319,100	104,900	32.9	182,600	57.2	31,600	9.9
1966	317,482	100,896	31.8	184,616	58.1	31,780	10.1
1967	318,573	95,081	29.8	189,148	59.4	34,344	10.8
1968	319,254	93,194	29.2	191,104	59.9	34,956	10.9
1969	322,749	91,733	28.4	194,811	60.4	36,205	11.2
1973	311,600	79,500	25.5	189,200	60.7	42,900	13.8
1988	302,600	75,200	24.9	182,800	60.4	44,600	14.7

\*As at June of each year.

†For years 1963-1969 the table underestimated the number of aged, as retirement age became 63 for men in 1963. The figures for 1973 and 1988 are based on a retirement age of 60 for men.

Source: Annual Abstract of Statistics 1959; 1964; Demographic Review 1965-1967; Central Office of Statistics.

this ratio would have fallen to 4.1 persons to every aged person. The ratio having already fallen to 5.4 in 1969.<sup>4</sup>

One is however, entitled to ask why this particular section of the community should be selected for examination, other than say workers with low wages. It is relevant to point out that age itself involves certain difficulties, physical decline and earning power often go hand in hand and any loss the aged may incur cannot be recouped by increasing efforts unlike the non aged who have both the time and health to do so. Indeed 'there is a certain, though probably undefinable, point, at which age becomes itself a disability and at which disability is materially contributed to by old age.'<sup>5</sup>

This disability argument may carry more weight as physical decline

<sup>4</sup> For an analysis of the economic problems of an ageing population see W. Hagenbuch: *Social Economics* Cambridge University Press 1958 pp.49-54.

<sup>5</sup> *Royal Commission on the Taxation of profits and Income: 2nd Report. Cnd 9105 1954 p. 64 para. 204.*

coincides with the depletion of lifetime savings. An American study found that 'prospects become bleak' as the aged become older.<sup>6</sup> It seems likely that some younger persons with the same low income levels as aged persons will have better prospects, and since many of the low income non-aged persons are very young workers living with parents, the fact that income is low will not be so important as in the case of the aged persons, who are unable to rely on relatives for financial support. Their importance relative to other sectors is further enhanced when viewed against the background of rapidly rising prices whilst being dependent upon the goodwill of the state for commensurate rises in the level of their state pension.

#### NATIONAL INSURANCE

The National Insurance old age pension was introduced in 1956, it being a flat rate benefit obtained on reaching a specific age based on a system of contribution. The difference between National Insurance and Public Assistance lies both in their financing and method of payment. The National Insurance pension is financed by a tripartite contribution system; employees, employers and a contribution from the state forms the basis of the National Insurance Fund from which all benefits are met. The three sources of finance have changed considerably with the passage of time. They have not only increased, both relatively and absolutely, but they are no longer provided by those to whom they were originally assigned. Only the employee's contribution has remained as part of income saved for old age. The employer's contribution on the other hand is no longer paid for out of the profits of an enterprise but is a part of the labour costs, included in pricing when the market allows. Thus the burden of the contribution is shifted wholly or partly to consumers (by a price rise) or to the workers (when wages are altered). The extent and rapidity of this shifting will depend on the elasticity of consumer demand, on the elasticity of demand for labour and on the bargaining strength of employees in the wage determining process.

Since those who receive benefits also bear a not inconsiderable share in the payment of direct and indirect taxes, part of the state contribution today is provided by the citizens who will themselves receive benefits in the future. These citizens, therefore, do not, as was originally intended, receive any additional income but only a return on that which was ori-

<sup>6</sup> J.A. Pechman, H.J. Aaron, M.K. Taussig: *Social Security: Perspectives for Reform*. p. 7 Brookings Institution 1968 Washington DC.

ginally theirs. It can be argued that a special contribution made by the employer and employee is actually a tax, but as it is directly related to benefits it is readily accepted and has psychological advantages. It removes the stigma of charity and gives beneficiaries a feeling that they can draw standard benefits as of right.

It could be argued that one should not describe contributing systems of social security as a form of social insurance on the basis that the contributions are compulsory and are therefore a tax levied by the state and since these contributions are not enough to cover risks, the state assumes responsibility for the difference which may be an uncertain amount and is borne by the tax payer.<sup>7</sup> The fact that the contribution does have a characteristic of a tax does not however, affect the category of the scheme, for the levy gives with it a title to a benefit. This is as much an insurance as the compulsory nature of insurance for the motorist imposed by the state.

The principle of the National Insurance Scheme can best be described as a 'contract of the generations'. This contract of the generations states that the active generation must care for the old and can therefore expect that the coming generation will in turn take over the obligation to care for its old. This sounds very fine, but it is uncertain whether the young, who in all countries today are so restless, will in fact accept the burdens assigned to them in the future.

When the scheme was first introduced contributions – from all sources – were larger than expenditures – benefits<sup>8</sup> – and so a balance was accumulated. As more people qualified for the pension so payments exceeded contributions and the deficit was covered by lowering the balance of the Fund. In order to finance future pensions, contributions must be raised and the burden will be made even heavier if an increasing number of insured persons retire after a regular working life with higher pensions or if the pensionable age is lowered.

As with all transfer payments an analysis of benefits inevitably involves an analysis of costs. Whilst below we emphasize the level of benefits it must be borne in mind that benefits can only be increased by forsaking alternative social welfare schemes.

<sup>7</sup> See for example A.T. Peacock: *The Economics of National Insurance* London 1952 p. 89.

<sup>8</sup> The National Insurance Fund exists for the payment of benefits only. Administration expenses are met from the Consolidated Revenue Fund.

Since its introduction<sup>9</sup> the National Insurance old age pension has been increased three times for single persons and four times for married couples. In money terms the values of the pensions have increased by 14.7%. This, combined with the growing number of pensioners eligible for the state pension, has caused the total money value of pensions paid yearly to increase by 1426.5% since 1959. The table below illustrates the growth in the number of pensioners receiving contributory old age pensions since 1959, classified by sex. Although these numbers are rapidly increasing it still only covers 19.11% of the aged (as compared with 3% in 1959).

**Table II**

NUMBER AND VALUE OF PENSIONS IN PAYMENT  
UNDER THE NATIONAL INSURANCE ACT 1956

YEAR	NUMBER OF PENSIONERS			AS % OF AGED	MONEY VALUE OF PENSIONS	AS % OF GNP (MARKET PRICE)
	MALE	FEMALE	TOTAL			
1959	701	189	890	2.98	£ 57,862	0.12
1960	1043	267	1310	4.36	114,447	0.22
1961	1309	328	1637	5.43	147,183	0.28
1962	1722	404	2126	6.98	185,532	0.35
1963	3225	467	3692	12.00	413,668	0.79
1964	3713	549	4262	13.65	486,101	0.91
1965	4190	627	4817	15.24	557,171	0.97
1966	4730	697	5427	16.97	680,210	1.08
1967	5221	765	5986	17.43	748,164	1.09
1968	5656	829	6485	18.55	832,795	1.09
1969	6041	878	6919	19.11	883,301	1.02

Source: Report of the Department of Emigration, Labour and Social Welfare 1959: 1964.

Report of the Department of Social Services 1965:1969.

The figures for male beneficiaries combine both single males and married males claiming an increase for their wives. The relationship between these two has remained relatively constant throughout the period with approximately 33% of the male pensioners being single. It is evident that the majority of pension claimants should be male (87.3% in 1969) and that the male contingent has increased by a larger percentage than female. Since 1959 the number entitled to a pension has increased by 677.4%. The

<sup>9</sup> As from 1959, being the first date pensions were payable, till 1970 including the 1970 changes.

most noticeable increase being in 1963 when the pensionable age for men was lowered to 63 years old from 65. Coincident with this age reduction was the largest percentage increase in the pension (20%) which explains the large increase in the total value of the pension payable in that year. It can also be noted that the total value of pensions has increased relative to Gross National Product. Malta is now devoting 1.01% of its Gross National Product to providing old age pensions under the National Insurance Scheme.

The present rate of old age pension is 42/6d per week. This rate is increased to 63/9d in the case of a married man. Provided the contribution conditions are satisfied the old age pension is paid as soon as the insured reaches pension age, which is 62 for men and 60 for women.<sup>10</sup> Entitlement to the old age pension is earned even when an insured person remains gainfully occupied. When the contribution conditions are not fully satisfied because of a deficiency in the contribution record, the old age pension is paid at a reduced rate.

A flat rate pension has three main advantages. They are easily administered, people with higher wages are free to make additional provision by voluntary savings (including private insurance) and supplementary occupational pension schemes can be readily adjusted to them. Also, since they are paid without a means test, they, like pensions which vary directly with wages, do not discourage thrift. On the other hand, it does involve payment to some who are not in need, but this disadvantage is compensated by the administrative convenience, by the promotion of thrift and by the fact that the majority of recipients will have low incomes on retirement.

The effect of social insurance pensions on savings however, is not all that certain. It has been suggested that the introduction of social insurance may stimulate greater interest in making provision for old age and other contingencies, and may lead to increased savings in order to supplement the social insurance benefit, in order to provide for a realistic level of retirement income whereas before it was hopeless to do so.<sup>11</sup> However, it has been suggested that the obverse will obtain; that the social

<sup>10</sup> The pension age for men was reduced from 63 years to 62 years as from 3rd August 1970.

<sup>11</sup> See Philip Cagan *The Effect of Pension Plans on Aggregate Savings - Evidence from a Sample Survey* National Bureau of Economic Research, Occasional Paper 95. Columbia University Press 1965. And George Katona: *The Mass Consumption Society*: McGraw-Hill 1964 Chapter 19.

insurance benefit reduces the need for private savings to a greater or lesser extent.<sup>12</sup>

It is relevant at this stage, whilst dealing with aggregate figures, to dwell upon the financing of the National Insurance Fund from which social security payments (including old age pensions) are payable. The major source of revenue for the Fund is made up of the employer/employee contribution and the state grant. Employed persons from the age of 14 years and self employed and non-employed persons over the age of 19 years and under pension age, are liable to be insured. Employed persons contributions are shared equally by the employee and employer, including the Government in respect of its own employees. The contribution paid by employed persons, self employed persons and non-employed persons are referred to as Class 1, Class 2 and Class 3 respectively.

The state grant is equivalent to one half of every contribution paid in respect of all categories of insured persons. In the early years of the pension scheme few, if any, pensions were in payment, and indeed no one qualified for such a pension until 1959. As a result, contributions were in excess of payments, funds accumulated, were invested and held as security by the Fund.<sup>13</sup> The interest derived from the investments of the Fund plays a large part in meeting the cost of future benefits.<sup>14</sup>

The financing of social security under the National Insurance Act 1956 is shown in the following Table. When the scheme was first introduced the bulk of financing fell upon the beneficiaries themselves, supported by a fixed lump sum state grant of £40,000 per annum. As a result of a surplus, other income, the main constituent of which is interest on investment, grew to a maximum of 14%. In 1962 the contribution made by the state increased by some 160% to the level of £104,000 to satisfy some 17% of the total revenue of the Fund.

In the following years, the part played by contributions declined somewhat with the state grant being increased to average 28% of total revenue. A deficit occurred in 1965 and despite a larger increase in the state grant this deficit persisted in 1966 (though at a lower level). In the following

<sup>12</sup> See R.A. Musgrave *The Role of Social Insurance in an Overall Programme for Social Welfare* in W.G. Bowen et al (eds.) *The American System of Social Insurance: Its Philosophy, Impact and Future Development*. McGraw-Hill 1968.

<sup>13</sup> The position of the Fund at the end of 1969 is given in the *Report of the Department of Social Services for the year 1969* Table 9.

<sup>14</sup> The interest on investments amounted to some 9% of total revenue in 1968 and 7.3% in 1969.

**Table III**

## ANALYSIS OF REVENUE OF THE NATIONAL INSURANCE FUND 1956:1969

YEAR	TOTAL REVENUE	CONTRIBUTION	% OF TOTAL	STATE GRANT	% OF TOTAL	OTHER INCOME	% OF TOTAL	PENSION PAYMENT AS % OF TOTAL REVENUE
	£	£						
1956	249,830	206,881	82.8	40,000	16.0	2,949	1.2	—
1957	406,238	351,083	86.4	40,000	9.9	15,155	3.7	—
1958	490,945	422,412	86.0	40,000	8.2	28,533	5.8	—
1959	513,704	426,953	83.0	40,000	7.8	46,751	9.1	11.3
1960	535,313	434,368	81.1	40,000	7.5	60,945	11.4	21.4
1961	539,433	426,577	79.1	40,000	7.4	72,856	13.5	27.3
1962	624,938	431,182	68.9	104,199	16.8	89,556	14.3	29.7
1963	782,739	459,694	58.7	226,268	28.9	96,777	12.4	52.8
1964	798,541	468,699	58.7	233,806	29.3	96,036	12.0	60.9
1965	889,663	601,474	67.6	186,324	21.0	101,865	11.4	62.6
1966	1,119,879	658,818	58.8	357,546	31.9	103,515	10.3	60.7
1967	1,162,062	681,504	61.8	318,347	28.9	102,211	10.3	71.7
1968	1,144,078	706,841	61.8	329,763	28.8	107,474	10.4	77.2
1969	1,198,154	734,524	61.3	372,389	31.1	91,341	7.6	73.7

Source: Department of Emigration, Labour and Social Welfare 1956-1964.  
Department of Social Services 1965-1969.

years however, the deficit enlarged.<sup>15</sup>

As a percentage of total revenue old age pensions have been increasing since the scheme was instigated, being some 77% of total revenue in 1968. As old age pensions form some 58% of total payments made out of the Fund it is not surprising that the Fund is now in substantial deficit.<sup>16</sup>

**PUBLIC ASSISTANCE**

Public Assistance is an inevitable and permanent feature of any social security system. It is designed either to supplement the resources of individuals so that they can manage to subsist or, if they have no resources, to be sufficient for their subsistence. Assistance for the needy is the oldest form of social security. It is a natural expression of human sympathy, charity and compassion, an element in all religions, and based on

<sup>15</sup> See *Report of the Department of Social Services for the year 1969* page 24.

<sup>16</sup> *Ibid.* p. 24.

recognition of mutual interdependence.<sup>17</sup> The Old Age Pension Act of 1948 provides for the payment of a pension to *needy* persons on attaining the age of 60 years, and to *blind* persons from the age of 14. Old age pensions are paid to individual persons. Thus, a married couple who have attained the age of 60 years may each be entitled to a non-contributory old age pension if they satisfy the statutory conditions regarding nationality, residence and means.

In addition to a pension, such persons may receive assistance under the National Assistance Act 1956. This may include a house-rent allowance, with a maximum of 5/- per week.<sup>18</sup> The rate of pension varies in accordance with the yearly income of the beneficiary. One may make a further distinction between Public Assistance and National Insurance by noting their related roles in society. Public Assistance serves the objective of relieving poverty (the needy) whereas the other is an insurance against cessation of earnings. Furthermore, it is to be noted that Assistance is financed entirely out of public funds.

In the following Table, we include only those statistics relevant to the period in which the National Insurance scheme has been operative, comments on previous years are based on statistics contained in Table A in the appendix.

At the year ending 1969, there were 11,572 persons claiming an old age pension under the Old Age Pensions Act 1948, as compared with 15,546 at the end of 1958. Thus after making allowance for those receiving a pension due to blindness we have a percentage decline of 25.6%. The declining number receiving old age pensions under this Act can be explained by the wider coverage of the insurance scheme, both extensively (Class I, II and III) and intensively (within these groups). It is noticeable that in the years prior to the *operation* of the National Insurance scheme the number of claimants rose from 10,073 in 1948 to 15,546 in 1958.

