

***ECONOMIC
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STUDIES***

KESTER
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**FOR
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PREFACE

THIS second volume of *Economic and Social Studies* published by the Department of Economics presents six papers dealing partly with sociological themes and partly with theoretical and applied economic problems. The two papers on sociological matters are of immediate interest as they deal with current situations in Malta. A most absorbing interest is the essay written jointly by Mr. D. Jones and Mr. J. Grech on Malta's special case vis-a-vis the Common Market.

The volume is also enhanced by the text of two lectures given under the auspices of the Department of Economics, by Professor M. B. Krauss and Professor G. Pino. The undersigned has contributed a paper on Socio-Economic Aspects of Air Pollution.

It is hoped that the next volume will be a collection of essays relating to different aspects of the economic and social scene of the Maltese Islands.

Salvino Busuttil

Department of Economics

WORKERS' PARTICIPATION IN MALTA, FACTS AND OPINIONS

GERARD KESTER

The aim of this article is to describe three cases of workers' participation recently introduced in Malta, and to report on a pilot study of reactions of workers.

PART I

THREE CASES OF WORKERS' PARTICIPATION*

MALTA is going through a critical period of social change, a major reason for this being the recent introduction of various forms of participation in decision making and ownership. In the government-owned Drydocks, with about 5,000 workers the largest concentration of industrial labour on the island, a system was introduced in 1971 that was rather similar to co-determination. Later that same year, the management of a textile factory – employing some 200 workers – was taken over by a union when it appeared that the factory would have to close down. In another instance a privately-owned cargo handling company (86 employees and about 1000 licenced dock-workers on contract) discontinued operations but was taken over by the unions who now own and manage it: three clerks and one dock-worker are fully involved in the management of the freight handling operations.

Worker's participation in management, in varying forms, has been instituted in many countries. In the case of Malta it is too early for an adequate assessment; however, it seems appropriate to describe the country's first experiences even though this report must be incomplete since research is still under way. The purpose of this article is thus to inform rather than to evaluate.

THE MALTESE SCENE BEFORE PARTICIPATION

Some information on Malta will help to understand the recent changes. Malta has a population of 320,000 living on 316 square kilometers, making Malta one of the most densely populated countries of the world. Before gaining its independence in 1964, Malta had for a century and a half

*Part I of this paper was submitted (in a slightly different form) to the First International Conference on Participation and Self Management (Dubrovnik, December 1972).

been a British colony, where the majority of its labour force was employed directly or indirectly with the British military base. Today, after a ten-year programme of economic diversification, the distribution of the working population over the various economic sectors is rather similar to that of industrialised countries: relatively few work in agriculture (less than 10%) but many in (government) services and in industry. Although the industrial workforce is growing quickly, unemployment still poses a major problem and more money is continuously being pumped into the economy to stimulate industrial development.

Industrial relations have become increasingly problematic¹ as was clearly illustrated by the rapidly growing number of strikes and, concurrently, of man-days lost. Since 1964 the number of man-days lost through strike action at least doubled each year. The issues at stake in most industrial disputes indicate at least two important causes: fear of unemployment, and dissatisfaction with wages. Although unemployment has generally decreased since Independence, job insecurity has made itself felt especially in organisations affected by the 'run-down' of the British services, and in the Drydocks. Wage dissatisfaction has been mainly the result of changing reward structures; negotiations on conditions of work have been decentralised and conducted mainly on the enterprise level. A chain reaction of demands resulted, with continuously disturbed existing wage relativities; in short, 'progressive fragmentation'² was clearly at work in Malta. Industrial action has been facilitated by the fact that there were no clearly agreed or legally binding procedures of dispute settlement. The legislative framework was highly permissive: when an industrial dispute arose, workers or managers had a free choice between conciliation, arbitration or industrial action; agreements, once reached, were not legally protected. Even though most negotiations were concluded without dispute or through government mediation, the need for new procedural forms was felt. The government in power in 1969 had proposed a new industrial relations bill to Parliament; this included legal support for collective agreements, establishment of an industrial court, compulsory settlement of disputes if conciliation failed and restriction of

¹On the state of industrial relation in Malta in the period under discussion, cf. *Alternative Industrial Relations Systems for Malta* (proceedings of a seminar, Royal University of Malta, 1971). A general handicap when describing industrial relations in Malta is that there is hardly any published material available on labour-management relations or industrial relations in the Island.

²As this process is described in: A. Fox, and A. Flanders, 'The Reform of collective Bargaining: from Donovan to Durkheim,' in A. Flanders, *Management and Unions* (Faber, London, 1970), p. 241 ff.

strikes. Consultations on this bill were unsatisfactory to many interested groups, especially the trade unions, who very strongly opposed the eventual and almost complete prohibition of strikes.

At the time of Malta's independence, almost half the wage and salary earners were unionised. The degree of unionisation declined because of the many U.K. services which then came to an end, but by 1970 the same degree of unionisation was reached again. Currently, union membership is especially high in the larger industries and in government services. The General Workers' Union (G.W.U.) is the biggest union (70% of all union members, mainly industrial workers and clerks). Most other unions are combined in the Confederation of Malta Trade Unions and include mainly government employees and white collar workers. Unions operated at the enterprise level and were mainly concerned with collective bargaining. In reaction to this, the employers associated to form one organisation in negotiations. There was little ideological struggle regarding management prerogatives, or quest for democracy in production relationships.

In the context of this paper, the Malta Drydocks Corporation represents a very important case of industrial relations in Malta, since participation started here.³ The history of the Drydocks dates back to the era of the Knights of St. John. Under British rule a big naval dockyard was developed, which for a number of decades was of major significance to the Maltese economy as an important source of employment. In 1957 the Yard was converted into a commercial concern since the British Navy no longer needed it. This shift from naval base to commercial firm was very difficult; the labour force was recruited to serve an admiralty shipyard and was consequently larger than could be productively employed in a commercial concern.

Not surprisingly many industrial relations problems resulted, in which the G.W.U. generally followed a policy of opposition. Only once was an effective form of cooperation introduced: in 1965 a 'Joint Consultative Committee' was set up to 'establish a consultative and advisory machinery for the regular exchange of views between the workers' representatives and management (...) on matters of mutual interest.'⁴ This committee worked satisfactorily for several years, but was dissolved in 1967

³The history of the Drydocks is very complicated, and I merely summarise the most important events which are directly relevant to their present situation of participative management. I base my information on: E. Ellul, *Industrial Relations at Malta Drydocks: Economic Aspects* (B.A.-dissertation, Royal University of Malta, 1972).

⁴*Ibid.*, p. 21.

when management introduced changes without prior consultation with the G.W.U.