It can also be seen from the Table that although the number of claimants has been reduced by 25.6% the value of pensions in payment has increased by 24%. We should therefore examine the Table in a little more detail. In the period 1958/1962, the value of the pension payments fell despite a slight increase in the numbers claiming the pension in 1962 over 1961. This only slightly counteracted the downward trend created by the intro-

<sup>17</sup> See Milton Friedman: *Capitalism and Freedom* University of Chicago 1962 p. 188.

<sup>18</sup> 1969 old age pensioners made such a claim in 1969 as compared with 1705 in 1968.



**Table IV**

NON-CONTRIBUTORY OLD AGE PENSIONS

YEAR	MALE	FEMALE	TOTAL†	VALUE®
1958	5,341	10,205	15,546	760,639
1959	4,944	10,300	15,244	757,348
1960	5,098	9,534	14,632	729,955
1961	4,599	9,583	14,182	711,174
1962	4,602	9,660	14,262	703,976
1963	4,409	9,591	14,000	883,423
1964	4,302	9,454	13,756	864,620
1965	4,321	9,597	13,918	903,732
1966	4,115	9,348	13,463	934,882
1967	3,834	8,993	12,827	897,697
1968	3,478	8,776	12,254	926,082
1969*	3,256	8,316	11,572	943,128

† Adjusted to remove under 60's.

® Unadjusted.

\* Department of Social Services: National Assistance Division.

Source: Report of Department of Social Services 1965:1968.

Report of Department of Emigration, Labour and Social Welfare 1958-1964.

duction of the Insurance scheme. In 1963 however, the total value increased despite the fall in the number of claimants. The large increase in value (25.5%) was due in part to the large and much delayed increase in the old age pension rate (25%).

A slight increase in numbers in 1965 accompanied by a further increase in the flat rate pension caused a 4.5% increase in the value of pensions in payment. The full effect of this pension rate change was felt more fully in 1966 when the new pension operated for the full year – the value of total payments increased by 3.4% in 1965/1966.<sup>19</sup> In 1968 the pension rate was increased by 9.1%, causing a further increase in the total value of pensions in payment of 3.1%. Again in 1969 the rate was increased this time by 8.3% causing a 1.8% increase in the value of payments.<sup>20</sup>

It would seem that changes in the financial circumstances of beneficiaries arising mainly as a result of entitlement of male pensioners<sup>21</sup> to a pension under the National Insurance Act 1956 could be considered as

<sup>19</sup> 1964/1966 saw an 8.1% increase in total payments.

<sup>20</sup> In 1970 there was a 15.4% increase in the pension rate.

<sup>21</sup> In the period 1958/1969 the male contingent fell by 39% and the female by 18%.

one of the main factors which brought about the drop in the numbers in receipt of non-contributory old age pensions.

In Table V we express as a percentage of total recipients the number of recipients in each age group.<sup>22</sup>

**Table V**

AGE DISTRIBUTION OF RECIPIENTS OF  
OLD AGE PENSIONS (1948 ACT)

Percentage

AGE	YEAR											
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Under 60	1	1	1	1	1	1	1	1	1	1	1	1
60 to 64	28	28	23	21	27	19	19	20	24	19	18	17
65 to 69	24	26	27	26	26	25	25	25	24	21	21	21
70 to 74	24	23	22	24	23	25	24	23	24	24	24	23
75 to 80	13	15	16	16	14	17	18	17	16	17	20	21
80 & over	9	7	11	11	9	13	13	13	12	18	16	17
	100	100	100	100	100	100	100	100	100	100	100	100

It would seem that the age distribution of those receiving non-contributory old age pensions has shifted such that a more normal distribution would be obtained had we plotted age against percentage classification. There is still nevertheless the tendency for a larger percentage of the total to be in the elder age group. For the age groups 60 to 74 the percentage of total recipients had declined, for ages above this level however, the percentage has risen by quite large amounts. This shifting can be partly explained by the lack of coverage for the elder group under the National Insurance scheme. On this evidence one might infer that the number of recipients would, in the passage of time, suffer a natural decline as these uncovered elderly are phased out and replaced by elderly who are covered.

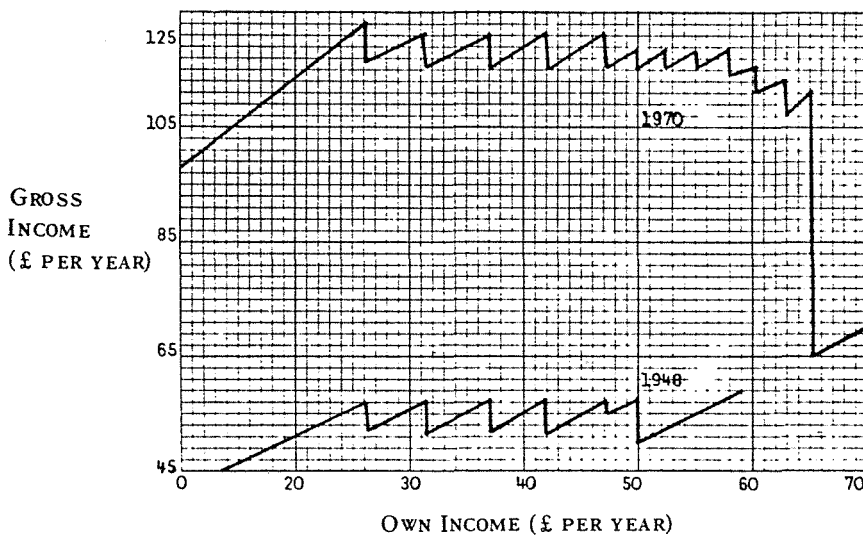
**THE MEANS TEST: ITS OPERATION AND INCONSISTENCIES**

As explained earlier the flat rate pension is subject to reductions according to the rates prescribed in the Schedule included in the Appendix Table D. The means test is based on total yearly income and not just earnings. The period of assessment is yearly so as to avoid any problems

<sup>22</sup> For earlier years see the Appendix Tables B and C.

of fluctuating incomes during the period under consideration. For ease of interpretation, the schedule has been expressed in diagrammatic form which is presented in Figure I. This will serve not only to explain the operation of the means test but also to show several deficiencies. On the horizontal axis we have plotted yearly income and on the vertical axis we have

Figure I



added the appropriate pension rate per week to obtain gross income. This diagram thus shows the relationship between own income and gross income (own income after the addition of the pension). When own income is zero the non-contributory old age pension will bring gross income to £97.10.0d per annum, this as we will see later, with adjustment for the house rent allowance, can be regarded as poverty level for a single person aged over 60. Until the yearly income exceeds £26.5.0d. there is no reduction in the weekly pension rate. For incomes in excess of £26.5.0d. the pension is reduced by 3/- per week (£7.16.0d.), with further reduction as income progresses. The result of these reductions in the pension rate is the dog toothed progression of the graph. When yearly income exceeds £65.12.6d. the pension is extinguished entirely and the pensioner must rely on his own resources to exist. It should be noted, of course, that this level of gross and own income falls below the poverty line of £97.10.0 (excluding rent allowance) set by the State for a person having zero income. Indeed if the pensioner were to be in this position he would be re-

quired to increase his income by 49% in order to reach the poverty line, a not inconsiderable effort for someone so old.<sup>23</sup>

This is further exaggerated when account is taken of the possible source of income. If income is earned then it must be stated that the decision to increase income may not always coincide with either the ability or the opportunity to do so. Furthermore, such income does incur the individual in costs, these real costs may involve the sacrifice of leisure and the restricted place of residence.<sup>24</sup> If income is derived from investment then the decision to increase income can only take place via a sacrifice of present consumption which, for some one so near subsistence, would seem impracticable. This would also seem to be rewarding those who had been shortsighted as regards provision for old age whilst discriminating against those with foresight to have at least made some commitment to welfare in old age. It can be seen that when introduced in 1948 the scale was such that when the pension was extinguished own income was still some 60% above the poverty level (as given by gross income when own income is zero).

Further examination will reveal further inconsistencies. Firstly, we may examine the peak to trough movements shown in the graph. It is inevitable in any means test that does not contain pro-rata reductions that over certain ranges there will be drastic falls in the level of gross income. An individual who increases his income (earned or investment) slightly, may find himself with a lower gross income due to the marked fall in the pension rate. This disincentive to increase income becomes more pronounced when we examine the peak to peak movements. Once our individual has moved from say an income level of £26.5.0d. to just exceeding this level, he will find his gross income has declined. To counteract this tendency he may feel inclined to increase his work load (investment) in order to raise his own income. However, no matter how hard he works or how much he invests, within reason, he will not be able to reach the previous peak of gross income of £123.15.0d. The highest level he is now able to reach will be £121.7.0d. Furthermore, if own income is increased by too much the same step like action will cause this peak of gross income to decline

<sup>23</sup> For a single pensioner a claim for social assistance could rectify this anomaly.

<sup>24</sup> Granted that both income and leisure carry positive utilities, the sacrifice of either is a disutility. The net disutility of the income earning process need not imply that work is painful. One has simply to assume that the pleasure of work is out weighed by the opportunity pleasure of leisure. See R.A. Musgrave *The Theory of Public Finance* McGraw-Hill, 1959, p. 233.

to £118.17.0d. As own income increases further, the peak of gross income falls progressively in three movements, until the pension is entirely extinguished.

A better understanding may be obtained if the original schedule is examined,<sup>25</sup> also presented in Figure I. When first introduced the schedule carried with it some disincentive in that there were still peak to trough movements, but the level of the trough rose as own income increased. An examination of the pension rate changes throughout the years will reveal that the major part of the disincentive contained in the means test was introduced in 1957. The increase involved in that year was designed such that the monetary addition declined with the lower pension levels, that is, at the top end of the scale 4/- per week was added, for the next four classes 3/- a week was added, 2/- per week for the next and an addition of one shilling per week for the last three classes, so causing the peak to peak downward movement and the generation of lower troughs. It should be noted however, that until 1965 the level of own income at the point where the pension was extinguished, remained above the poverty line.

It would therefore seem that the penurious old age receive little help (if not discouragement) to help themselves when elderly. By adjusting their own income the elderly could however, alter their pension such that a larger gross income would be available. Certainly a full account of the implications of the means test should be made available to those receiving such a pension in order to secure for them the best possible standard of living and to prevent the harmful effects both financially and psychologically of a reduction in income from additional work or investment. The opportunity for adjusting own income to take advantage (avoid the disadvantage) of such movements would however, seem to be prevented by the Old Age Pension Act 1948, Section I (2) (4) which states:

'If it appears that any person has directly or indirectly . . . deprived himself of any income or property in order to qualify himself for the receipt of a pension, or for the receipt of a pension at a higher rate . . . that income or yearly value of that property shall . . . be taken to be part of the means of that person'.

This does not however, prevent the pensioner from adjusting his own income *upwards* in order to maximise his gross income or from declining to undertake additional work which would decrease his gross income.

We may conclude therefore, that the means test apart from containing

<sup>25</sup> See Appendix Table D.

the psychological disincentives contained in any means test, does have certain disincentives contained in its particular construction. Either these disincentives should be removed by appropriate rate changes or the elderly should be informed of their position as regards the relationship between gross and own income well before the time to claim the pension so as to enable those in certain ranges to adjust their yearly income to maximise their standard of living.

#### INFLATION AND GROWTH

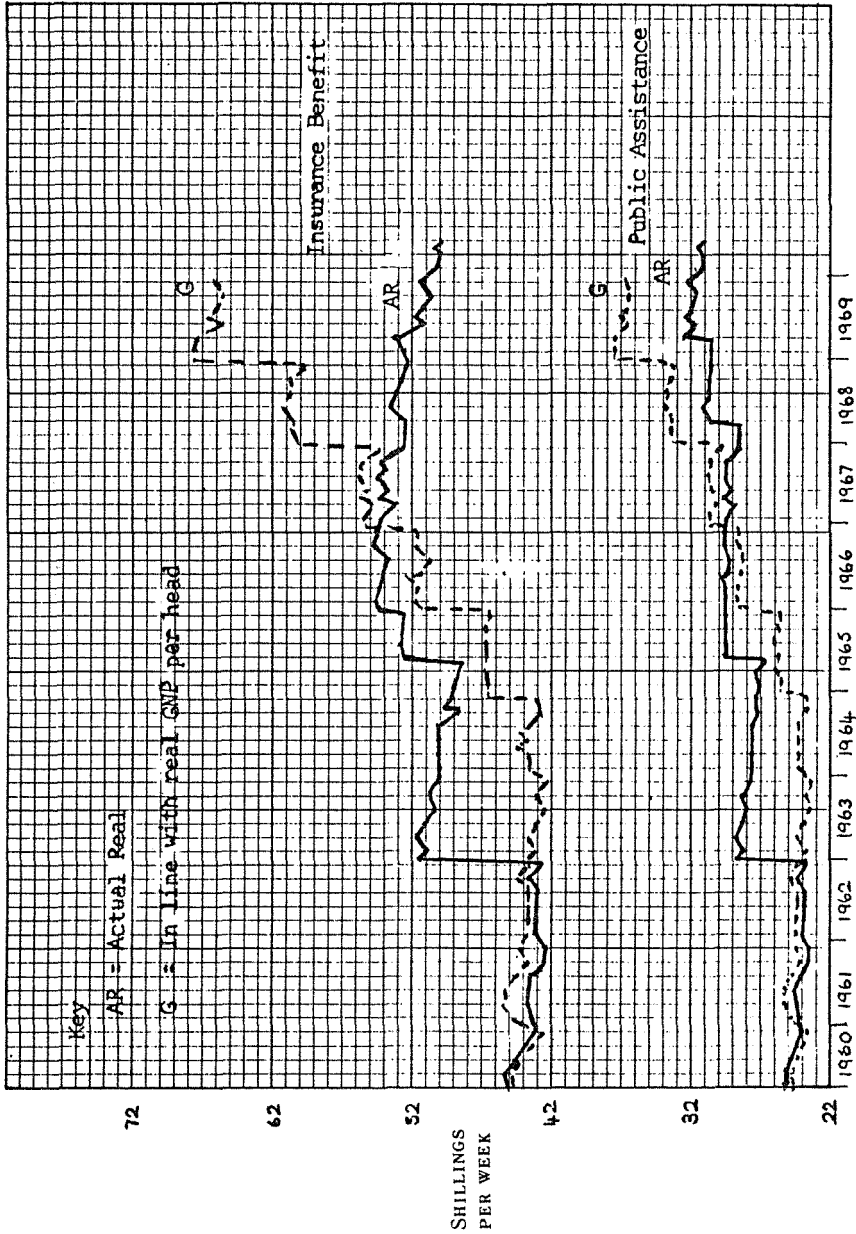
Since 1956 the old age pension have been increased many times specifically with the objective of helping the elderly maintain or even increase their standard of living. Whilst it is not denied that these measures have provided some aid, the magnitude of it must be examined before any appraisal can be made. It must be understood that the adequacy of pension increases will be judged relative to inflation and growth and not on an absolute basis. Once more we will restrict our observations to the period under which both National Insurance and non-contributory old age pensions were claimable. The National Insurance old age pension, for both married and single persons, has increased some 41.7% in money terms since 1959, whilst the non-contributory old age pension has increased by 97.5%.

The effect of inflation however, is such as to render any comparison in terms of money income invalid, to be able to do this it is essential to talk in real rather than money terms. This we do in Figure II where we express pensions in real rather than money terms.<sup>26</sup> For ease of presentation we deal only with the National Insurance old age pension for a married couple and the old age pension, plus house rent allowance, for a single person under the Old Age Pension Act 1948.

From Figure II we are able to see how the real value of both pensions have fluctuated over time. The National Insurance pension for a married couple has increased by 11.1% from April 1960 to April 1970, during which

<sup>26</sup> As has been pointed out by Professor R.G.D. Allen, T. Lynes and others, the retail price index may not be appropriate due to different consumption patterns and different rates of inflation in commodity groups. For a discussion of special price indices for low income groups see R.G.D. Allen *Movements in Retail Prices Since 1953* *Economica* February 1958 pp. 14-25 and T. Lynes *National Assistance and National Prosperity* Occasional Paper on Social Administration No. 5 (Welyn, Codicote Press 1962). The necessity of such price indices has been recognised in the United Kingdom with the publication of indices for one and two pensioner households. One may therefore, call for such an index to be constructed in Malta, from the results of a household expenditure survey which includes the elderly in order that the true level of real pensions can be calculated.

Figure II



time only three increases in money value took place (twice for single pensioners). The long periods without increase resulted in hardship for many due to price increases. Indeed, the pension level at April 1970 was below the level of the pension in January 1963. Even the August 1970 pension rate of 63/9d. per week will not raise the pension to the highest level in 1966 unless the price index were to fall to 116.33 a most substantial decline.

The old age pension under the 1948 Act has been increased four times between April 1960 and April 1970, which has provided an increase in the value of the pension of 24.8% in real terms. The increase in the pension to 37/6d. per week, plus house rent allowance, in August 1970, means that unless the price index rises to 136.22 the benefit will be above the April 1970 level.

We are still not able however to assess whether these increases were in some way adequate. Certainly in real terms the pensioner has gained an increase in his standard of living but if at the same time other citizens of the community are reaping greater rewards from economic growth we will certainly not be able to say that pensions were correctly awarded. By calculating how pensions should rise in order to keep in line with Gross National Product per head we can tell to what extent the old age pensioners have shared in economic growth. It can be seen from Figure II that in the period January 1963 to January 1967, pensioners reaped the rewards of economic growth. But since 1967, it can no longer be said that pensioners have kept up with other groups who have been gaining substantially from rapid economic growth.<sup>27</sup>

#### POVERTY AND THE ELDERLY

Although it is possible to measure the extent of poverty in a scientific way as did Booth and Rowntree,<sup>28</sup> this study adopts a different approach. We consider an elderly person to be living in 'poverty' if his income is

<sup>27</sup> Similar analysis in the United Kingdom revealed that since 1958 'it can no longer be said that those on National Assistance are *not* sharing in the increase in national prosperity'.

Mrs. M.F.W. Hemming *Social Security in Britain and Certain Other Countries* National Institute Economic Review No. 33 August 1965 p. 52.

<sup>28</sup> Rowntree regarded poverty as when total earnings were insufficient to obtain the minimum necessities for the maintenance of physical efficiency. This level being based on nutritional need translated into money terms with an allowance for clothing, fuel and sundries. See B.S. Rowntree: *Poverty - A Study of Town Life* Macmillan 1901.



below that at which he would qualify for Public Assistance. A similar approach has been used by Professors B. Abel-Smith and P. Townsend in their study 'The Poor and the Poorest' where they state:<sup>29</sup>

'Whatever may be said about the adequacy of the National Assistance Boards level of living as a just or publicly approved measure of "poverty", it has at least the advantage of being in a sense the "official" operational definition of the minimum level of living at any particular time'.

The conceptual difficulties involved in Rowntree's absolute subsistence level has been discussed in detail by Townsend.<sup>30</sup> The following approach must also be qualified and the results based on this definition should not be interpreted out of their context. Firstly, we make no judgement as to the adequacy of such payments; secondly, the very nature of the definition means that any attempt by the Government to help low income families by raising Public Assistance will have the effect of increasing the number defined as living in poverty. This must obviously be borne in mind when making comparisons over time.

We must also make some comment as to the unit we will be using to assess the degree of poverty. If we use as our minimum the non-contributory old age pension scale then we must talk of persons living in poverty, this will then, to some extent, overstate the number of persons with low actual incomes as it does not allow for sharing. Nevertheless, we will use this narrow definition, for we are more concerned with pensions, it being directly related to the unit used for the National Insurance pension. The Social Assistance minimum should however, be mentioned as this does allow for income sharing. Social Assistance may be payable when the head of the household is involuntarily unemployed or incapable of work. The weekly rate of assistance in each case is an amount which ensures that the weekly income of the *household* does not fall below the rates specified in the First Schedule to the National Assistance Act 1956. These rates are related to the number of persons in the household and range from 37/6d. per week in the case of a family made up of one person, to £5.5.6d. in respect of a household comprising ten or more members. There is to some degree, therefore, an overlap between Social Assistance and non-contributory old age pensions. In certain circumstances a pensioner house-

<sup>29</sup> B. Abel-Smith and P. Townsend: *The Poor and the Poorest*. Occasional Paper on Social Administration No. 17 G. Bell and Sons 1965.

<sup>30</sup> P. Townsend 'Measuring Poverty' *British Journal of Sociology* 1954.

hold may be ineligible for a non-contributory old age pension but not for Social Assistance namely, where a single elderly person's own income is large enough to extinguish the non-contributory old age pension but which leaves gross income below the poverty level,<sup>31</sup> and when the income of the head of the household is too large for the non-contributory old age pension but by virtue of the *size* of the household qualifies for Social Assistance.

Figure III presents the levels of National Insurance old age pensions for married and single pensioners and the levels of Public Assistance for the same (assuming no other members of the household). It is to be noted that the single elderly receiving a non-contributory old age pension are also entitled to a house rent allowance of up to 5/- per week. In Figure IIIA it can be seen that the National Insurance benefit for a married couple has been above the level of Public Assistance, for the same couple, throughout most of the period under study. In 1968 the level of Public Assistance was made equal to the National Insurance benefit and in 1969 the Assistance level rose 8.3% above the Insurance benefit, the differential being raised to 9.8% in 1970. This means that a married couple with no other income than the Insurance pension would have to rely on Public Assistance to reach the Government's own definition of the minimum level of living. The natural result has been that Public Assistance still plays an important role in the social security system and in fact has become regarded 'as a supplement for practical purposes'.<sup>32</sup> From Figure IIIB we can see that for a single person the Insurance pension had, until 1970, been above that of the Assistance level (including the rent allowance). The changes introduced in 1970 however, means that if the pensioner has no other income than the Insurance pension he will only just be at the officially defined minimum level of living.

In view of these comments it might be rewarding to examine the statistics of those receiving Public Assistance a little more closely. Although the numbers receiving non-contributory old age pensions have declined by 25.6% this does to some extent understate the poverty typically found in the elderly section of the community. From experience in other countries there is generally a section of the elderly who do not apply for Public Assistance, 'due to a deep rooted and widespread aversion to anything

<sup>31</sup> This for our purpose is the most interesting case for we have an identity of household and personal income. There is however, no distinction made in official statistics by which we may isolate these recipients.

<sup>32</sup> J. Vella Bonnici Director of Social Services: 18th February 1970.

Figure IIIa

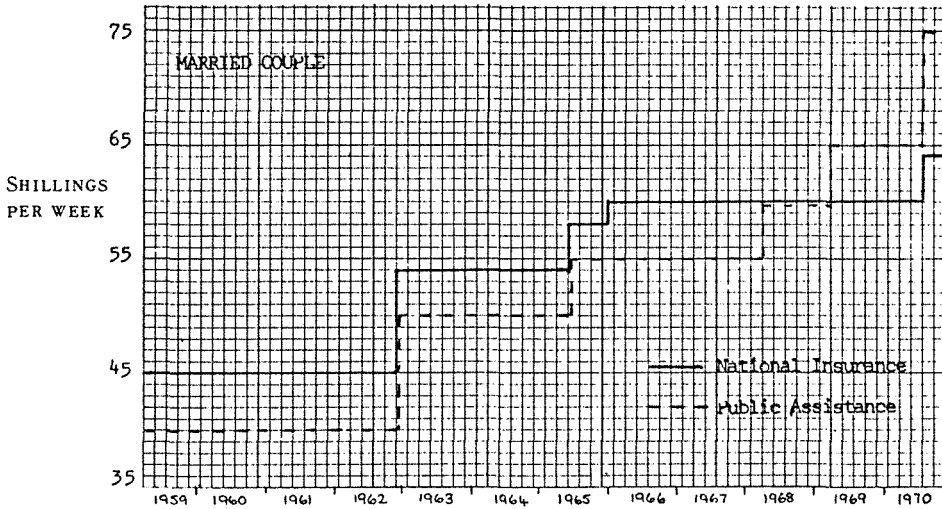
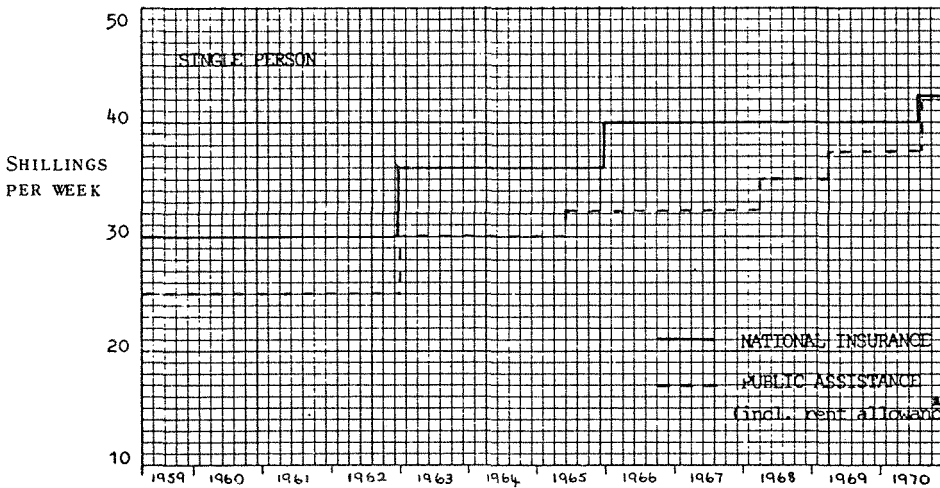


Figure IIIb



which smacks of a means test. It is probably true that some of the group . . . entitled to but not receiving (National) Assistance were ignorant of their entitlement. More important, however, are those who are too proud. They are determined to "manage while they can", and without going to ask for "charity".<sup>33</sup>

<sup>33</sup> D. Wedderburn *Financial Resources Available to Older People: Lessons for Social Policy* in P. Hansen (ed.) *Age with a Future* Munksgaard, 1964.

Bearing this in mind we may continue to examine those receiving non-contributory old age pensions. Table VI presents the number of pensioners classified according to age, sex and weekly rate of pension. It is evident from the statistics that not only are the numbers of persons receiving non-contributory old age pensions important for analysis but also the rates by which they are in receipt. Of a total of 12,254 old age pension claimants, 83.9% were in the scale of 30/- to 27/6d. per week. This indicates that 83.9% of the pensioners had own incomes which did not exceed £26.5.0d. per annum in the year 1968. Of this 83.9%, 22.9% were male and 61% fe-

**Table VI**

ANALYSIS OF OLD AGE PENSIONS UNDER THE OLD AGE PENSIONS  
ACT 1948 BY WEEKLY RATE AS AT DECEMBER 1968

NUMBER OF PENSIONERS	30/- TO 27/6		27/- TO 25/6		25/- TO 23/6		23/- TO 21/6		21/- TO 19/6		19/- TO 18/6		18/- TO 17/6	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
60-64	486	1334	36	49	28	34	13	43	9	33	13	6	4	16
65-69	450	1661	19	74	14	64	17	46	13	23	6	9	7	14
70-74	672	1914	35	65	29	54	19	41	14	32	9	11	9	18
75-79	657	1454	24	49	27	41	19	35	19	25	—	13	4	16
80 & over	535	1129	24	34	19	34	16	26	13	26	3	7	4	5
	2800	7492	138	271	117	227	84	191	68	139	31	46	28	69

NUMBER OF PENSIONERS	17/- TO 16/6		16/- TO 14/6		14/- TO 12/6		12/- TO 10/6		UP TO 10/-		TOTAL	AS % OF AGE GROUP
	M	F	M	F	M	F	M	F	M	F		
60-64	4	9	6	17	—	11	7	9	25	50	2242	15.6
65-69	1	9	9	15	4	8	4	5	61	51	2584	23.6
70-74	1	9	9	13	6	6	4	6	31	35	3042	40.2
75-79	6	9	2	4	2	6	2	3	11	30	2458	47.6
80 & over	3	8	4	7	—	3	4	7	6	11	1928	52.7
	15	44	30	56	12	34	21	30	134	177	12254	29.4

M = Male

F = Female

Source: Department of Social Services

male. We can generally conclude that not only are there large numbers of elderly living with own incomes below the official poverty level, but the majority are substantially below this level, especially so for the female elderly. We also show in the Table the relationship between the number of persons in particular age groups and the numbers in receipt of non-contributory old age pensions.

Whilst only 15% of those aged 60 to 64 are in receipt of non-contributory old age pension, 53% of those aged over 80 are receiving them. Thus the higher the age group selected, the larger the proportion of that group with own incomes below the poverty line set by our definition.<sup>34</sup> The following conclusions arise from the analysis; the main group dependent upon non-contributory old age pensions would seem to be the female elderly; when pensions are awarded the majority (84%) are in the highest possible range, indicating a severe degree of poverty before Assistance; the higher the age group the more dependent they become on non-contributory old age pensions.

It is possible, using our definition of poverty, with its qualifications borne firmly in mind, to make a quantitative assessment for selected years of the number of persons amongst the elderly whose own income *would* have left them below the official minimum level of living. In Table VII we have presented as a percentage of the population over 60, the numbers receiving non-contributory old age pensions.

In 1958, the year prior to the full operation of the National Insurance scheme, 45.1% of the over 60's were in receipt of the non-contributory old age pension. For reasons put forward earlier this figure has fallen progressively to 26.9% in 1969. Had the pension for a married couple under the Insurance scheme stayed above the Assistance level this figure would have declined further. Bearing in mind our earlier comments as to those who decline to submit to the means test, we can state that at least 26.9% of persons aged 60 and over had incomes (before Assistance) which fell below the recognised poverty level.<sup>35</sup>

<sup>34</sup> We are only able to say that *at least* 53% of the over 80's have own incomes in this range for no allowance has been made for those in receipt of Social Assistance who are not entitled to non-contributory old age pensions.

<sup>35</sup> A further reason for this qualification is that we have not allowed for Social Assistance which is granted on the basis of a *household* means test. In 1969 there were 468 households claiming Social Assistance where the head of the household was not receiving a non-contributory old age pension. As no indication is given as to the status of the household any allowance must be a crude addition to the totals given in Column A of Table VII. This would then raise the 1969 percentage to 28.1%.