In 1968 the Drydocks were nationalised by the Maltese government, with the help of its British counterpart, and put under hired British management. The maintenance of employment for all those employed in the Drydocks, in spite of the economic difficulties it entailed, continued to present the major problem. Workers and union were appeased by the Prime Minister who 'assured that no matter what happened at the Malta Drydocks nobody would lose his employment.'⁵ The G.W.U. was invited to nominate one member to sit on the Board of Directors of the nationalised enterprise, but the offer was considered to be too weak and was refused. However, the government appointed an ex-union president to sit on the Board even though he was not nominated by the union. There were frequent clashes between the G.W.U. and the Yard's management, mainly centered around disputed wage ratios between industrial workers and white collar employees. The result was a ban on overtime, while about 50 workers in key trades went on strike (Autumn 1970). 'The action brought the Malta Drydocks to an immediate standstill which lasted seven months'; several attempts at conciliation failed and in Spring 1971 'the parties concerned decided to wait until after the forthcoming general elections (June 1971) to settle the dispute.'⁶

TOWARDS PARTICIPATION

The Drydocks played an important part in the elections; how would pending problems be solved in an industry which formed one of Malta's chief foreign exchange earners and the largest industrial enterprise? In their jointly published electoral manifesto, the Labour Party and the General Workers' Union stated: 'The Drydocks will be reorganised in the following way: a new Corporation will be set up, 50% of its members being nominated by the government and 50% by the G.W.U. under a Chairman acceptable to the two sides. The final aim will be to put the Drydocks back on its feet and that control will ultimately fall to the workers. This would mean that employees would be working in their own interests.'⁷ The desirability of participation was expressed in other ways. A Commission for Civil Servants was proposed in which all interested parties would be represented; its aim would be to reform the Civil Service and, pending claims for regrading and regrouping, to form a background to this reorganisation.

⁵ *Ibid.*, pp. 29-30.

⁶ *Ibid.*, pp. 29-30.

⁷ *Peace and Progress: the Electoral Manifesto of the Workers Movement*, Malta, June 1971, p. 7.

Participation in planning was also promised: a prospective labour government would review the existing 5 year plan (1969-1974) and would consult with the trade unions, other associations, civil servants, industrialists and others.

In Malta, there was no ideological struggle to demand participation. True, the Labour Party had expressed the desirability of participation for many years, but it had never specified details of the form and extent of participation. Due to this lack of previous clarification, participation came as a surprise to many Maltese, even to trade unionists.

MALTA DRYDOCKS: A CASE OF CO-DETERMINATION⁸

After the Labour Party had won the elections, the plans for the Drydocks that it had announced together with the trade unions were put into practice. Three trade union representatives and three government representatives were appointed by the Government to the Board of Directors. The union representatives were nominated by the General Council of the G.W.U., and not directly elected by the workforce of the Drydocks; two of them are union leaders who work in the Drydocks and the other spent a good part of his working life there before becoming a full-time union official. Board members do not receive remuneration (implying, incidentally, a very considerable yearly saving). Soon after the creation of the Board of Directors it was realised that board representation was not an effective instrument of union participation in such a large organisation. The Joint Consultative Committee (first installed in 1965, see page 4), was re-instated with seven members: 3 management representatives, one representative of a Senior Staff Association (not affiliated with the G.W.U.), one representative of the white collar section of the G.W.U., and two representatives of the metal workers section of the same union. All members of this committee are full-time employees, but through procedures established by the unions and by management respectively. The Joint Consultative Committee is empowered to conduct consultations on all aspects of management and to convey its conclusions and advice to the Board of Directors.

Later, consultation was introduced at still lower levels of the Drydocks. In the five main divisions, Joint Production Committees were instituted with basically the same composition as the Joint Consultative Committee, and enjoying a consultative function: they discuss productivi-

⁸Information on the cases of the Drydocks, the Textile Factory and the Cargo Handling Company was collected by, respectively, Lawrence Mizzi, Simone Mangion and Denise Vella, students of the Royal University of Malta, as part of their work for their B.A. dissertation.

ty measures, tools, machines, welfare and any other social or technical problems. In both the JCC and the JPC's, bargaining on personal and economic matters is barred. Workers participation at the Drydocks is completely channelled through the unions. Rank and file employees (almost all of them union members) were informed about the introduction of participation in mass meetings where the Prime Minister and the General Secretary of the union told them what was going to happen. Further information flows mainly through newspapers and informal communication between workers, shop stewards and other union officials.

One thing which may seriously threaten the experiment in participation are the short-run expectations of the workers in the Drydocks. It will be recalled that earlier a seven-month strike occurred over re-structuring wages; now the workers expect this problem to be solved by the new enterprise structure. Government and union urge the workers to practice self-denial and patience. The concern of both the union leaders and government is to provide the Drydocks with a sounder economic basis. First and foremost, they now share the responsibility for an enterprise which has been in trouble financially ever since it was commercialised in 1957. The ship repairing business is faced with strong competition; moreover, market opportunities in the Mediterranean have decreased since the closure of the Suez canal. The crucial problem for the union is its co-responsibility for effective utilisation of the labour force while safeguarding employment. In the long term, the solution to this problem will grow in importance since the enterprise is eventually to be owned by the workers. The unions are still searching for the most effective way in which workers and also the shop stewards can share the problems of the enterprise and practise joint decision making.

JOINT MANAGEMENT IN A TEXTILE FACTORY

The developments at the Drydocks created a climate conducive to similar initiative elsewhere. In Autumn 1971, a textile factory was in a state of liquidation and threatened with closure. The factory was a branch of a larger foreign company and was in operation for only one year. It has 200 employees and a relatively large foreign managerial staff. The latter enjoyed high salaries – for Maltese standards – and emoluments such as free company cars and housing facilities. The majority of the shares were in private hands; the Malta Development Corporation (M.D.C.) also had shares in the Company and was represented on the Board of Directors.

In consultation with the banks, the M.D.C. and the principal owners, the unions had tried to find a solution, but without success. The workers received their last wages and faced immediate unemployment. At that mo-

ment, the secretary of the textile workers section of the G.W.U. called the workers together and proposed that they should continue with production, using the available raw materials to produce garments for the local market. The workers agreed, and volunteered to give up part of their wages, all bonuses and piece rates.

Work started the following workday. Production was kept going by selling garments on the local market. By also selling company cars, reduced wages could be paid during the first weeks. The greatest immediate problem was replacement of the managerial staff. At a meeting with the previous management, the foreign managers were asked to indicate those Maltese supervisors who would be the most suitable to take over the managerial functions. These new managers had to train themselves in their new jobs, as they had never been fully prepared by their foreign superiors for managerial jobs, whether of an organisational kind or in terms of technical know-how. They now spent their free time reading and studying, trying things out at the factory, working until midnight. Through effective and genuine cooperation between union officials, the new managers (who previously, as supervisors, had not been unionised and had maintained a social distance between themselves and the rank and file workers), and the workers to keep production going, impetus in the operation increased. Workers were called together at regular intervals and informed about the results. When it became clear that the unions and the workers were determined to continue, the M.D.C. and the banks became interested; especially so when they saw that the company's debts were decreasing significantly, due to a substantial reduction of overhead costs: as in the case of the Drydocks, here too substantial savings were obtained by eliminating high-salaried foreign managers and their emoluments.