**Table VII**

AN ANALYSIS OF PERSONS OVER 60 YEARS RECEIVING  
NON-CONTRIBUTORY OLD AGE PENSIONS FOR SELECTED YEARS

YEAR	A NUMBER OF RECIPIENTS	B AS PERCENTAGE OF OVER 60'S	C PERCENTAGE OF AGED* RECEIVING NON-CONTRIBUTORY OLD AGE PENSIONS
1958	15,546	45.1	48.8
1959	15,244	43.4	46.5
1963	14,000	38.7	42.8
1964	13,756	37.5	41.5
1965	13,918	37.4	41.2
1966	13,463	35.6	39.3
1967	12,827	31.4	35.2
1968	12,254	29.4	33.3
1969	11,572	26.9	30.0

\*Men 63 and over, women 60 and over. See Table I.

More closely related to the National Insurance Pension is column C which expresses as a percentage of the aged population the numbers of aged in receipt of non-contributory old age pensions. That is the percentage of those eligible through age for an Insurance pension but receiving the non contributory pension. The wider coverage of and entitlement to, a National Insurance pension can explain in part the decline in the percentage of 48.8% in 1958 to 30% in 1969. This rather large level, 30%, in 1969 is due partly to the deficient insurance record of some of the aged and partly to the overlap of the Insurance and Assistance benefit as explained earlier. To isolate this latter type would require an investigation of the numbers receiving not only the Insurance old age pension but also a pension under the 1948 Act. Statistics are not however, available to make this possible, but their importance has been recognised by the Department of Social Services who will in future record such claimants separately.

#### CONCLUSION

As previously stated, old age pensions form by far the largest single item in social security payments. Because of their high cost special care is needed to resist pressures that would tend to make them over generous. 'It is dangerous to be in any way lavish to old age until adequate provision has been assured for all other vital needs'.<sup>36</sup> As has been pointed

<sup>36</sup> Sir William Beveridge *Social Insurance and Allied Services* p.92, Cmnd. 6404, HMSO, London 1942.

out by J. Henry Richardson,<sup>37</sup> this generosity may not only exist in granting too large a pension but in fixing too young a pensionability age. Not only does this involve an additional cost in terms of financing pensions but also in terms of productivity of large numbers of people who are influenced (required) to cease work whilst still fit.

The principle of earlier retirement may in fact be criticised as being based on a false premise. Early retirement is often supported on the assumption that it represents an improvement in labour standards. It is seen as a reward to those who have given faithful service to the economy and that as the economy's productivity increases a progressive reduction in the age of retirement is supported. This fails however to distinguish between the aged in ill health, for whom retirement is a gain, and the aged both fit and desirous to work, for whom retirement may not be desired. Indeed 'to attempt to force people to retire before their powers and desire for work fail . . . should be avoided in any system of social insurance designed to increase human happiness'.<sup>38</sup>

It has been stated recently that it is intended that the pensionability age under the National Insurance scheme should be reduced to 60 years, in line with the *normal* retiring age, and that this would be done over a period of three years.<sup>39</sup> One may therefore ask what should be the normal retiring age? All European countries have a pensionability age of more than 60, in most countries it is 65 and in Ireland pensionability age is 70. The only country nearby with a 60 year pensionability age is Libya.

It could also be suggested that the reduction in the retirement age for men is the consequence of structural changes taking place in Malta. With the changing pattern of industry it is most likely that the elderly will find themselves being discharged before other members and with less chance of finding an alternative occupation due to retraining costs and alike. This would mean, for many, premature retirement and possibly the reliance on Public Assistance. The reduction in the pensionability age from 63 to 60 would therefore serve the function of both absorbing these otherwise 'deserted' elderly and of relieving the present loading on Public Assistance.

We have shown that at least 26.9% of the population over 60, in 1969, were in a position where their own income fell below the recognised national minimum. The two groups most likely to fall below the Assistance

<sup>37</sup> J. Henry Richardson *Economic and Financial Aspects of Social Security: An International Survey*, G. Allen and Unwin, 1960.

<sup>38</sup> Sir William Beveridge, *op.cit.*, p. 96.

<sup>39</sup> Prime Minister Dr. G. Borg Olivier, Budget Speech April 28th 1970. The pensionability age was reduced from 63 years to 62 years from August 1970.

scale were single women and the very old. This can be explained in part by the fact that these groups received very little income from occupational pensions. It was also suggested that the numbers in receipt of assistance were somewhat understated – as many who would be eligible to receive it did not apply for two principal reasons. Firstly, they were not aware of their entitlement and secondly, they disliked the stigma attached to it. Although one might expect the stigma associated with assistance to be a relic of 'earlier' days, there is no evidence that younger persons are more willing to apply for Assistance.

We have concentrated throughout this study on the social security treatment of the aged in Malta. It would not be beyond the scope of this study to have dealt with the use of the tax system as an instrument of aid for the aged. In other countries the aged have obtained certain tax concessions which were designed to relieve from tax both earned and investment income of the elderly on low or modest incomes.<sup>40</sup> It would be more appropriate however to deal with this topic when Malta's system of direct taxation has become more settled. Furthermore, the major drawback of using tax concessions is that individuals with the lowest incomes are unable to take full advantage of these concessions and hence there has been much interest recently in the positive approach to the provision of financial assistance for the needy.<sup>41</sup>

We may conclude therefore, that there is still a need for a closer and more thorough study of the financial circumstances of the aged in Malta. We have outlined certain anomalies in the social security system and attempted to compile raw data into grouped form in order to present a preliminary guide to the circumstances of the aged. For a fuller appreciation of these circumstances and thereby the attached problems of the aged not only should more information be given to the aged themselves but the authorities should take up the responsibility of becoming more informed as to the requirements of the elderly.

<sup>40</sup> For an appraisal of both the social security and tax treatment of the aged in the United Kingdom see G.P. Marshall, A.W. Rote, A.J. Walsh: *An Appraisal of the Special Tax Treatment of the Aged in the United Kingdom*. Bulletin for International Fiscal Documentation Vol. XXIV June 1970 No. 6 pp. 246-261. For a more rigorous analysis of each tax concession see A.J. Walsh, *The Age Exemption and Inflation* British Tax Review No. 5 1969 and A.J. Walsh and A.W. Rote: *Age Relief, Inflation and Savings* British Tax Review No. 6, 1969.

<sup>41</sup> As witnessed by the growth of literature on income maintenance programmes and the findings of the *Canadian Royal Commission on Taxation*, Ottawa, 1966 which concluded that low income receivers require positive assistance. See Vol. III, pp. 220-221.



## APPENDIX

**Table A**

### NON-CONTRIBUTORY OLD AGE PENSIONS UNDER THE 1948 OLD AGE PENSION ACT

YEAR	MALE	FEMALE	TOTAL a	VALUE b £'s
1948	na	na	10,073	71,057 c
1949	na	na	12,870	379,842
1950	na	na	13,147	386,379
1951	na	na	12,830	387,298
1952	na	na	13,298	383,988
1953	na	na	13,130	390,028
1954	na	na	13,259	399,215
1955	5205	9341	14,546	521,018
1956	5364	9502	14,866	588,047
1957	5278	9891	15,169	634,983

(a) Adjusted to exclude under 60's

(b) Unadjusted

(c) Three months

**Table B**

### AGE DISTRIBUTION OF RECIPIENTS OF OLD AGE PENSION (1948 ACT) %

AGE/YEAR	1949	1950	1951	1952	1953	1954	1955	1956	1957
Under 60	—	—	—	—	—	—	—	—	1
60-64	35	36	37	33	36	29	36	30	24
65-69	26	27	26	26	27	33	22	25	28
70-74	22	20	20	19	19	20	34	22	22
75-79	10	10	10	10	10	10	10	14	15
80 & Ov.	7	7	7	12	8	8	8	9	10
	100	100	100	100	100	100	100	100	100

**Table C**

AGE DISTRIBUTION OF RECIPIENTS OF OLD AGE PENSION (1948 ACT)

AGE/YEAR	1949	1950	1951	1952	1953	1954	1955
Under 60							
60-64	4491	4726	4682	4371	4309	3761	5250
65-69	3327	3524	3333	3530	3505	4313	3212
70-74	2844	2610	2554	2493	2512	2712	3503
75-80	1351	1367	1306	1234	1351	1358	1367
80 & over	857	920	955	1620	1053	1115	1214
	12,870	13,147	12,830	13,298	13,130	13,259	14,546

AGE/YEAR	1956	1957	1958	1959	1960	1961	1962
Under 60		30	41	27	44	31	37
60-64	4602	3758	4401	4379	3406	3108	3829
65-69	3649	4222	3745	3913	3943	3749	3698
70-74	3224	3405	3748	3503	3236	3427	3252
75-80	2032	2257	2249	2370	2438	2298	2138
80 & over	1339	1527	1403	1079	1609	1600	1345
	14,866	15,103	15,587	15,271	14,676	14,213	14,299

AGE/YEAR	1963	1964	1965	1966	1967	1968	1969
Under 60	44	69	79	85	83	77	57
60-64	2721	2717	2836	3200	2477	2242	1987
65-69	3448	3478	3488	3363	2706	2584	2474
70-74	3582	3288	3381	3081	3131	3042	2704
75-79	2393	2462	2361	2179	2208	2458	2430
80 & over	1856	1811	1852	1638	2305	1928	1977
	14,044	13,825	13,997	13,548	18,910	12,331	11,629

Table D

PUBLIC ASSISTANCE: NON CONTRIBUTORY OLD AGE PENSION RATES

YEARLY INCOME	1948	6/4/55	2/10/57	2/1/63	9/6/65	3/4/68	2/4/69	70
Does not exceed £26.5.0d	12/-	16/-	20/-	25/-	27/6	30/-	32/6	37/6
Exceeds £26. 5.0d but not £31.10.0d	10/-	14/-	17/-	22/-	24/6	27/-	29/6	34/6
" £31.10.0d "	8/-	12/-	15/-	20/-	22/6	25/-	27/6	32/6
" £36.15 "	6/-	10/-	13/-	18/-	20/6	23/-	25/6	30/6
" £42 "	4/-	8/-	11/-	16/-	18/6	21/-	23/6	28/6
" £47. 5.0d "	3/-	7/-	9/-	14/-	16/6	19/-	21/6	26/6
" £49.17.6d "	-	6/-	7/-	13/-	15/6	18/-	20/6	25/6
" £52.10.0d "	-	5/-	6/-	12/-	14/6	17/-	19/6	24/6
" £55. 2.6d "	-	4/-	5/-	11/-	13/6	16/-	18/6	23/6
" £57.15.0d "	-	-	-	9/-	11/6	14/-	16/6	21/6
" £60. 7.6d "	-	-	-	7/-	9/6	12/-	14/6	19/6
" £63. 0.0d "	-	-	-	5/-	7/6	10/-	12/6	17/6
" £65.12.6d "	-	-	-	-	-	-	-	-

THE IMPACT OF RURAL EXODUS  
ON THE OCCUPATIONAL PATTERNS  
OF THE CITIES  
(ANKARA'S CASE)

By IBRAHIM YASA

INTRODUCTION:

DUE to already well known causes, after World War II, social mobility has witnessed a rapid and steady growth resulting in a population increase at a rate of 3% annually in Turkey.

In 1927 the population of Turkey was only 13.5 million, in 1965 it has reached 32 million, an increase of two and half times within forty years. This has occurred particularly in rural areas, causing a continuous city-wards migration on a large scale. This in turn raised the sizes as well as the numbers of cities. In 1955 there were only 17 cities with a population above 50,000, whereas by 1965 the figure was doubled. Parallel with this development the population of cities like Istanbul, Izmir, Adana, Samsun, Ankara and Konya to mention only a few, also grew three or four times larger, in some even more.

In 1945 the population of Ankara was 226,712. The following five year interval censuses of 1950, 1955, 1960 and 1965 showed consecutive increases by 288, 536, 451, 650, 667 and 902, 118 respectively for each period. From 1955 to 1960 the city's population reached about a million, an increase of 450, 877.

Around 1936, the city had two small administrative districts. Approximately within a little less than twenty years' time the demographic push obliged the authorities to set up two others by 1953 and 1957 respectively. At the present, these districts are divided into 'mahalles', city wards.

At the present time, of the city's 187 wards or quarters, 112 are 'gecekondu'. Of the remaining 75, the majority are old (casbahs) and there are only a few modern type settlements. More than half of the city's population lives in 'gecekondu' wards. With the addition of the old quarter inhabitants and people living in the unsanitary basements of apartment houses this proportion approaches 65%-70% of the total population.

This phenomenon shows very clearly the rapidity by which some old, small towns have been developed into these congested and crowded agglomerations with particular physical sub-areas encircling them. The name given to these speedily mushrooming areas is 'Gecekondu Mahalleleri', squatter settlements; the people living in shelters constructed therein are 'Gecekondu Aileleri' squatter families. These families, together with their physical living quarters form the gecekondu communities.

In this paper our main objective will be to show the basic socio-economic origins of these communities and their place in the general framework of the developing big cities. For this reason we have taken Ankara's case as an example.

Materials presented herewith are taken mainly from a study made by the writer on the squatter families of Ankara. Before exposing this and other material, differentiating characteristics of the gecekondu and the old city settlements must be briefly pointed out, which we turn to presently.

#### THE GECEKONDU AND THE OLD CITY SETTLEMENTS:

'The gecekondu' is a compound term consisting of two words, night and the *settled*, implying a shelter constructed in one evening, very quickly. The shelters built in this fashion in large groups, in various locations of the city, make up gecekondu settlements. Physically, as well as socially, they form transitional places between the old and new residential sections of the city. Many, in appearance, resemble 'the compact and crowded' Anatolian villages. Almost all of them are the uniform one-room, one-storey adobe houses of a similar physical arrangement, shape and sizes; with their small yards, paths, trees, chickens and wooden house attachments.

The deteriorated old city settlements, with buildings of mixed construction material, shape and looks, form another agglomeration of 'the congested and worn out' quarters, similar to the 'casbahs' of the North African shanty towns. The houses in these settlements are of one, in many cases more than one, storey with several rooms in them. In the majority of the cases, a separate or shared door with numbers of their own; each room forms an independent household.

Most of the old city settlements are located within the walls of the ancient Fortress. Some near to them, some by its peripheries, and some lower down the city; whereas gecekondu areas encircle the big city, sprawl all over the valleys, the hills, and slopes with striking wall colors rustic and humble looks. With the exception of some relatively old congested ones, in general, they are in better sanitary conditions.

In the old city quarters, a very few original inhabitants live today. These places have been and are being invaded by others and by the incoming peasants. At the same time they also serve as temporary residences for the transient and the seasonal people. As no new construction is allowed in these areas, the physical appearance of the buildings are very old and worn out in contrast with the other settlements.

The dweller of the old quarters quit these places if and when they can build or buy their own houses, or find some other more desired quarters to live in. However, these settlements never become vacant as the shortage of housing is a serious problem in the city. Therefore, one can look at these agglomerations as floating communities.

Those are the main differentiating features of the two types of settlements. On the other hand, however, they have some characteristics which are common to both. In the following we mention only two.

In the first place, practically all of the inhabitants of these places are of rural origin and background. They hold similar jobs and are employed in like occupations.

The second common feature comes from the first one, in that their ways of life coincide in many respects.

These people share similar past experiences, unite in the habits of dressing, eating, cleanliness, recreation and many others. Their attitudes toward certain objects and ideas do not differ much. They are united in basic beliefs, values, hopes and aspirations. With these unifying characteristics, they may be thought of as the largest and the most fundamental part of the socio-economic patterning of the city community.

#### THE PROBLEM:

Compared to the middle class consisting of successful professionals, merchants, tradesmen, highly paid civil servants and the upper class big merchants, entrepreneurs and top professionals, the people in the *gecek-ondu* and the old city settlements lie at the bottom stratum of the city's population. This layer in many ways differs from the lower socio-economic classes seen in slum areas in the modern industrialized western countries; as well as, preindustrial settled societies. This stratum or a group of horizontally extended people has features peculiar to itself. Considering its nebulous and floating socio-demographic structure, some writers had called it 'the classless class', and some by visualizing its proletarianization in the industrializing societies 'the sub-proletariate'.

With the gradual disappearance of the old feudalistic organization, this 'classless class' has acquired a real importance; not only in Turkey, but also in many other parts of the world.

Here, in the following, our objective will be to give a brief description of this 'class' as it is seen in the gecekondü communities in the city of Ankara.

Before attempting to undertake this task a short note on method and material is due. After this the outline of the report will consist of the following items:

1. Basic facts of gecekondü families.
2. Occupational patterns and socio-economic differentiation.
3. General Conclusion.

#### **THE METHOD AND THE MATERIAL:**

The descriptive material and the analysis presented in this report rest on three basic sources:

1. The Study of the Gecekondü Families of Ankara,
2. Lengthy observations and the open-ended interviews,
3. Documents of the Ministry of Construction and Settlement.

The first document is a study made in Ankara, represented by 1000 families of Gecekondü Settlements. A part of this research was published in 1966 in one volume. For basic facts, we have drawn heavily on this document.

Lengthy observations and the open-ended interviews provide the second source. With the inception of the above-mentioned study in 1962, we have been in continuous contact with the people of gecekondü communities, where we had good chances to talk with and observe various aspects of their life closely in the natural setting.

By these techniques we have tried to understand and penetrate the more subtle phases of life, otherwise impossible to appreciate and without which the portrait of gecekondü community would have been very colourless and incomplete.

We have also attempted to make good use of the scanty material of the Ministry and the other monographic investigations.

#### **THE BASIC FACTS ON THE GECEKONDÜ FAMILIES:**

The family migration to settlement into the city is a complex phenomenon. First we will give a brief description of it.

Although it is very difficult to tell how long it has taken a family to become settled, it is possible to reveal other facts which help to bring about a better understanding of the living conditions in the gecekondü community.

The casual observer readily notices the differences in dress, manner,

behaviour, speech and jobs performed by the newly arrived. However, beneath these surface differences, people exist who are undergoing deep emotional turmoil as they attempt to adopt the ways of the city life.

Upon their arrival most are forced to live in inadequate housing. The first jobs at which they are employed are badly paid and the food which they are able to purchase is not sufficient for the maintenance of good health.

As soon as possible, after migrating, the newly-arrived sends for his family. Those who are bachelors marry. Then, the material and the moral support which comes from living together as a family makes it more appealing to stay.

Once a family is established, settlement becomes more and more rapid. However, the people learn that community relations with their new neighbours are not as easy as they were in the villages. Mutual aid facilities, forms of living, and variations of traditional patterns quite often are slowly disappearing.

Although they maintain communications with their villages this relationship too becomes weakened over a period of time. Nevertheless, these people look at the future with a great deal of hope. They compare the city with the village and, in spite of their feelings of despair, see the potential gains to be had. They give up the thought of returning home. As the years pass by, the family becomes settled into the city, the chain of events of the first phase of adjustment ends and new phases of settled living begins.

In the process of adjustment, possession of a shelter — *gecekodu* — is the most important event in the life of the family. If the settler happens to be a single person this event is usually followed by the formation of the new family after the patterns of the old village traditions.

Although weakened, the bride price is still asked either right at the beginning of the transaction or postponed to be thought of together with wedding expenses.

As the wedding event proceeds the nuptial procession and then 'trousseau show' take place in the bridegroom's house. A religious wedding is also performed either before or after the civil ceremony. It is much cheaper to have the civil ceremony performed at home, yet some people, for the sake of social prestige and showing, prefer 'The public wedding saloons'.

Wedding festivity is an occasion for the men and the women to entertain among themselves, usually separately. Despite this general tendency, however, some ethnic groups have mixed gatherings.

Most of the marriage unions are formed among the endogamic groups.



As a result of this practice, the family discords such as separation, desertion and divorce have been reduced tolerably. The family cohesion at the same time has its effect on the prolongation of the ties with the departed place. Despite this general tendency, among some gecekondu groups endogamic marriages are not practiced as much as formerly. This fact may be interpreted as an indication of the loosening of kinship bonds earlier than the ties uniting the villages and the families. From this it may also be said that nostalgia or longing for the departed places lasts longer than the love or longing for the kinfolk living there.

In Ankara's gecekondu communities an established family on the average, consists of 5.5 persons; and a density of 2.7 people for each room. By comparison with the city family, this is a young, relatively crowded group, in general satisfied with what children it has, not willing to have any more.

This family holds different attitudes towards its children's education and vocational choices. Boys almost always are urged to go to school, are helped in determining their vocations, while girls with a few exceptions are not.

The family's first vocational preference for the boys is the desire to see them becoming government employees (memur). In their view 'memurluk' has higher prestige and is a secure, clean and comfortable calling. There may be other reasons for this, but the existence among these people of a white collar superiority complex is the basic cause lying beneath this behaviour.

The big majority (70%) of the family heads can read and write, and those that cannot are willing to learn, even some to attend vocational courses if opened. This may be considered as another sign showing that these people are very anxious to make better and faster adjustment to their new environment.

Families in gecekondu settlements, comparatively speaking, are well equipped with communication media and mass entertainment facilities.

Families in general have twice as many radio sets as newspaper subscriptions. This discrepancy comes from the fact that a radio is an instrument of leisure and culture, bringing novelties from great distances, and once bought, is much cheaper than the newspaper subscription, which needs to be repeatedly renewed.

Families are accustomed to listening to different kinds of radio stations, including foreign ones. In the listening preference folk songs rank first, daily news, commentaries, religious-moral talks, popular Turkish music and radiophonic plays, in turn, follow. The people's interests fade away gradually for useful talks, advertisement announcements, and occidental music.

Interest shown in listening to music and plays comes from the need of amusement and in the other programmes out of curiosity for news concerning national and international affairs. In the midst of many difficult situations waiting for solutions, by resorting to religious-moral talks people hope to find conciliation and relief.

Among the various factors affecting radio listening habits, cultural level, speeches of the political parties, critical international conflicts are of some importance.

In the area of other recreational activities chance games, like Spor Toto, gets the first preference, Sport activities, such as football matches, horse races, being expensive entertainments, are not much appreciated.

The habit of going to moving-pictures is gradually developing. In that people prefer open-air cinemas. Very few people show interest in going to theatres, operas and concerts. Instead, families enjoy very much having neighbourly visits and joint picnics.

Discrepancy existing in this field between the generations and the men and the women is due to their different environments and experiences.

Gecekondu folk in respect to traditional mutual aid patterns, religious observations, superstitious beliefs, practices, values and in some attitudes, takes a place somewhere between the city and the village people.

Among the families' traditions, mutual aid has weakened to a great extent; but another kind of aid, in the form of borrowing things, is still widely maintained.

Although very limited in number some family heads are affiliated members of trade unions, political parties, cooperative societies and local organizations. This may be interpreted as a gradual emerging of a new attitude, having a direction towards a more rational way of cooperation. Glimpses of the same tendency can be traced in some aspects in the spiritual sphere also.

Among the people there are sizable proportions of those who believe in the evileye, spirits, genie and demons and who are afraid of being harmed by them. For the realization of a strong wish and deliverance from a predicament some people are in the habit of going to hodjas, amulet makers, charmers, local saints and some even hope for help from witchcraft.

In the observance of the daily five prayers the women are more regular and more devout than the men, older people more so than the youth group. In the month of Ramadan this situation changes completely. All of the adults the men or the women fast and perform their religious duties without any interruption.

In the other months of the year, in the observation of the Friday prayers,

men are divided into two groups, of which the first attends these prayers, but irregularly and the second has given up praying. These two groups comprise one-third of the total men. This being a typical city the men's behaviour shows us rather clearly how urbanization had affected one of the deeply rooted and strongest religious practices. At the present time, this change could not have taken place in an orthodox Moslem village community.

The degree and the scope of change in men's attitudes towards some specific fashions of women may be another good sign of urbanization. The study contained several questions meant to find out whether any change took place after settling in the city.

According to the answer given to these questions, the men in general and the family heads in particular, in a descending order (changing between 78% and 62%) have unfavourable attitudes towards such aspects of women's behaviour as going outside without stockings, with painted nails, short sleeved dresses, heads uncovered, painted faces and short cut hair. But the same people with about equal proportions (64% and 62%) did not approve of women wearing veils and outer garments and approximately the same proportion of them approved of men and women mixed family visits.

As the above explanation shows, in these particular attitudes men are divided into two groups, floating between two extremes. For one group of fashions they are very rigid, for the second rather tolerant. It will be noticed that the first group of fashions concerns with women's clothing and dressing habits, of which none are of rural origin. Of the second, the first two are original city women's habits and the last, a new custom adopted after the Ataturk Revolutions. The chief causal factors for this phenomenon are closely related to age, span of time of the settlement and the socio-economic level of these groups.

So far, we have been concerned with some general matters such as: the population explosion as it affected the rapid growth of the cities in Turkey recently; the differentiating and the unifying features of the gecekodu and the old city communities; the method, the paper, and finally some selective background facts on these communities. Some of these facts were concerned only with the gecekodu families. However, for the reasons that we have indicated previously, these communities have much in common and therefore, the general statements made for the one may be valid for the other, too. Keeping these remarks in mind, we now turn to the second part of our problem. It is this.

What are the different socio-economic layers within the broad stratum of joint gecekodu and the old city communities and how are they related to each other?

To answer these questions we have no other and better criterion than the occupational pattern of these communities.

#### OCCUPATIONAL PATTERNS AND THE SOCIO-ECONOMIC STRATIFICATION:

It will be impossible to penetrate into these communities and to understand their problems unless we know how families have drifted from villages, have found jobs in cities, the kind of jobs they have had until the present, their annual and per capita incomes, and their incomes per household.

One significant point that we know is that the majority of the family heads have drifted to find their first jobs in cities through their personal efforts. This indicates that when they decided to leave their villages they came with the knowledge that they would face certain adjustment difficulties.

Efficient and well-known organizations, who undertake the responsibility of guiding the workers who come to cities, are new in Turkey. For this reason people experience a 'period of readjustment' at the beginning. It may be well imagined that it is not easy for those people who have little or no knowledge of work conditions and opportunities in the city, to employ same kind of 'trial and error method' in finding jobs. Finding a job in this way may be considered the starting point of the process of adjusting to city life.

The fact that only a few family heads (13 altogether) actually found jobs through the Employment Organization, and (17%) through their relatives kinsmen and acquaintances, requires attention.

The people often hesitate to contact an official organization because, when they come to the city they are shy and confused. It is also known that in the city, by the passage of time, the kinship ties weaken.

We already know that people leave their jobs when they secure better ones and find their present jobs after trying quite a few others. It has not been possible to reach a satisfactory answer to the question of the types and average number of jobs they have held in the past. Possibly the main reason is that the jobs then held previously have been alike in nature and importance, and therefore, they have not taken our inquiry very seriously. If however this question had received proper attention, it would have been possible to establish the progress and the regression of the people and economic positions and horizontal and vertical occupational mobility. Nevertheless, we were able to *obtain* some figures about their monthly incomes and a fairly detailed account of their occupations.

## THE MONTHLY INCOME:

There are some difficulties in getting correct figures about the incomes of the families.

At the beginning of our interviews the heads of the families did not want to answer questions about their incomes and they considered the subject 'taboo'. When we insisted, they were obliged to answer. We would like to point out, therefore, that there are some factors which lead us to question the validity of their answers.

One of these is the fact that they apparently tended to state their incomes as lower than they actually are as a means of indicating that their economic standing is unsatisfactory. However, this tendency is not only peculiar to the gecekondu families. The majority of the city and village dwellers also show this tendency to lower the value of their incomes when asked this question.

The second difficulty in collecting precise data about the monthly incomes of these families is that some of these family heads either concealed or refrained from answering this question correctly because they intentionally underestimated the amount of additional income brought into the family budget. For instance, the majority of young men and boys who deliver newspapers or sell 'Boza', water, nuts and grapes on the streets, shoe-shine boys and open market-porters are from these families. Women who are maids, office servants, dress-makers, or peddlers are also members of these families. Their contribution to the family budgets cannot be estimated. In some families these contributions, which look as if they are just small additional earnings, amount to a sum more than the incomes of the family heads.

TABLE I:

MONTHLY INCOMES OF THE FAMILY HEADS

INCOME GROUPS	NO. OF F. HEADS	%
100 - 200	84	8
201 - 300	216	22
301 - 400	229	23
401 - 500	157	16
501 - 600	93	9
600 -	111	11
I don't know	26	3
No answer	84	8
<b>TOTAL</b>	<b>1,000</b>	<b>100</b>

Out of the sample, 891 heads of the families answered this question for themselves and only 21 for their wives. 26 of them replied that they could not say how much they earn as they only work whenever they find a job and experience frequent periods of unemployment. Excluding this latter group the others fall under the following categories: 100-200; 201-300; 301-400; 401-500; 501-600; 600 and up. Their respective percentages are 8, 22, 23, 15, 9 and 2. The difference between those who fall into the groups of 201-300 and 301-400 is very little. When we add these two groups, they constitute almost half of the total families.

Those whose incomes fall under the category of 401-500 constitute 16% of the total and those in the next two categories (501-600); (600 and up) constitute 20%. Families having a monthly income of 500 TL and more constitute one seventh of the total. The average monthly income of the family heads is 386 Turkish Lira.

Out of 21 wives the earnings of 10 fall into the categories of 100-200. The earnings of 2, fall into 301-400; and one, falls into 500-600. The average of their monthly incomes is 235 TL. This average however is lower than what was expected as the average income for women living in the gecekondü communities.

The average of the annual income of the gecekondü family-heads is 4632. the per capita income being as high as 842 TL. When the incomes that the family-heads have concealed and those of the other members of the families are added, it is very likely that the per capita income will be higher than this figure, amounting to at least 1500 TL. In 1960, the average per capita national income was about 1500 TL. When this average is compared with the average of the annual per capita income of the village families we immediately realize the higher income level of the gecekondü families.

If the State Statistics Institute had established the shares the social classes claimed out of the National income, instead of the abstract average income for Turkey, it would have given an opportunity to make more concrete, realistic comparisons. Although deprived of such an opportunity we do know that the lion's share of welfare goes to a very small minority. The difference, especially between this small group and the great mass of villagers dealing with agriculture, has been growing each year like an avalanche. For this reason, it is evident that the gecekondü families have reached a higher living standard than that of the great mass of villages which they left some time ago. This means that at one end of the internal migration, there is the unchanging misery and impossibilities of village life, and at the other, there is an opportunity to be able to live at one corner of the city with a relatively higher income secured through a variety of means.

In connection with this general problem we included two more specific questions in our questionnaire with the hope that it could elucidate some of the habits the gecekondü families have acquired in the city. One of these questions was whether the family heads had a banking account; the other was what would be the priority of their wishes if their incomes were to be increased. Very few family heads answered the first question positively as many seemed to want to conceal that information. Therefore, we can assume that the proportion of these families with bank accounts must be higher.