During this period, the Board of Directors of the private company resigned, the general manager was sent on paid leave and the question of ownership was 'frozen'. With the consent of the shareholders, decision-making powers were given to a managing committee. This committee is composed of two people: one officer of the Malta Development Corporation and one trade union official. The MDC representative manages economic matters such as financing and accounting. The union official, secretary of the textile workers section of the G.W.U., is responsible for social and personnel matters, a function comparable to that of 'labour director'. Both men do their managerial work without extra remuneration.

Positive results became visible quite soon. Business picked up and is now normal, including exports; the M.D.C. and the banks have offered financial assistance and early this year workers were put back on their original wage level. Work relations have undergone substantial change. The

former division between management and labour has been replaced by a shared feeling of responsibility by workers, supervisors and union officials, a feeling based on their success in safeguarding employment and making the enterprise again a going concern. The enterprise claims that productivity has increased and that absenteeism and labour turnover have been remarkably low since the new structure was introduced.

One of the most difficult and immediate problems of the enterprise is: what to do about the ownership? With its initiative in continuing production, the union intervened on behalf of the workers, but in the final analysis also on behalf of the owners. Company shares are mostly in private hands, but the workers and the G.W.U. evidently feel that if the enterprise should again make a profit, this should not automatically go to the shareholders.

Another problem is the participative structure itself. Participation was introduced with the original objective of safeguarding employment, but has developed into much more than was foreseen. The union is fully involved in the managerial decision-making process and in the implementation of decisions. Serious problems may soon arise especially from the role conflict that seems inherent in the position of the union leader *cum* 'labour director': how will he be able to match efficient management and effective representation of workers?

THE CARGO HANDLING COMPANY: CLOSE TO SELF-MANAGEMENT

Another company which was running at a loss in the same period, was a private cargo handling company in the port. The port had been the scene of many conflicts and strikes, especially since October 1970 when the company refused to accept a draft collective agreement. The company operated in the port under a contract concluded with the government; it decided to terminate this contract since it was working at a loss and was not allowed to raise its charges. The workers were sent letters of discharge. The G.W.U. set out to fill the vacuum created by the previous owner. It entered into a contract with the government and established a cargo handling company with a share capital under full union control. The new Cargo Handling Company is a rather small work organisation with 86 employees including both industrial workers and clerks. But the company also manages the work of some 1000 port workers and clerks who it does not directly employ, but who work under licence against piece rates. These workers are in a way self-employed, but once they start to operate they form part of the organisational structure of the cargo Handling Company.

The management of the Cargo Handling Company is supervised by a Board of Directors, consisting of four government officials and four union

members. The government is represented on the Board since it bears ultimate responsibility for the port. The government leases out the managing of the port work; previously to a private company and now to the union. One of the government officials (the port director) is chairman of the board but has no voting right, so that the 4 union representatives have a majority of votes. The unions adopted the policy of appointing people to the Board who actually work in the port, since they know the trade. Of the four trade union directors one was a port clerk, two were delivery clerks and the other a port worker. All do their board work without extra remuneration, but receive reimbursement for any wages they may lose through attending meetings.

The trade union representatives on the Board are not elected by the port workers but by the General Council of the G.W.U. in consultation with its port workers section. As owner of the Cargo Handling Company, the General Council also appointed the general manager who was previously a delivery clerk in the port. He is simultaneously a trade union member of the Board of Directors; as a general manager he has a full-time job although he had no previous managerial training. He still receives the salary of a delivery clerk.

In this case as in the cases of the Drydocks and the textile factory, participation of workers is thus channelled through the G.W.U. Here, again, unionisation is nearly 100%. The four union representatives on the Board consist of elected shop stewards of the port, and are also members of the Executive Committee of the port workers section of the G.W.U. As such, according to the unions, they can be regarded as representing the workers. In actual practice there is considerable informal communication and consultation between the Board of Directors and the rank and file workers, if only because the directors themselves work in the ports. Since the workers are informed about Board decisions they exert control (they have access to the minutes of Board meetings; in addition, the union holds monthly and annual meetings at which workers are informed about the company). But conflict is not excluded: disputes arise, for example, on piece rates, and when they do, workers can approach the secretary of the port workers section who will then have to bargain with the manager. In this case, two trade unionists, in different roles, bargain with each other.

The economic results of the union-led enterprise have been very satisfactory. During the first six months, profits were sufficiently large to enable almost complete implementation of the working conditions demanded in 1970 in the proposed collective agreement. This meant an average wage increase of 22% and a change in the method of payment which is

now based on a regular salary rather than on high piece rates. Also, the company has been able to introduce comprehensive insurance for all its workers. The company's profitability is reported to be the result of higher productivity (the workers are motivated and strikes have not occurred since the take-over) and here again a main reason for profitability is that Board members function without remuneration, whereas in the previous private company five directors received considerable salaries.

The aim of the G.W.U. in dealing with the Cargo Handling Company is to establish a kind of self-management system under union ownership. The company (and its eventual profits) belong to the G.W.U., not to the workers. But management lies in the hands of a company employee, while the supervision of management is carried out by a Board of Directors consisting in a majority of company workers. These workers are not directly elected by all employees, but represent the workers as elected union functionaries.

DEVELOPMENT OF THE FORMS OF PARTICIPATION

In Malta, participation in management came upon the country and even the trade unions as a sudden phenomenon, so much so that trade union officials who got involved in participative bodies later declared that they went into it with little or no knowledge of the implications, especially in the cases of the textile factory and the port company. The new forms of management were introduced more as an *ad hoc* response to particular situations than as a result of any clearly structured and premeditated policy, so that a 'blueprint' institutional pattern was absent. In many countries this is rather the opposite: legal regulations define the form of participative institutions, the rules for their composition, their areas of activities, the extent of their authority, etc., before participation is introduced in practice.

One consequence of the spontaneous introduction of participation in Malta is that the new institutions cover a wide range. In the Drydocks the Joint Consultative Council and the Joint Production Councils are consultative machineries rather similar to works councils; in the Drydocks and in the Cargo Handling Company there are forms of co-determination; in the textile factory one finds the labour director in a system of joint management and in the port a particular form of self-management under union ownership.