According to the data available only 138 (14%) (out of 916 families) have accounts in a bank. Although the figure is quite low, it is significant in showing that they do acquire some habits in the city. Even when the villager could save some money, however small it may be, he hides it in a bundle, buries it in his barn or adds another gold coin to his wife's necklace. Depositing money in the bank is a characteristic of city dwellers. It is evident that the gecekondü families are a bridge between the traditional villagers and the city dwellers. It is seen that as a result of the internal migration and settling in the city there is both an increase in the incomes of these families and a change and improvement in their way of 'saving'. Having this fact in mind, we wanted to find out the effect of their incomes and savings on their ways of thinking; we asked the following question for this reason:

'If your present income were 2 or 3 times as much as it is now what would be your three wishes — in order of priority — as to how you would want to spend this additional money?'

In the sample the percentage of those who do not have a house is 31%. The percentage of those who want a house increased to 51% reflecting a difference of 20% between these two figures. There are various reasons why people want a house although they may already own one. Some may want a new house because their families may have enlarged and, still others may want to change to a new neighbourhood for several reasons. There may be those who consider buying a new house in a new neighbourhood for prestige factors. Whatever the reason may be, the fact is that to these gecekondü families who have been living in the city for a considerably long time and who have improved their financial status a house means a sturdy construction which is built according to sanitary standards and which they can legally possess, rather than a hastily built barrack which hangs over their heads like Demokles's sword.

The monthly or yearly incomes give an idea about the gecekondü family and community in general and this is a good way of presenting data, especially when we compare this community with the village and the country

as a whole. One of the objective ways of getting an idea concerning the socio-economic differentiation as we previously remarked, is to look into the occupational patterns of this community. When this is considered together with the first procedure, we get a better understanding of our problem.

#### OCCUPATIONAL PATTERNS:

Excluding the ones who acquired a profession while serving in the army, the largest number of the family heads living in the gecekondu areas did not know the craft and skills they have today when they first came to the cities. According to our figures, one fourth of the family heads have learned the necessary knowledge and skill to carry out their present jobs after arriving in the city. The percentage of technical skills and occupations learned in the city is 36%. The rest of the jobs in which skills were acquired in the city (64%) are of a varied nature. All of these occupations demand proficiency and technical knowledge. These family heads in particular, possess the characteristics of the tradesmen and craftsmen of the city and for this reason they perform very useful functions in the life of the community.

With the exception of the ones demanding proficiency and technical skill, it was a serious problem to make a classification of gecekondu people's occupations. There are several reasons for this. One of the reasons for this difficulty is that there are many types of occupations and in some cases, the occupation is of an ambiguous nature which may very well mean it is classified under more than one category. Therefore, we do not think that it is appropriate to classify families according to classical or technical standards. Because these families have not yet made adjustments to city life they tend to change their occupations often, losing continuity, therefore, in their occupational patterns. The answers given to the questionnaire revealed the fact that the families living in the gecekondu areas hold 170 types of different jobs, which we classified under 8 groups, besides those who were unemployed or did not answer the question. Out of these, the skilled worker's group comprises 54 different jobs; the unskilled worker's group 12; the manual employees, 13; small tradesmen's, 36; farmers and animals dealers group, 4; civil servants, 48; among them there are those whose occupations are not clear, such as those who are religious leaders, and, there is small number of those who receive incomes from investments which makes it more difficult to describe occupational groups as well as individual occupations. Furthermore, because our main concern is the impact of occupations on structure and order of families we have classified the State-Employed drivers



for instance, as skilled workers, even though they are legally referred to as 'manual employees'. Therefore, our category called 'manual employee' includes a broader range of occupations than the legal category.

We have also classified the small number of income holders as a separate group. Having these in mind, let us now examine the data given in Table 2.

TABLE 2

MAIN TYPES OF OCCUPATIONS OF FAMILY-HEADS

TYPES OF OCCUPATIONS	NO. OF FAMILIES	%
Skilled worker craftsman	264	27.0
Unskilled worker	114	11.5
Manual employee	152	15.0
Small tradesman and merchant	169	17.0
Farmer - cattle dealer	12	1.0
Income holder	8	1.0
Civil servant	146	14.5
Unemployed	35	3.5
Not clear	16	1.5
No answer	84	8.0
TOTAL	1000	100.0

The first point which deserves attention in the table is that the skilled workers and the craftsman constitute more than one fourth of the total number of families. This shows that the main occupational group in the gecekondu settlements is that of the skilled workers and craftsman. Actually the skilled workers, that is, those who possess a certain skill and do jobs requiring technical knowledge, constitute this group. Some of the skilled workers and craftsmen work in factories, some for private individuals, and some in their own workshops.

It is very often difficult to tell the skilled workers and craftsmen apart from each other, for their lives, moral values and habits appear to be very much the same. As a result, they constitute one social stratum of the gecekondu communities.

The second largest occupational group is the small tradesmen and merchants. The difference in ratio between the first and this group is 10%.

Small tradesmen and merchants have common characteristics in their occupations, and it is often difficult to separate them. They both sell retail goods. Although there are a few tradesmen and merchants in this

group who operate relatively large scale business, the majority of them do very small businesses. The reason why they are similar in their patterns of living and in their social and economic relations among themselves and with others is because they unite together politically and socially when necessary to protect their own interests and those of the community. In contrast to the technical and practical knowledge and skill of the first group, their knowledge pertains only to the field of trade and business and they tend to be outspoken and active in the community.

When we look at the list enumerating the kinds of jobs held by those in the first (skilled – worker craftsman) and the second groups, (small tradesmen and merchant) we will see that their earnings do not widely differ. Therefore, it is possible to unite these two main groups. If we added to these figures the small number of family heads holding incomes and those who are farmers and cattle dealers we would have as high a ratio as 46%. The common characteristics of these groups is that they have reached a similar economic level as a result of the nature of their occupations. The jobs held by these families are more stable and continues. Therefore, it may be well ascertained that the group of skilled workers and craftsman, and that of the small tradesmen and merchants comprise the most widespread stratum of the gecekondu settlement. The small tradesman and the merchants constitute the upper half of this stratum, while the skilled workers and the craftsman, constitute the lower half. However, they are the continuation of one another. The class differentiation between the two groups is rather loose and not definite.

Among this group, hawkers, old-clothes peddlers and open market dealers have an important place in the city life. Taking this fact into consideration, we would like to put more emphasis on these tradesmen.

Hawkers, old-clothes peddlars and open-market dealers play a particular role in the economic life of the city. The open-market dealers spend seven days of the week in seven different quarters of the city. Most of the people obtain their weekly food from the open-market dealers.

The importance of old-clothes peddlars in the life of a city is for a different reason. They usually buy clothes belonging to the members of 'the new middle class' who have reached a high economical level, and who do not want to use these clothes although they have not been completely worn out, those clothes are then sold to the people who cannot afford to buy new clothes. There is hardly another example which reveals the great material and value difference between these two classes.

Undoubtedly, two of the most important occupational groups in the gecekondu settlements of Ankara are the skilled workers and craftsman, and the small tradesman and merchants. Their importance lies in their

financial means and in the variety of their activity. The difference between these two groups is not as much of a financial nature as it is of diversity in their fields of influence. Among the family heads belonging to these groups there are those who hold more than one job, those who are the unscrupulous gecekondü – house builders, or business man. This small group is composed mainly of families who have come to the city earlier, and constitute economically and socially, the upper stratum of the community. Compared to other strata, it has attained more stability and a higher income and has also achieved a certain degree of adjustment to city life. This is a group which takes close interest in political matters. It is notoriously known for its skill in playing politics with politicians.

The percentage of unskilled workers and manual employees are 11.5% and 15% respectively. When considered together these make up more than one fourth of the total number of families. Almost all the unskilled workers are badly off. They lack satisfactory earnings, and education. If we add to this group those who do not work and whose jobs are uncertain, it would constitute almost one third of the total number of families. This group is the lowest stratum of the gecekondü community.

As a group the small office servants and door-keepers live in with a feeling of pretence, and try to assume certain behavioural habits which belong to the civil servants. This group aspires to the family life of the civil servants rather than that of the middle stratum of the gecekondü communities. Although this group is more conscious of social problems than the skilled workers, they tend to be apathetic towards them because of the subservient nature of their relations with others.

The majority of the small office-servants and door-keepers are employed by the state departments, while some work in private business and apartment houses. The family heads in this group have a better educational background, and higher, but set, monthly salaries. There are not great differences in their salaries; therefore they are similar to low rank government officials with fixed salaries.

Another point which requires attention is that 14.5% of the gecekondü families are civil servants. This is only natural, as Ankara is a city of administration. The great majority of these civil servants are low rank officials working for the municipality or state departments. Even if this group lives in the same regions as the others, the fact that they are of a higher educational and cultural level, separates them from other groups in their living conditions, view points, moral values and habits. The heads of the families constituting this group possess more general knowledge than technical skills, only some of them are engaged in physical labour, and therefore, the majority can be called 'white collar' workers.

In addition to this difference between the unskilled workers and this group, relatively higher salaries which place them at a level economically closer to the first group of skilled workers craftsmen constitute another difference. In other words, the civil servants constitute the middle stratum of the gecekondu communities.

#### CONCLUSION:

In the preceding pages we have attempted to give an account of a newly-emerging community in many respects dissimilar to the old established communities.

The emergence of this new community is not a phenomenon peculiar only to Turkey, but to all industrializing or semi-feudalistic societies of the world. At present there are very scanty up-to-date empirical studies in this important area. We are especially in need of comparative investigations in different socio-economic classes of the developing cities as well as in the countries.

We need such studies not merely out of scientific curiosity but especially for urgent practical considerations. Without the basic information and the most needed facts, many problems facing these communities cannot be efficiently tackled and realistic social and economic national planning cannot be properly executed.

## URBANIZATION AND INDUSTRIALIZATION

By VASSILIOS FILIAS

### A. POPULATION CHANGE AND URBANIZATION, 1960-61

I. In all geographical departments of Greece there has been noticed a significant population change since 1920. Until 1928 the population of the country increased because of the compulsory exodus of the Greeks from Asia Minor which followed the great military defeat of 1922.

The most important population increase was noticed in the Greater Athens Area during the period 1920-28. Also in Macedonia which has shown a considerable density rate there was an increase from 30.9 to 40.5 inhabitants per square kilometer while Thrace showed a greater increase from 24.1 to 34.8 inhabitants per square kilometer.

The following table shows the distribution of the Greek population in big geographical departments in 1928.

TABLE I

AREA	POPULATION 1928	% ON TOTAL POPULATION
Greater Athens	802,000	12.92
Rest of Central Greece	790,842	12.74
Peloponnese	1,053,327	16.97
Ionian Islands	213,157	3.44
Macedonia	1,412,477	22.76
Thessaly	493,213	7.95
Epirus	312,634	5.05
Aegian Islands	437,436	7.05
Crete	386,427	6.24
Thrace	303,171	4.88
TOTAL	6,204,684	100%

In 1928, 30% of the total Greek population lived in 43 cities of 10,000 or more while in 1920 the urbanization rate was 23.0%. In spite of change,

however, Greece is still an agricultural country: 55½ of its population is agricultural. Also in 1928, among the inhabitants of the cities, 44% were not born in the city they were living in that year (the refugees from Asia Minor are not included).

The following table gives us a picture of the urban population born in cities.

TABLE II<sup>1</sup>

INHABITANTS BORN OUTSIDE THE CITY OF STAY  
IN 1928 AS A PERCENTAGE OF THE TOTAL URBAN POPULATION

Central Greece	54.7
Peloponnese	41.8
Thessaly	48.9
Ionian Islands	27
Epirus	44.1
Macedonia	32.2
Aegian Islands	27.1
Crete	43.4
Thrace	23.1

The following table pictures the situation in cities with more than 20,000 inhabitants in 1928.

TABLE III

COMPOSITION OF POPULATION OF CITIES  
WITH 20,000 INHABITANTS AND MORE IN 1928

	NATIVES	REFUGEES	IMMIG- RANTS	TOTAL	% NATIVES	% REFUG.	% IMMIGR.
Athens	131,810	129,380	198,021	459,211	28.7	28.2	43.1
Pireus	68,859	101,185	81,615	251,659	27.7	40.0	32.4
Salonica	88,050	117,041	39,590	244,681	36.1	47.8	16.1
Kavalla	10,598	28,927	11,327	50,852	20.9	56.9	22.2
Patras	32,376	6,967	25,293	64,636	50.1	10.8	39.1
Volos	14,901	13,773	19,218	47,892	31.2	28.7	40.1
Xanthi	13,257	14,867	7,788	35,912	37.0	41.4	21.6
Heraklion	15,421	14,069	9,741	39,231	39.3	35.9	24.8
Corfu	22,582	2,064	9,547	34,193	66.1	6.0	27.9

<sup>1</sup> Source: Bernard Kayser, *Geographie Humaine de la Grece*, Paris, 1963, page 32.

TABLE III (continued)

	NATIVES	REFUGEES	IMMIG- RANTS	TOTAL	% NATIVES	% REFUG.	% IMMIGR.
Komotini	14,134	10,745	6,672	31,551	44.8	34.1	21.1
Drama	6,161	22,601	3,424	32,186	19.2	70.2	10.6
Kalamata	12,905	3,587	12,469	28,961	44.6	12.4	43.0
Serres	10,708	14,950	3,982	29,640	36.2	50.4	13.4
Mytilini	12,485	14,820	4,356	31,661	39.5	46.8	13.7
Chania	14,945	6,925	10,369	32,239	46.4	21.4	32.1
Larissa	9,427	4,400	12,034	25,861	36.5	17.0	46.5
Chios	13,651	9,357	3,159	26,167	52.3	35.7	18.0
Hermoupolis	11,978	3,032	6,406	21,416	55.9	14.2	29.9
Yannina	10,251	3,117	8,131	21,499	47.7	14.5	37.8
Pyrgos	11,414	772	8,130	20,496	55.7	3.8	40.5
Trikala	13,548	632	7,937	22,117	61.4	2.8	35.8

Therefore, as we can conclude from the presentation of the above table, the average composition of the total population of cities with 20,000 inhabitants and more is as follows:

Natives	35%
Refugees	31.7%
Immigrants	33.3%

II. During the period 1928-40 there was an increase of the urban population exceeding the population increase of the country which is significant. The total population of Greece increased by 1.6 million while the urban by 450,000 and reached the number of 2,350,100 in 1940 from 1,900,196 in 1928. During the same period the Greater Athens Area shows a rapid increase of 40.2% while the rest of the cities undergo a much slowerpace of increase.

III. The period of 1940-1945 is one of suffering because of the war and Occupation. During this period the population suffered from significant losses amounting to 6.8 and 8.2% of the population while at the same time there was a natural decrease which amounted to 240,000 births. The result of these unfavourable conditions was a very small natural increase between 1940 and 1951. It is interesting to know that in spite of the annexion of the Dodecanese, the total of natural increase just reached the rate of 2.31% (173,000 persons) which is 0.2% yearly.

On the contrary, the urban population increases significantly because

of the big population movements from the agricultural areas due to the frightening climate created by the war. During the period 1940-1951 the urban population shows an increase of 458,000 persons, or 20%. It is perhaps the first time that this increase does not take place only in the Capital which suffers under the foreign yoke (22.6%) but an increase between 25-40% is also noticed in some provincial cities. Only in some cities of Northern Greece occupied by the Bulgarians we notice a population decrease (Kavalla, Komotini, Xanthi, Drama).

IV. The period between 1951-1961 is of significant importance because of the big population movements which determined the demographic changes of the after war years. The agricultural population during this period remains almost constant (+ 1.4%). We notice an increase of the agricultural population only in 76 provinces while in 72 there is an absolute decrease. It is evident, however, that even in the provinces showing a population increase there is an exodus of population, a fact which is important compared to the population increase of these regions – considering as a basis the accredited natural increase of the population.

Furthermore, with regard to the small cities (2-10,000) the natural increase between 1951-1961 is also small (+ 1.25%) which is an indication that the small cities constitute significant attraction poles in contrast to the entirely agricultural areas. This conclusion is supported by the fact that the agricultural population increase in 42 provinces of Greece and the agricultural population decrease in 23 provinces are directly correlated and analogous to the corresponding movements of the population of these small cities which are characterized as semi-urban by the National Statistical Service of Greece. (It should also be mentioned that there is a total of 113 provinces with agricultural and semi-urban population, based on the definition of the National Statistical Service of Greece).

On the contrary, in 55 cities in Greece there are significant changes having taken place during the period 1951-61. In four cities we have an increase of more than 30%, in 14 cities 20-30%, in 13 cities 10-20%, in 17 cities less than 10%. Seven cities show a clear population increase.

Basically, the most significant increase of urban population has taken place in the three big geographical departments of Greece, Central Greece, Macedonia, and Crete.

Generally speaking, the relationship between urban and rural areas is determined between 1951 and 1961 to the benefit of the former. This is supported by the fact that 31 out of 55 cities of Greece (that is 3/5) show an increase of more than 10%. On the contrary, in only 31 out of 147 provinces we notice an increase of more than 10% (that is 1/5 of the provinces of Greece).



## SECONDARY SECTOR PRODUCTION AND URBANIZATION 1951-61

The simple criterion of the rapid increase of population of an urban area is not sufficient to determine urbanization. Indeed, during the period 1951-61, we do not notice other changes than the one of population in only three cities (Argos, Aegion, Levidia). In seven other cases, we notice a more rapid increase of about 20% or more (Agrinion, Aharnai, Salamis, Arta, Naoussa, Kilkis, Nigrita). This increase is positively related to the increase of the ratio of industry to agriculture.

According to the data of the Census of 1961 there are only 12 centres which can be described as centres of secondary sector activities on the basis of the occupations of the population. Among them, Kastoria, Xanthi, and Hermoupolis are handicraft centres, Salonica, Kavalla, Patria, Kalamata, Larissa, Herakkion, Ptolemais, Chalkis, Elefsis are industrial. This picture cannot be complete without adding (a) Volos, which is both an industrial and commercial centre (b) Greater Athens Area and Chania which are centres of secondary sector activities, commerce and services at the same time and (c) Kozani also a centre of secondary sector activities and services. The definition of the above 17 urban centres as industrial has been given on the basis of the Greek standards.<sup>2</sup>

In seven out of the above mentioned industrial centres (out of which one has a mixed activity) the flowing out of the population was greater than the inflow, while at the same time (excluding Athens and Salonica) the biggest inflow took place in the urban centres very close to Athens like Elefsis (30 minutes from Athens) and Chalkis (90 minutes from Athens). Secondly, in spite of the expected results in the three previously mentioned transformation centres, the percentage of the economically active population<sup>3</sup> represented only 30% of the total population and only in five cases (Athens and Salonica included) the economically active population exceeded the average, reaching the percentages of 37.2 and 43.4 of the total population.

II. It is meaningful for the object of our study to take into consideration the source of the Gross National Product as well as its possible clas-

<sup>2</sup> The department of regional planning of the Centre of Economic Research has defined as industrial centres the ones having a rate of more than 40% employed in secondary sector activities, as commercial centres the ones having more than 15.6% employed in commerce, as centres of services the ones having a rate of more than 25.6% employed in services and as centres of transport the ones having a rate of more than 9% employed in secondary sector activities, and agricultural centres the ones having a rate of more than 30% engaged in agriculture.

<sup>3</sup> According to the definition of the National Statistical Service of Greece, economically active are characterized those who were employed during the week before the Census was taken.

sification according to large branches of economic activity and its differentiation between urban and rural income.

According to the latest data available from the *National Receipts of Greece* the sources of the gross national income according to large branches of economic activity are as follows: in current prices in 1962:

Agriculture:	28,146 mil. drachmai	25.5%	of the total
Transformation:	28,423 " "	25.7%	" " "
Services:	53,900 " "	48.8%	" " "

More analytically, according to the data presented in the National Receipts of Greece and the estimations of the Centre for Economic Research the sources of the national product according to big geographical departments of Greece are as follows (current prices in 1962, revised in 1965):

TABLE IV

	AGRICULTURE	INDUSTRY	SERVICES	TOTAL
Greater Athens Area	0.5%	47.1%	51.2%	37.2%
Rest of Central Greece & Euba	16.0%	11.9%	7.6%	10.9%
Macedonia	31.6%	17.8%	16.0%	20.5%
Peloponese	20.0%	8.5%	7.9%	11.2%
Thessaly	10.7%	4.4%	4.5%	6.0%
Aegian Islands	4.2%	3.3%	3.9%	3.8%
Crete	5.6%	2.6%	3.4%	3.8%
Thrace	6.5%	1.4%	1.9%	2.9%
Epirus	3.3%	1.9%	2.1%	2.3%
Ionian Islands	1.6%	1.1%	1.1%	1.4%

It is evident on the basis of the previously presented data that the weight of Central Greece which includes the Greater Athens Area is immensely disproportionate in comparison to the rest of the geographical departments of the country from the point of view of the source of the national income.

More specifically speaking, the determination of the source of the national income in rural and urban areas has not been fully studied by the National Statistical Service of Greece. However, there are some data available on the basis of which the per capita gross regional product in large geographical departments can present the following picture:

TABLE V

PER CAPITA GROSS  
REGIONAL INCOME

REGIONAL INDEXES

AREA	DRACHS.	U.S.A.	GREECE = 100	NOMOS OF ATTICA = 100
Nomos of Attica	18,801	626.70	156.30	100.00
Rest of Greece	9,215	307.70	76.60	49.00
Peloponnese	10,658	355.20	80.60	56.70
Thessaly	8,193	297.10	74.10	47.40
Epirus	6,846	228.20	56.90	36.40
Macedonia	11,137	371.20	92.60	59.20
Thrace	8,605	286.80	71.50	45.70
Crete	7,938	264.60	66.00	42.20
Aegian Islands	8,229	274.30	68.40	43.70
Ionian Islands	6,944	231.40	57.70	36.90
Greece	12,028	400.90	100.00	64.00

Generally speaking, the per capita income in the Nomos of Attica<sup>4</sup> (which is almost the same as the Greater Athens Area) is 2½ times higher than the average per capita income of the country. Moreover, the purchasing power of the inhabitants of the capital covers 53% of the purchasing power of the country as a whole.

It is interesting to present here the results of a research project on Households attempted by the National Statistical Service of Greece. The difference of income among the most significant greek cities according to population size is presented in the following table:

TABLE VI

INCOME OF HOUSEHOLD HEAD ACCORDING TO SIZE OF WEEKLY INCOME  
AND ACCORDING TO POPULATION SIZE OF CITIES 1957/1958\*

	GREATER ATHENS AREA	SALONICA	CITIES WITH 30-80,000	CITIES WITH 10-30,000	ALL HOUSE- HOLDS	SIZE OF SAMPLE
Up to 249	22.30	38.60	28.00	36.95	28.85	3.48
250-449	23.40	26.50	29.25	29.70	26.30	6.15
450-799	28.10	24.15	25.50	20.35	25.30	7.97
800-1099	8.40	4.35	6.50	5.40	6.85	3.72
1100-1599	4.90	2.00	2.00	3.60	3.60	2.31
1600+	5.50	1.70	3.75	2.10	3.90	2.05
Refused to declare	7.40	2.70	5.00	1.90	1.90	-
All households	100.00	100.00	100.00	100.00	100.00	-
Size of sample	12.07	2.98	4.00	6.63	25.68	-

The importance of daily wages to secondary sector activities varies according to the weight of the secondary sector production for the income formation in each city. However, there appear to be significant differences in wages mainly between Athens and the rest of the cities. This is not true among the rest of the cities. It has been found out that the daily wages in Athens exceeded by 20% the lowest average wages in provincial cities in seven industrial branches. In 18 industrial branches however, the wages in Athens exceeded by only 10% the wages in the provincial cities.<sup>5</sup>

III. In Greece, the evolution of social and industrial patterns which had started to be noticed before the war, led to the establishment of a large scale disequilibrium in the greek sphere after the war. Already in 1961, 1/3 of the population of the country had settled in 5% of the total greek territory, 1/2 in 15%. At this point we should ask ourselves: Did this evolution result from a healthy urbanization process?

The following table pictures the population distribution in large geo-

TABLE VII

SURFACE AND POPULATION OF GREECE ACCORDING  
TO GEOGRAPHICAL DEPARTMENTS, ETC.

GEOGRAPHICAL DEPARTMENT	SURFACE IN THOUSANDS SQUARE KILOMETERS	NUMBER OF INHABIT. IN TOWNS 1961	% ON THE TOTAL OF POPUL. OF GREECE 100.0	CITIES WITH MORE 30,000	NUMBER OF INHAB.	% ON THE TOTAL OF URBAN POP.
Total of Greece	130.9	8,389	100.0	-----	-	-
Greater Athens Area	0.4	1,853	22.1	Athens + Pireus	-	-
Central Greece & Eubea	24.2	971	11.6	-----	-	-
Peloponese	21.1	1,096	13.1	Patras	95	2.6
Ionian Islands	2.3	213	2.5	Kalamata	38	1.0
Thessaly	14.0	695	8.3	Volos + Larissa	67	1.8
Macedonia	34.0	1,891	22.5	Salonica	55	1.5
				Kavalla	374	10.3
				Serres	45	1.2
				Drama	40	1.1
					32	0.9
Epirus	9.1	353	4.2	Yannina	-	-
Crete	8.3	483	5.8	Heraklion	63	1.7
				Chania	38	1.0
Aegian Islands	9.1	477	5.7	-----	-	-
Thrace	8.5	357	4.2	-----	-	-

Source: Statistical Yearbook of Greece, 1961

\*Source - National Statistical Service of Greece. Household Survey (Athens 1961) pp. 58-59 foll. p. 321 fol.

<sup>5</sup>See. Benjamin Ward, Regional Development of Greece. K.E.P.E., Athens, 1963. page 52 foll.

graphical departments and in the most important cities with 30,000 inhabitants or more, according to the data of the Census of 1961.

We can conclude immediately from the above table that in Central Greece and Eubea 1/3 of the population of Greece is concentrated in 13% of the total surface of the country. Another significant conclusion is that since there is only one city in Greece besides Athens with more than 100,000, Greece lacks cities of medium size. Furthermore, it is of great importance to the object of our study that 68.6% of the urbanization is directed towards Athens which has resulted in the tremendous population increase of the Athens Metropolitan Area between the years 1951-1961 (472,913 persons), which is 34.4% in contrast to a 9.9% population increase of the country as a whole. 71.6% (395,630 persons) of this increase were internal migrants most of whom, according to the results of a research project, came from rural areas.

The result of these developments is the concentration of the following services in the nomos of Attica (which represents the 25% of the total population of Greece):

TABLE VIII

56.8% secondary sector production (added value)
73.9% utilities
42.1% construction works
47.2% transportation-communications
58.2% commerce
77.3% trust-insurance
46.2% housing
51.0% public administration
52.9% health
29.8% education
51.0% rest of services

Furthermore, 57.8% of the public revenues, 43.2% of the public receipts, and 50-70% of the total of the investments in industry, tourism and buildings were concentrated in the Greater Athens Area.

More specifically, in regard to industry, 28% of the buildings of the secondary sector occupations were concentrated in the Greater Athens Area in 1963. This distinction permits us to establish a criterion of classification between handicraft industry and industry. Industrial stores which occupied more than 10 persons represented a 50.4% in the Greater Athens Area (54.8% of the total occupied in this professional category). It should be noticed, however, that between 1958 and 1963, 65% of the

increase of industrial stores and 85% of the increase of industrial occupations took place in the Greater Athens Area.

This disproportionate increase of Athens participation in industrial activity between 1958 and 1963 resulted in a significant average yearly rate of income increase of about 9% in the nomos of Attica, in contrast to an average yearly rate of 6.45% for the rest of the country.

Salonica, the second big city in the country showed a percentage of 11.8% of the urban concentration tendencies between the years 1951 and 1961 in such a way that this city covers more than 16.8% of the total of the population of Macedonia and Thrace.

Today, we find 75% of the most important industrial activities (secondarily sector units of industry) concentrated in the two big cities in Greece and 50% are occupied in secondary Sector activities.

B. As we have already mentioned according to the data of the Census of 1961 there were 55 urban centres in Greece which had 3,628,105 inhabitants thus covering the 43.3% of the total population of Greece (8,388,533). During the decade between 1951-61, the urban population increased by 690,366 persons or 23.5%.

During the same period the populations in the secondary sector activities increased by 34,000 persons (from 450,000 to 484,400) or 7.6% in contrast to a 15% increase of the total labor power of the country. In addition to this, between 1958 and 1963 the per cent of increase of those employed in secondary sector production is just 3.3% covering only 13.5% of the yearly natural increase of the population. As a result of this, in 1964 only 12.5% of the total labor power were occupied in secondary sector activities. It should be taken into consideration that the above numbers refer to the total of the secondary sector production which covers 92.5% of the total number of stores which occupy 79.4% of the total of those employed in secondary sector activities and give 39% of the income of the secondary sector activities by small handicraft stores which occupy less than ten persons each.

The average rate of yearly increase of the greek industry is:

1951-1955	10%
1956-1960	0%
1961-1965	7.1%

Although the numbers seem to be satisfactory for an industrially underdeveloped country like Greece, they are insufficient. This argument could be based on the fact that the investments in industry represented 11.5% of the national income of the country in 1958, and only 10.9% in 1964.

From the above presentation, it is evident that immigration towards the cities could not be absorbed in industry but in the rest of the branches of

economic activity. On the basis of data provided by the National Statistical Service of Greece, the distribution of male population according to branches of economic activities in the total of greek cities is as follows:

TABLE IX

	NON-IMMIGRANTS	IMMIGRANTS
Secondary sector activity	29.1	27.0
Constructions	11.3	18.3
Commerce	20.2	12.8
Transportation	12.5	9.1
Rest of Service	19.7	25.8
Not classified	7.2	7.0
Services	100.0	100.0

More specifically on the basis of data provided by the National Statistical Service of Greece, the population of Athens was occupied in the following branches of economic activity in 1959.

TABLE X

	TOTAL	%	MALE %	FEMALE %
Agriculture	9,600	1.5	1.8	0.6
Mines	3,000	0.5	0.6	0.1
Secondary Sector				
Activities	192,200	29.8	28.7	33.3
Energy	10,200	1.6	2.0	0.3
Construction Works	52,900	8.2	10.8	0.1
Commerce	112,400	17.4	19.0	12.9
Transport	61,600	9.5	12.0	2.1
Rest of Services	192,100	29.8	23.8	48.0
Not classified	10,700	1.7	1.3	2.6
TOTAL	644,700	100.0	100.0	100.0

In Salonica, the distribution of the economically active population of both sexes is as follows, according to the data of the National Statistical Service of Greece in 1961.