In all these cases participation has from the beginning meant more than mere consultation: the new institutions are not 'frameworks for discussion'⁹ but frameworks for decision. It is evident that these institu-

⁹ J.Y. Tabb and A. Goldfarb, *Workers' Participation in Management Expectations and Experience* (Oxford, Pergamon Press, 1970), p. 5.

tions are not instruments of workers' participation but rather of union participation. Representative organs of all employees do not exist; the union officials are not elected directly by the employees as their enterprise representatives but as their union representatives. Although the general impression is that these officials have the full support of the workers, the fact is that they are elected in a different capacity. This may have placed the G.W.U. in a very delicate position. Until recently it was involved in bargaining and did not bear managerial responsibility. Now it shares this responsibility. This dualism was not fully foreseen, and the situation now arises that not only the union as such, but also individual union officials have to combine the sharing of managerial responsibility with independent trade union activities. Although it has been shown that these functions can be combined,¹⁰ this combination will be put to a difficult test in Malta.

Still, these and other problems of structure are certainly not insoluble since participation is being introduced and institutionalised in a very flexible fashion, in an attempt to find the appropriate structures for particular situations.

PART II

WORKERS' PERCEPTION OF PARTICIPATION

Participation in Malta was not introduced through a strong ideological orientation. But the very introduction of participation may have set in motion the development of an ideology which could at a further stage sustain the functioning of this new system of management and ownership. Participation has a direct bearing on the workers' situation at his workplace. As always when participation is introduced, this leads to a situation where 'authority loses some of its absolutism'.¹¹ Also, workers start to acquire managerial skills, as is shown in the cases of the textile factory and the port; opportunities for learning and personal development are increased. Information on the economic situation of the enterprise which was frequently unknown to the workers, is now disclosed and discussed at top level by worker representatives. These and many other new experiences will specify the expectations of the worker and may indeed eventually result in an 'ideology of participation' which

¹⁰As has been argued for West Germany and Israel by P. Blumberg: *Industrial Democracy; the Sociology of Participation* (London, Constable, 1968), p.150 ff.

¹¹K.F. Walker, 'Conceptual Framework and Scope of National Studies', in *International Institute for Labour Studies Bulletin*, V, 1968, p.32.

could also have implications for other enterprises in Malta. In this connection it is not only of importance to know how the workers in the three participative enterprises feel about the functioning of participation and the resulting effects, but it is also important to know whether they are forming new opinions on related phenomena such as ownership, the role of trade unions, work relations in the enterprise, income distribution, etc.

It is highly relevant to have factual information on the experiences and opinions of workers since their 'propensity to participate' is a crucial variable for the eventual success of participation. It was, therefore, decided in our present research to have a number of interviews with a sample of workers, to be followed by a sample survey.

The interviewing has been completed and the results provide the material for this part of the report. It should be useful to provide concise information about the interviews so that the results are out in their proper (i.e. limited) perspective. In total, 15 individual interviews and 4 group interviews were conducted. Most interviews were held with employees of the Drydocks: with a foreman, a pipe worker, two machinists, a fitter, a study engineer, a store keeper; and a group interview was held with three labourers. We interviewed three operators and one foreman of the textile factory and had a group interview with four operators. At the Cargo Handling Company interviews were held with three port labourers and one clerk. Among the interviewed employees were also union officials: shop stewards and delegates. The interviews were mostly conducted at the workplace, but also in union offices and in some cases at the homes of workers.

The interviews were mostly of one or one and a half hour duration; some group interviews lasted three hours. About half of the interviews were conducted in Maltese, the others in English. Besides interviews with employees of the three participative enterprises, two group interviews were conducted at labour party clubs with workers employed in non-participative enterprises. The interviews were conducted in November 1972.

This very limited number of interviews can of course never be the basis of generalisations or conclusions. Besides, there may be all sorts of unknown biases in our small sample. The value of the interviews lays in the insight it gives into the various dimensions of the workers' perception of participation. The pilot study was an exploration of what kind of opinions and attitudes towards participation were existing; in the survey which will follow the pilot study it will be tried to establish how widespread these opinions and attitudes are and how possible variations in opinions and attitudes can be explained. In other words, in reading this

part of the article one has to keep in mind that it is indeed only a report of an exploration of the 'frame of reference' of the workers.

DEFINITIONS OF PARTICIPATION

It is well known that both in theory and in practice 'participation' is a concept which covers a wide range of phenomena. In our interviews we first of all tried to find out what workers would understand by 'participation'. A number of them saw participation mainly as an instrument in the hands of the union to conduct better collective bargaining or, more generally, better industrial relations – on the basis of more realistic information and through access to decision making bodies. This was exemplified most clearly by the answer of one: 'participation is that (for instance) if we ask for a wage increase, we know that this will be discussed on the board where our union representatives can judge whether it is indeed financially possible or not.' Others saw it mainly as a case of joint management and joint ownership and consequently as joint responsibility for the running of the enterprise. This interpretation was given most frequently and was regularly followed by further comments about the effects of it: 'Participation is that when you do something, you do it for yourself', 'it is good for the enterprise and good for oneself', 'it is a contribution to greater productivity'. 'Participation is coownership, this is right: if you co-own you will give more care, everybody has to work'. Also, 'participation means sacrifice', 'it means working harder'. In general, the interviewed workers had a fair knowledge of the participative bodies: the Board of Directors at the Drydocks and the Ports, the particular set up of the Textile factory worker, the Consultative and Productivity Committees at the Drydocks and the group committees of union representatives in each of the three enterprises. The workers appeared to be aware of the existence of these bodies, but frequently not of the exact structure, of the positions and persons occupying these positions, nor of the precise competence of each of the bodies. However, the main underlying principle of the representative bodies was known: 'it is a fifty-fifty representation', 'the union is certainly well represented.'

THE FUNCTIONING OF WORKERS' PARTICIPATION

There were many comments on the institutional structure of participation. In all three companies it was argued that there was a gap between the participative bodies and the shop floor. Also at the Drydocks, where the joint productivity committees are operating at division level, this was felt. Here some suggested that there should be a committee in each department made up of some workers, a charginman and the foreman. One felt that if participation is to be a success – it would have to start at

the lowest level, in the smallest group. Here 'the workers should take upon themselves the responsibility for the production, they should discuss amongst themselves wastage in manpower and in material. If this control over each others behaviour would exist things would be much better.'

There were also suggestions to change the institutions at the top; somebody at the Drydocks again proposed to institute a committee (or a person) who could see to it that decisions taken by the Board of Directors were implemented without delay; a kind of workers' supervision over top management.

A rather general feeling was that there were certainly not too many committees. One would appreciate if more could be instituted, that means, at the shop floor level. 'The more directly people can talk with each other, the better one would understand each other; there should be more meetings and in smaller groups, everybody should be involved'. 'Now, if there is an important decision of the JCC or the JPC, there is a notice on the Notice Board; although this is a big improvement this is not enough.' It was stated by a foreman that this indirect communication may even be harmful: 'whatever decisions are made in the JPC, soon afterwards many people know about what went on in the meeting; our organisation has become rumour mad; these institutions function satisfactorily on paper only.'

Workers who were not serving as a representative on one of the committees or boards, were asked what they knew of the decisions taken in the last months in the participative bodies, and also what they thought should be discussed in these bodies. One knew very little or nothing about what was discussed during the last months.

However, many of the workers had formed an opinion on the areas that might or should be covered by participation of workers, and they also had formed opinions on what the extent of participation should be: information, consultation, co-decision or dull decision by workers. Three workers of the textile factory about this:

'I think it should be right if the workers would be consulted on a number of decisions. For instance, if there is a dismissal, the workers should have the right to ask for the reasons. The decision itself should remain for the manager to take. On financial matters workers need not be informed. If there are plans for the future it is up to management to execute them. The main discussion between workers and management should be about conditions of work. Things like wages, method of payment, piece rates, etc. can be negotiated, but here also the decision should be with the manager.'

'The only thing on which the workers should have the right to co-decide, should be on the hours of work. Not the amount of hours but the beginning and finishing time of the work and intervals.'

'The workers should be involved in everything regarding their company – everything should be made known to them, except, perhaps, certain confidential information. Consultation, too, should take place, since the managers are not always fully informed about certain specific matters, and so they should consult the workers, the foremen and the supervisors to discuss matters with them. Meetings should take place every week – there should be friendly discussions between the Managers and the Workers, and the union too. All the workers should be involved in this.'

These statements reflect an attitude to participation in general and not necessarily a direct evaluation of the experience in one's own enterprise. As far as this general opinion was concerned the feeling of most of the interviewed workers was that only consultation should take place and that workers should not have a decision making right. It was felt that management should consult the workers, not only as a matter of principle, but also to improve the efficiency of the undertaking: 'we know what we need; we know everything about machines and if for instance management would like to buy new machinery they should consult the workers about it.' And he continues: 'but it should be management who decides,' and as somebody else put it: 'we should not enforce on the superior our decisions, at best we should only give our opinion and leave it to the superiors to make use of that information as they consider all right.' Frequently, opinion on this issue was expressed in the stereotype statement 'there should not be too many captains on the ship.'

It can be observed that the workers did not have aspirations to co-decide, but they expressed clearly that they wanted to be consulted and informed. Workers suggested that more efforts could be made in this respect. For some the lack of information was felt as the 'greatest grievance'. As could be expected, workers in the textile factory were most pronounced in this. Here, as has been described, workers were informed at frequent general meetings about the situation at the enterprise, but after some time these meetings became less frequent and eventually stopped to take place altogether. One of the girls working here:

'I think it is a pity that the meetings which were held after the take-over one year ago, are not held anymore. The meetings then were held every week. It was explained what the economic situation was, that consequently we would have to work hard, and have to bear, and we

were promised that after a period of restraints increases in salary would be possible. But these meetings discontinued six months ago, and morale went down afterwards. Sometimes one feels that people have forgotten all about it.'

Not only in the textile factory but also in the other two companies, workers expressed that there should be meetings with workers to inform them about what was happening in the enterprise as a whole, in their own department or section. Newspapers or communication boards were not considered adequate forms of communication in this respect. Information should be given through direct contact. 'There should be a specified time when management and unions should come together and inform the workers and answer questions. Once a month or when the need arises.' 'This could, for instance, be done during lunch time and even after if necessary', 'this is not a waste of time'.

ABOUT WORKER REPRESENTATIVES

It was stressed by several that their observations on the lack of adequate information was not a criticism on their representatives. Whenever the issue of representation was brought up people expressed themselves in terms of satisfaction and many times the remark was made that one was glad that trade union functionaries (shop stewards, delegates etc.) were exercising the representative jobs.

'They are the best representatives of the workers.' 'The main thing is that union leaders can talk with management in a good way and they know what we want because they have worked themselves... through them I feel closer to management.' 'Since the union representatives have worked - or are still working now - as workers, they know the feelings and the facts of the workers'. 'The manner through which unionists were elected is democratic. We need no separate elections for workers to represent us. The unionists are all workers. They are our real representatives.'

Similar remarks were made rather frequently and almost all interviewed workers rejected the idea that worker representatives should be elected separately and should not necessarily be unionists. There were only some exceptions, an operator and a part time worker in the textile factory said they could not accept the union official as her representative since specific claims cannot now be channeled through the union 'since the union is identifying with management, and also with government'.

'At the present moment workers cannot press to change their working conditions. They are not in a favourable position to oppose manage-

ment. They know that the previous management was bad, but the workers are not aware of all the financial implications. At the moment they are glad to have employment continued, but to improve their working conditions, especially their salaries, they would still rather fight it out with management. For this they need a union, so, the union cannot be the owner.'

However, not many had trouble with the dual role of the union representatives, and, again, were exactly expressing their satisfaction:

'If there is a claim of the workers, this should be handled by the section secretary who should take action and negotiate with management, even if management is union. The union as an owner must give everything the union asks, and if they do not they must give an explanation. The union can be trusted. They have all the information and this makes a great difference. The silly strikes which were so common for the ports have now finally stopped. There is a better understanding.'

Whereas the workers were rather unanimously satisfied with their representatives, this was not always felt by the representatives themselves. Their feelings are expressed by the 'worker-director' in the ports. Here are some of his observations:

'Being a director is not always pleasant when you work amongst the workers. You have to decide also against the workers' wish. The shop-floor worker does not care very much whether you are taking the responsibility or not. All he wants is what he asks. If there is a decision against their wish, they will regard you as somebody who is not defending their interests as you used to do, but as someone who is now taking the side of the management.' 'There are two sides to the coin of participation. There is the great satisfaction of controlling the agenda of the enterprise and the great dissatisfaction of standing up to unjustified criticism.'

Are workers competent enough to take decisions or to be consulted? If they sit on committees, are they really influential or just rubber stamping figures? What do workers think about this?

'A worker has a job and that means experience. He has problems and grievances, and he can bring them up at the very top of the organisation. From the point of view of the Board members, it is their duty to explain themselves. The competence of workers does not matter, it is very simple: he asks a question and he should get an answer.' 'It is only wise for managers to have workers on their boards or committees'.

'Perhaps there are small things of which the manager or union official is not aware. All workers together always know more than management, that is why we should also have more discussions.'

CHANGING MANAGEMENT — WORKER RELATIONS

When defining workers' participation the interviewees mostly expressed the definition in terms of the effects. One of the effects of participation which was reported frequently was the changed atmosphere of day to day relations between workers and managers. To some, this change seemed to be basic:

'Previously, I always looked at my employer as somebody who hated me and who was doing his best to destroy me and who was out to make me do sacrifices for his own private benefit. Maybe the greatest satisfaction of participation is that this is no longer happening.' The worker director says: 'Being a director you see the work suddenly from a different place. You mould together the shopfloor and the manager's point of view. Previously, we had doubts about the manager and he had doubts about us. This principle of conflict is now excluded. We meet every day and we discuss everything which is going on.'