TABLE XI

	NUMBER OF EMPLOYED	%
Agriculture	3,700	3.0
Mines	300	0.2
Secondary Sector		
Activities	38,400	31.3
Energy	1,800	1.5
Construction Works	11,900	9.7
Commerce	23,800	19.4
Transport	13,100	10.7
Rest of Services	28,500	23.2
Not classified	1,300	1.0

The distribution of the economically active population in the rest of the cities for both sexes is as follows: (excluding Athens and Salonica).

TABLE XII

	NUMBER OF EMPLOYED	%
Agriculture	99,400	22.1
Mines	2,100	0.5
Secondary Sector		
Activities	103,400	23.0
Energy	5,600	1.3
Construction Works	33,700	7.5
Commerce	62,500	13.9
Transport	37,400	8.3
Rest of Services	100,700	22.5
Not classified	4,100	0.9

We may conclude from comparing the data of the previous tables that, besides Athens and Salonica, the degree of urbanization in the rest of the cities with 10,000 and more, is rather low. To this, we should add that cases vary considerably among themselves. In these cities, it is of great importance to note that 22.1% of the economically active population are engaged in agriculture and just 23% in secondary sector activity. In the light of this differentiation, the distinction from the economically devel-



oped countries like France, Germany and Great Britain – could be based on the fact that human settlements of about 2,000 are adequately urbanized. Therefore, the fact that 69% of the greek population live in settlements with more than 2,000 inhabitants is not of decisive importance when we estimate the degree of urbanization in the Greek society.

On the contrary, in the neighbouring Balkan countries, like Bulgaria and Yugoslavia, with much higher indexes of industrial development and employment in secondary sector activities, the urban population represents 29.2% (1956) and 24.3% (1965) respectively, while the cities of more than 100,000 inhabitants do not cover more than 41.6% (3 cities on total of 53 cities) of the urban population in Bulgaria and 36.76% (7 cities on total of 119 cities) of the urban population in Yugoslavia.

### C. DEVELOPMENT AND FUTURE PROJECTION

With regard to the possibilities for development, it is necessary for us to make a clear distinction between the two big cities of Athens and Salonica and the rest of the cities. It has been found out that in 30 out of these cities a population decrease took place due to inland migration, while in 23 cities the population increased due to the inflow of immigrants from other cities.

These movements took place as follows in the major geographical departments of Greece.

TABLE XIII

	WON POPULATION	LOST POPULATION
Central Greece	9 cities	2 cities
Peloponese	2 cities	7 cities
Epirus	1 city	2 cities
Thessaly	3 cities	2 cities
Macedonia	8 cities	6 cities
Thrace	0 cities	4 cities
Aegian Islands	1 city	4 cities
Ionian Islands	0 cities	1 city
Crete	1 city	2 cities
	25 cities	30 cities

On the basis of Prof. Kayser's analysis, we can describe 17 cities as 'declining' cities, 22 as 'static' and 15 cities only as 'dynamically developing'.

From the data available from the Census of 1961, we may conclude that the population of the provincial cities increased by 143,400 persons or 10.3% of their population because of internal migration during the five-year period 1956-61, the same cities showed a decrease of their old population of about 129,300 persons or 9.3% of their population.

The fact that old 'urbanized' people moved to the two major cities and were substituted by people of agricultural origin created a new social environment lacking in leadership of almost all social groups, capital, etc. It is important, that the newcomers to the provincial cities are absorbed in trade, transport, and services, (47%). To this, we should add those who were classified as 'did not declare' (7%).

The most noteworthy fact, however, is that 13 out of the 16 'dynamically developing' cities owe their development to the flourishing of agriculture within their areas. Of the rest Kastoria developed because of the fur industry, while Kozanzi and Ptolemis owe their development to the lignite mines.

It should be not forgotten that in regard to the employment of the immigrants from rural areas, the above conclusions are true *mutatis-mutandis*. The same can hold true for those newcomers to the Athens Metropolitan Area who were absorbed in the secondary sector activities (30.9%).

Therefore, it was very correctly argued by Mr. N. Catocianos in his paper presented to the Conference for Municipal Research in Toronto<sup>6</sup> that the development of secondary sector production will take the form of increase of productivity, automation and intensity of invested capital rather than the form of increased employment opportunities.

#### D. URBANIZATION AND INDUSTRIAL CAPITAL FORMATION

The phenomenon of mass movements of agricultural populations towards the urban centres characterizes development in the 'under developed' countries after the war. It constitutes a very important factor of restraint on capital formation which has not been studied adequately by the theorists of economic underdevelopment.

The above mentioned movements are related to the trend towards urbanization which characterized the economies of the West during the period of the rise of capitalism. This relationship, however, is superficial, because the population movements towards the urban centres followed the development of industry and the multiplication of the industrial production. On the contrary, in the 'underdeveloped' countries today, these movements are followed by the increase of employment in tertiary

<sup>6</sup> Athens Study Group - D. and N. Catochianos, A. Markopoulou, Comments on: Planning and Urban Design, p. 17

sector activities (services of all categories) or take place independently of the real needs of the Economy thus speeding up the forms of socio-economic marginality in the cities.

Furthermore, the liberation of labour hands from agriculture resulted in a revolutionary method of cultivation, and use of fertilizers during the period of the rise of Capitalism in the West. Very correctly Regnar Nurske points out the importance of utilizing V. Liebig's invention referring to the evaluation of the possibilities of the chemical industry for cultivation purposes.

In the 'underdeveloped' economies the sequence of development of secondary sector production – i.e. rapid increase of productivity in agriculture – liberation of working hands from agriculture – population towards the cities – is lacking. On the contrary, we notice a very fast urbanization process although the economy remains basically agrarian. It has very often been argued that even a slow improvement of cultivation conditions and level of technology results in the liberation of working power who are underemployed and therefore leave for the cities. This argument is definitely correct; however, it does not answer the following question: up to which point, increase of productivity in agriculture meets the increase in demand of agricultural products which follows the rapid urbanization. Also, up to which point the degree of commercializing the agricultural products meets the needs of the urban population. Even though we may not accept the idea that the real income increases in the cities, the plain fact of population movement to the cities brings with it an increase in the demand of commercialised agricultural products which in the past were covered by the consumption of primary goods produced by the agricultural family. Now, these needs should be met in the market and should be provided by the agricultural sector of the economy. Besides the arguments presented above, the phenomenon of the urbanization is accompanied by changes in patterns of diet which brings about the need for qualitative-re-adjustment of the agricultural production.

If we do not take into consideration the above not so realistic hypothesis, that is that the real average income of those who move to the cities does not increase, the problem is more important. Employment in tertiary sector activities in the urban centres, creates incomes which increase the average real income of those who moved to the cities. This increase of the real income of the newcomers to the cities, exercises pressure on the prices of the products, a pressure which becomes stronger when the per capita increase of the real income of the urban population is higher than the per capita increase of the agricultural product. It has been found out that in the underdeveloped economies the pace of increase of the per capita real income is much faster than the pace of increase of the per capita agricultural products.

For example, Greece has a higher rate of gross national product coming from the tertiary sector (44%) than Western Germany (42%). Under these circumstances, regardless of any development in the secondary sector, we notice a pressure on the level of prices which results from urban demands. Greece is a typical example. Thus, between 1960-1962 the level of prices of agricultural and cattle breeding products showed the following developments:

	INCREASE
1960	6.3%
1961	2.6%
1962	5.4%
1963	2.8%
1964	2.4%
1965	7.8%

The impact on the levels of prices of agricultural products influences the process of capital formation in two ways. On the one hand, the increase of prices of goods keep the spiral shape of salaries – prices in Economy. On the other hand, the monetary authorities are pressed towards taking limiting and stable measures. The first development prevents investment activity because the cost of employment increases; the second development constitutes a factor of restraint on investing mainly because

(a) it increases the cost of capital

and (b) it brings about an artificial price control and naturally it limits the profit margins of the industrial business.

G. Maynard<sup>7</sup> very correctly points out the possibility of interference of relative phenomena pertaining to an underdeveloped economy even if there is a significant population movement towards the cities because of the criterion of new industrial units in a scale which necessitates the breaking of a part of the labour power from the agricultural sphere of the Economy.

Again, however, the increase of the real income of this particular part of labour power as well as the increase in demand of agricultural products creates the problem of increase of productivity in a very different scale than the previous one.

As very correctly Maynard points out, the increase of the industrial production does not answer the problem which is created by the increased demand for agricultural products. This means that there is an increase of demand for food products much higher than the increase of the industrial

<sup>7</sup> G. Maynard: *The Economic Development and the Price Level*, London 1963, p. 50 foll.

products. Again, he mentions that the problem is independent of the success or not of the economic policy to reach the desired point of savings, but it is a result of the unbalanced development of the two basic productive branches of the Economy. The use of tax policy for the deduction of excess income from the major consumption groups and the limiting of demand in the levels of 'commissionary' ability of the agricultural production will limit the purchasing power from the market of the industrial products thus causing a blow on the motives for investing. Besides, the composition of control in the determination of prices of the agricultural products will cause an undesired gap in the economy very dangerous for the creation of black marketing. It is, therefore, evident that it is impossible to avoid pressures of inflationary nature even if the investing activities are healthy. The problem is, therefore, the following: in what way, the inflationary pressures will be controlled by combining the necessary measures of economic policy so that an open inflation of the Economy will be avoided. In any longerm case, the problem cannot be faced without speedy modernization and rise of the level of technology which means rise of productivity of agriculture.

Within this framework we have to take into consideration the impact of the inflationary phenomena on the exports of the economy as well as the weight of the impact of an increased production of agricultural products, which is met by the imports, on the balance of payments in relationship to the process of capital making.

It is natural to have inflationary tendencies influencing the prices of exported agricultural products which are of great significance for the balance of Commerce in an underdeveloped economy.

More specifically, in regard to agricultural exports, the pressure for higher prices on the agricultural products of internal mass consumption will extend over all agricultural products which are important for an underdeveloped economy. If cost increase in agriculture does not take place, the producers of the exported agricultural products will ask for higher insurance prices. If this increase coincides with a favourable development of terms of trade of a specific economy, the consequences will be dually disastrous: (a) because they encourage inflationary tendencies (b) because they limit the monetary margins of the Economy for the capital formation in industry.

Pressures from agricultural interest should not be underestimated in underdeveloped countries where 45.50% of the population is agricultural. It is probable that inflationary tendencies could be strengthened by agricultural interest, directly or indirectly organized rather than by pressures derived from syndicalistic interests in the cities.

## E. CONCLUSIONS RELATED TO COUNTRIES WITH SIMILAR TO GREECE STANDARDS

Cities in underdeveloped countries are not centres of production; they are centres of consumption, and modern huge 'bargain' areas with a high proportion of 'marginal' men (*Park: Marginal Men*) who live on the poor overs of the huge consumption processes. The Park hypothesis, that these elements indicate a higher mobility and better adjustment to new conditions of life, provided that they are *internal* migrants and that they create a new type of man, is false for the underdeveloped countries. It would be more correct to accept that the climate of social disorganisation which is found in the underdeveloped countries develops tendencies of anomie and parasitism. Besides, the total integration of these people in the cities, is slowed down because of another fact: the fact that, for many families in the urban centres the income sources are both urban and rural.

In addition, industry in underdeveloped countries is rather peculiar. Its first characteristic is that the basic branches are so well protected that foreign competition cannot 'jump over' the duties dam to compel industry modernize methods. At this point, the objective need to protect the national production and the profit ideology about monopolizing the internal market come together. Its second characteristic is the utilization of cheap labor which constitutes an economic advantage for private enterprise. At the same time, however, from the point of view of techno-economic development, in the long run it functions restrainingly thus resulting into low productivity and lack of foreign competition. At his point also, the possibility of employment of cheap labor power contradicts the application of more rationalistic methods of production.

The third characteristic in the so-called 'Aversion of Capital' (*Boeke*) which is given a techno-economic definition here. Also, the increased dangers in enterprise and the long term commitment in contrast to the striking antithesis with the possibility of a relatively easier and higher profit for middle men (compradores) are considered here.

Another characteristic is a total or partial lack of industrial climate in the form of 'external economies' and the fifth characteristic is the multi-personal and expensive accounting of the administrative mechanism against the technical organization and production.

This indicative enumeration was attempted in order to make clear the fact that coalition of techno-economic and social terms is an unseparable matter in the secondary sector production in the underdeveloped countries. The distinction between a developing sector of the economy and an entirely static one is not and could not be absolute. In any case, the influence of the underdeveloped sector on the Economy as a whole is more effective than the 'spread effect' from the already industrialised one. This

is because the society remains under the 'rule' of value judgement, connected with traditional patterns of social life, which lead to anti-development ideologies.

*Myint, Higgings*, etc. presented the techno-economic factors which limit the extension of industrial development in the 'dual societies', Boeke, however, conceived the problem of social and ideological tendencies which compose the anti-industrial and anti-development power of the opposition of the socio-political structures in the underdeveloped countries (although, the addition of 'racial differentiations' is absolutely wrong).

In regard to the primary sector production, the introduction of rationalistic methods follows a very slow pace and undergoes many restraints varying from the sticking to the extensive cultivation to the allotment of the agricultural land.

Even the mechanization of agriculture in underdeveloped countries is followed by reactions of irrational nature. For example, the tractor distribution is entirely random and the result of this is, of course, to have too many tractors in one area while elsewhere the need for tractors is not met. There exists a tendency to buy tractors of bigger horsepower than it is needed for the kind of soil and the quantity of cultivated land for reasons of personal prestige. As a consequence, the tractor is not used appropriately and the farmers borrow more than they should.

The consuming 'patterns' in underdeveloped countries could not be compared to the ones in the highly industrialized countries. For example, in Greece in an average yearly increase of national income of 6 per cent the corresponding increase of consumption is 5 per cent.<sup>8</sup>

The phenomenon, which was described by T. Veblen<sup>9</sup> as 'conspicuous consumption' and Riesman saw it as the most basic structure of the modern capitalistic societies which he described as 'consuming societies', is defined in the bibliography of economic development as the 'demonstration effect'. The meaning of this is that upper class people in underdeveloped countries imitate patterns of living and consumption of the highly industrialized countries of the West.

The result of this, is a great waste of capital, which could have been used for purposes of capital accumulation, for luxury purposes. In this new environment, therefore, there are patterns of life and consumption created which prove Galbraith's conclusions that the marginal usage for the determination of a hierarchical scale of goods on the basis of needs is abolished, and that an irrational criterion to meet the dhow off need

<sup>8</sup> F.A.O. Mediterranean Development Project, Greek report, p. IV 3.

<sup>9</sup> T. Veblen, *The Theory of the Leisure Class*.

dominates thus creating the abolishment of the ability for a rational hierarchy in the society as a whole. The above explanation can be supported by the view of many social scientists that 'homo economicus' is not any more the most important force but the 'homo sociologicus', whose criteria refer to prestige relations with the rest of the members of the social group.

The impact of such phenomena on the social life of the people in an affluent society is different from that in an underdeveloped one. In the 'affluent' societies which have reached the zenith of industrial development, these phenomena serve the basic needs and survival of the system up to a certain point. In underdeveloped societies, however, these phenomena appear before any industrialization and capital formation takes place, so that they hinder the development of productive powers. The need to 'show off' as a motive of human behaviour cannot be explained by economic theory which presupposes ability to generalize about the regulations of human behaviour<sup>10</sup> based on rational activity.

However, according to our previous remarks in underdeveloped countries, the process of urbanization does not coincide with the necessary structural changes needed to accelerate industrialization.

<sup>10</sup> Wilbert Moore: *Economy and Society* (N. York), p. 4.



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