Thus an atmosphere of mutual trust may be developing, based on more frequent communication and face-to-face confrontation between managers and workers, and on the experiences of workers performing managerial roles. An important reason for the changed atmosphere in the Cargo Handling Company is that the union is now owner. One of the employees here said that previously the problem of communication was that one could not say freely and openly whatever was on one's mind since this could endanger even one's very employment. There always was communication, but grievances about arbitrary decisions could not be expressed. An extensive quotation of the perception of a clerk in the Cargo Handling Company throws light on this point:

'The presence of workers at the highest levels of decision making is a very useful thing since it will avoid that decisions are made which are unfair. For instance, if the management wants to employ an outsider just because he is a family relation, under private ownership this is just possible, although it creates bad taste among the workers. They can at the most grumble about it. Looking back on the previous situation of private enterprise, it was wrong that a group of friends of the private employer could take 100% of the decisions away from all control. Of course negotiations were possible, and there was communication, but it was always limited. I frequently indicated to management

that certain decisions would meet with antagonism and it has happened a number of times that management revised its decision. But it has also happened that management just did what it wanted and then I would not open my mouth, afraid of losing my job. It was the employees' fear of unemployment which facilitated the managers' running the place as they liked. Negotiations or industrial action can make important improvements, but participation is a much better tool and under union ownership you all belong on equal terms to the enterprise and you can say what you want.'

CHANGING INDUSTRIAL RELATIONS THROUGH PARTICIPATION

Workers also observed that negotiations and in fact the whole range of decision making in their enterprises may now be conducted more realistically since 'the books have been opened'. It was reported in many interviews that this new situation has meant an important change on the industrial relations scene.

Participation has also widened the scope of industrial relation. Previously, these used to concentrate on wages, hours of work, holiday schemes, and other extrinsic rewards for work. There had been other grievances (environmental work conditions, absence of welfare schemes, etc.) which were not attended to, but these are now discussed in the framework of participation. On the other hand certain elements of industrial relations have become more difficult because of participation. The dual role of the union officials poses problems to demands for pay increases, bonus schemes and so on. The identification with and actual responsibility for the continuation and effective running of the enterprise – both in the short and in the long run – has implied that union officials in their role of manager have tried to convince the worker that self denial at this stage was necessary and was in the long term interest of the company and the nation. As already reported this is not accepted by all interviewed workers.

PERCEIVED EFFECTS ON THE RUNNING OF THE ENTERPRISE

The different framework of management and ownership was frequently mentioned by workers as a positive motivation to put in more into their work. A typical expression was 'Before I took things easy but now I am working for my own good'. A foreman in the textile factory observes:

'It is clear in the enterprise that workers are giving more. There is a clear change amongst the rank and file workers. In general, Maltese workers do not know what it is to know a job and to give all they can, it does not mean to them reaching an aim. And this is exactly what has changed; if we now have an order which is due for delivery the end of

week then everybody knows this and works to complete the job in time. In the new situation there is more discipline, which is due to more trust and better management. Management and workers continuously sound each other out. There are no more leaks in the organisation. If something goes wrong the workers report to me or to management what is happening.'

Also others showed a high identification with the company's aims and a willingness to put in more effort into their work. But some were not at all positive on this point. One said 'participation is not a miracle, somebody who was lazy two years ago is still lazy today'. Some workers (and this especially at the Drydocks) were clearly disappointed. They had expected a positive effect but according to them it did not happen. 'There are only some people who work, but also people who do not, but they are paid the same salary'. Somebody else (also at the Drydocks) mentioned that fellow workers did not respond to the challenge of participation and that he was very disappointed that discipline in fact had not improved.

Another important effect mentioned frequently was that participation had positive effects on the organisation of work in the enterprise. Reportedly, this was due to better and more regular communication: 'management continuously feels the pulse of the worker'.

'For many years we have not got cutter's tools. But now suddenly discussing production, we bring forward our problems, and get the tools'... 'In other words, we finally have opportunities to discuss work, not only with the charginan but also with the departmental manager. Some time ago he called us to the office and asked us whether we had any claim. Then also the cutter's tools were discussed. We are now working more happily. The departmental manager also discussed matters of discipline. He asked us to begin work immediately when the bells are ringing. Until recently we thought very badly about this manager, but now that he has asked whether we have complaints, we look differently at him.'

Discussions on the work organisation were appreciated by the workers; there was a clear aspiration to have organised forms of discussions at the lowest level. A port labourer who attended a meeting on new machinery and spare parts, where the general manager was present, said that there should be regular discussions on technical matters.

Another important effect may be higher work flexibility; some workers reported they are now ready to accept work which they had previously refused. At the Drydocks, where because of a structural shortage of work there had been many problems with work flexibility, this is a special is-

sue, since the union itself reportedly had been in the past a hindrance in this respect. One worker of the Drydocks expressed that work flexibility was to be the test and main aim of the whole participation exercise: 'everybody has to work, that will mean participation. Fitters should do other work if this is desired. A foreman should do manual work if the situation demands it. Participation should first of all mean sharing work hand in hand'. According to several respondents this sort of 'reorganisation' is yet far from being realised.

OWNERSHIP AS AN ISSUE

Participation in Malta had not only meant participation in decision making at various levels, but also participation in ownership. In the ports the union became owner and in the Drydocks the perspective is workers' ownership. How do the workers – so far used to private or government ownership, perceive this change?

One thing which comes out clearly in every interview was that foreign private ownership or management of expatriates was denounced.

In the textile factory (where the ownership is 'frozen', see page 9) foreign ownership is condemned. An explicit comparison was made between the previous position in the enterprise and the present. Looking back on what happened one said one now realized that it was wrong that the running of the enterprise was in the hands of expatriates, who besides were 'earning fantastic salaries'. (. . . .) 'These managers were not looking at the interest of the workers of the textile factory, nor at the interest of the Maltese society but just at their own. This is shown clearest by the fact that they were supposed to teach Maltese staff to take over managerial positions. This never occurred, but at present the factory is doing very well under Maltese management, so it is possible.' However, according to some female workers, it would not be necessarily bad if the factory were privately owned as long as it was by a Maltese.

Also other workers accepted and justified private ownership; 'there should be somebody who decides', 'private ownership is justified because it is a necessity for every human being to acquire things; a private owner does take risks and this means that he sometimes may make high profits.' A worker at the textile factory saw the matter of ownership as follows:

'The information given in the meetings with the union after the takeover were interesting, but now the situation is back to normal. How the problem of ownership is going to be solved is not important. Even if the previous owner came back and could offer better work conditions, I would be immediately prepared to work for him.'

Other interviewed workers said they would never again accept full, unlimited private ownership and they think that this should be a general principle for Malta. At least, they say, there should be some possibility of control. 'As long as private employers make their profits and the workers get their demands it is all right.' But if it appears that there is 'bad management,' 'we must come in'. Most went further than this and opined that there should always be some form of control over a private employer either by the worker, the union or the government. All sorts of arguments were used, apparently based on the experiences in the respective enterprises. 'Under private ownership it is always possible that one is cheated.' 'All the private employer does – even when the company is in debt – is to help himself on to profits.' 'This is why I am against private ownership, nobody has any control over them.' 'In future, the government should intervene by controlling the managers, in order to safeguard the workers against such situations.'

There were all sorts of opinions on how control on private enterprises should be exercised. Some argued that control over them should be exercised by the union, others that government should do it 'because in all the places where the government intervened, the situation got better.' 'The government should control managers in order to safeguard workers against situations as existed in the textile factory'.

A few workers were convinced that some degree of control was not sufficient and that there should be full ownership of the workers or the union.

'Work organizations should be in the hands of the workers themselves and the managers should be those who would be elected by the workers to look after what should be common property of all people working in an enterprise. So, industries should be directed by workers.'

CHANGING VALUE ORIENTATIONS

One of the main consequences which could be expected from the introduction of workers participation was that it would change the orientation to work relations in the broadest sense.

One element of the new value orientation is the re-evaluation of industrial relations. What workers appeared to appreciate in participation was that it 'brought people closer together', that it led to industrial peace ('the previous troubles of strikes and industrial unrest have now fortunately disappeared') and that in general it had led to a better understanding between the workers and managers. 'Decisions of management are under control; we can always arrange to speak with them, and we will know what is on their minds and they will know what is on ours'. This

could mean that, in general, a norm is emerging that management should sound the opinion of the workers.

Often reference was made to the positive contribution the participative system of organisation would make to increased production, which 'would be better for all'. Here, the motivational value of shared ownership or profit sharing was brought forward. One worker reminded us of a Maltese saying: 'if you work for yourself you do two men's work and if you work for somebody else you do one man's work.' Someone else made this comparison:

'Your work is like a house. You either rent it or own it. Owning is better. In the beginning you will have to sacrifice, but in the end you will get the dividends and that will be better. Let's see whether participation works. It is an experiment and if it works, there is no reason why not all the workers of Malta should have it. After all, it is fairer.'

Also other workers emphasised that the fact that one will gain from it, is an important aspect of participation. 'If there is no participation people are careless.'

Although participation was first of all perceived as a practical solution to labour-management problems, it was argued that experience had shown that it is very important to be respected as a human being in one's own work. During the interviews it emerged that people felt more respected as a person.

'I am glad that the improvements which are now made are the efforts of the workers themselves'; 'through participation individuals are regarded as intelligent human beings', 'we are now having an identity'; 'it is a good thing because all the workers are given greater importance within the company'; 'I am working more happily'; 'I feel more secure, I am more myself.'

In connection with this, information was often mentioned. 'Before the introduction of participation', some said, 'we were left in doubt, we had to guess, but now the real facts of the enterprise are known.' 'We now know what is going on and why'.

PERCEPTION OF THE FUTURE

If there are positive values attached to participation, do the workers want to continue with their own experiment, and also, do they like to see the idea expanded to other enterprises as well? As to the continuation of the present situation, some workers were rather sceptical. A female operator:

'Participation is just something practical, but should not be chased on principle. Workers are not in a condition to control production themselves. There would not be a stable organization, we need people to guide us. Participation should also not mean trying to get all information. One should not probe into the affairs of management. It is interesting to look behind the scenes, as one was suddenly able to do in this enterprise. But such a situation can probably not continue.'

Most workers, however, felt the situation should continue even if there were problems. 'If one is not optimistic it will fail from the beginning'.

'This experiment stands for better chance in Malta than in any other country. In other countries, if you are dissatisfied, you change your job. Here you have to stay and you must improve the situation in your own enterprise, there is no other place to go to. I think it will work in Malta, we are in a difficult time, but if we can overcome these troubles things will be much better once the company is improved.'

'In the long run, people who are now going to school will be able to manage and to create conditions for themselves. It is the older people who do not want to do much, but the young people will be many and they will prosper and participate in management. If there is no participation, people are careless. Workers are clever enough themselves. Everyone has a different grade in his work, but all the workers are of the same status. So they have to run the place jointly. The idea of a private owner is only to make a private profit and his problem is not how to share the profit with the workers. He will never offer this. Ideally, participation should be introduced everywhere. But is a matter of money. If the workers had their own money they could invest it themselves, buy their own factories and manage them. Now they are dependent on private people. As long as they get paid, they do not think about it. But if there is a crisis, it is too late. There must be fair information, so that people know where they stand.'

Information ('opening the books') was what most workers expressed they would at least require, and they felt that this should be a general principle: all private employers should open their books to the workers. One of the interviewees elaborated on this and said that if the private employer would not be prepared to open the books (and this is what he expected) the government should force him by introducing legislation to this effect. This because 'workers have the right to know what they are up to'.

Just as there were wide ranging ideas on whether and to what extent participation should be introduced in more enterprises, there was dis-

agreement about the strategy to be followed. Some said they should only like to see participation introduced in enterprises – in – crisis, as a temporary cure: once things are going all right again, the situation should go 'back to normal private ownership'. But others thought that intervention in crisis situations should only be a starting point, leading eventually to union ownership.

On the future role of the union, again, there were different opinions. The minority of the interviewed workers thought the union should concentrate on its traditional function and its first job should be to act as negotiators and not to interfere with the policy decisions of the enterprise. Many workers, however, thought that the union could continue in their traditional function also in the framework of participation. Again the point of information was mentioned as crucially important.

'The role of the trade union is to fight for acceptable wages for the workers and for wage increases, as long as the company can afford it. As long as the union has no trustworthy information bad relations between management and the workers will continue to exist, and that is another reason why it should be better for both to share all information.'

Even though there was strong agreement that the union should have all necessary information, there was strong disagreement about how the union should participate otherwise. Some said that the union should not interfere in the affairs of the private owners, and should only be playing a consultative role, on the basis of adequate information. But this was opposed by others who would not mind if the unions go much further and would try to get completely involved (meaning taking part in all aspects of decision making).

SOME CONCLUDING OBSERVATIONS

The main aim of the second part of this article was to give an anthology of workers' opinions and workers' attitudes regarding participation. It cannot be stressed enough that since the sample of interviewees was very restricted and possibly biased, there are no grounds for any generalisations. It should be mentioned again that in this part we reported opinions and attitudes, in other words, perceptions of reality. These perceptions by themselves are also (social) reality and therefore highly relevant, whether 'objectively' true or not. It should be important to take another warning to the note of the time dimension: the interviews were conducted in November 1972, and are incidental observations at that point of time. Later developments may have affected workers' opinions.

Through the interviews it was possible to throw some light on the workers' frame of reference regarding participation. It seems clear that a

process of 'changing one's mind' is going on through the experience with various forms of participation in management and ownership. Not only within the more restricted sphere of the enterprise proper, but also as regards the acceptance or rejection of certain general values (like private ownership). An interesting process is taking place where workers are forming their attitudes towards participation on the basis of their actual experience with it. The absence of a uniform ideology of participation means that the workers are not measuring their experiences against an 'official' set of values. In almost all other countries this 'prior' ideology is present and undoubtedly 'shapes' the perception of the workers; unfortunately no research has been done into the effects of this. In Malta, the workers are sociologically speaking more free to make up their own minds, that is why Malta offers a unique opportunity to evaluate participation almost void of ideology. There is what could be called an uncommittal commitment: one wants to try to make it work but if it does not, nobody would lose face heavily.

At the same time, however, values and norms regarding participation are being created and could at a certain point be consolidated. The explorations carried out show that in any case no common ideology is developing. The value orientation appears to be rather diffuse. It is interesting to observe that the perspectives of the workers we interviewed were covering a very wide range. Walker has summarised a number of studies on participation and then puts together nine different perspectives¹² which are almost all relevant to the Maltese workers: defence and promotion of workers' interests, democracy within the enterprise, reduction of alienation and promotion of personal fulfilment, effective utilisation of human resources of the enterprise, encouragement of cooperative attitudes and reduction of industrial conflict, intrusion upon managerial prerogatives, contribution to certain social problems within the enterprise and in the community (e.g. nation building, 'Maltanization'!) and social responsibilities of the enterprise. Within such a broad framework of perspectives the development of expectations, values and norms of the Maltese workers is placed. The interviews reported in this article are an indication of this development. Further research is being undertaken to study these experiments in workers' participation in Malta.

¹²K. Walker, *Workers' Participation in Management: concepts and reality*, Mimeographed report, Geneva, 1970, pp. 6-12.

A GROUP OF YOUNG MALTESE WORKERS IN BRITAIN – SOME SOCIOLOGICAL OBSERVATIONS

E.L. ZAMMIT

INTRODUCTORY NOTE:

The fieldwork on which this article is based was conducted during December 1966. It is part of a series of preliminary investigations carried out by the author which subsequently led him to a more extensive study of the Maltese migrants in London. The main hypothesis being explored concerned the extent to which the socio-cultural background of the Maltese migrants structures their patterns of behaviour in their new environment. The present article is mainly a descriptive account of the author's observations containing practically no attempt at analysis. His participation in this group was made possible through 'Charlie' – one of the migrant workers who introduced him to the others as a 'friend of his on a short holiday'. As they both happened to come from the same Maltese locality and as 'Charlie' was regarded as an informal leader by the other workers, he was readily accepted among them. People originating from the same Maltese locality often refer to each other as *Tar-Raħal* (i.e. 'of the village'). This is a term of belonging and therefore implying some solidarity, expected familiarity and possibly friendship. Apart from 'Charlie' and 'Johnnie' – the author's room-mate – none of the other Maltese workers knew they were being studied. As no interviews could be carried out during work hours, observation was confined to their leisure time i.e. during the lunch hour in the factory cafeteria and after work in the hostel. A more recent re-visit of the workers has revealed few and insignificant changes from the situation described below.

Since the Commonwealth Immigrants Act (1962), Maltese migration into Britain has become organized. Often an employer in need of manpower approaches the 'Employment Attache' at the Malta High Commission in London, goes to Malta to interview those willing to migrate, and for those chosen, the British Government issues entry permits. Lately, the number of entry permits has been limited to 1000 a year for Malta but, in fact, this number is not exceeded by the applications of prospective migrants. (In addition, about 250 seasonal workers – mostly females – spend their summer months in the U.K. each year.)

As a result of this policy, Maltese migrants, since 1962, began to congregate in various groups working in a given factory and often living in the same hostel. These factories usually lie in the outskirts of London or another large city. These migrants tend to be young males, (ages 18-25), with a semi-skilled or unskilled technical background, often school-leavers or drop-outs.

Naturally, such a group is very mobile. Many of them go to Britain in search of new experiences – 'just to try something new'. Others sign up with a factory as a means of getting into Britain and once there they soon depart on their own, or join their friends or relatives in London. The majority continue to have very strong ties with Malta which manifest themselves particularly in frequent short visits home, at least once every other year. Recent Maltese migration in many respects resembles the traditional Irish pattern.¹

The particular hostel under description is situated on a hill about half an hour by bus from the town centre where the factory is located. It was built during the last war as an army barracks and it is now owned by an industrial firm. The hostel houses about 500 workers from various nationalities, of whom about 40 are Maltese at any given time. It consists of a central building, housing the lounge, the dining hall, television and games rooms and a number of isolated wings housing the tiny bedrooms on both sides of a long, narrow corridor. In each bedroom two camp beds and two lockers are squeezed in – thus accommodating two workers. Space is so scarce that there is no room left for chairs or any other furniture. There is not room enough to allow two persons to walk abreast along this corridor. The Maltese workers are concentrated in three adjacent blocks.

WORK PERSPECTIVES

A typical work-day starts at about 6.00 A.M. when most of the workers rise just in time for breakfast and to catch the coach for work. If they miss the coach they have to walk about 15 minutes to the nearest 'Bus Stop' and have to pay the fare (8 New Pence) – whereas the coach is free. They are also likely to be late for work with the consequent wage deductions. Still, there are usually about three to five every day who take a day off because of 'not feeling well'. It is quite common for a worker to stay away from work for a number of days without any compelling reason. Then they spend most of the day playing billiards and chatting around the hostel.

¹J.A. Jackson: *The Irish in Britain* (1963).

At work one is mostly by oneself, working on one's machine. There is a one hour lunch break and though work officially stops at 4.30 p.m., most go on working daily for one hour overtime. At 6.00 p.m. they are back in the hostel where they eat and relax till they go to bed. Most retire rather early, being tired from the day's work and no complaints are raised – by the few who are still watching it – when T.V. is switched off at 11.00 p.m. On Saturdays most work half the day and on Sundays everyone is free.

Earning up to an average of £20 a week – including 'bonus earnings', – most feel they are given a 'fair wage' (*paga tajba*). By this they mean that their wage is 'satisfactory' both in terms of the work they perform and in terms of their expectations before migrating. This equivalent justifies the deprivations inherent in their situation and renders their work more palatable. Their orientation to work is exclusively pragmatic – concentrating on its financial benefits. They do not envisage any intrinsic values to be derived from the experience of work itself.² Whatever notions they may have concerning the nature of their work and its management remain dormant or are non-existent. Work for them stops at the factory gates and seldom forms part of their conversations. Most of them have never done any work in Malta, and so they can make few comparisons. In this particular firm preference is theoretically given to the selection of applicants with some technical school background, so that several workers fall into such a category. But the majority fall short of these requirements.

A good deal of complaining goes on about Income Tax deductions. But the general feeling is that one's income basically depends upon one's 'bonus' – a system of measuring one's wage in direct proportion to one's productivity and the current sales on the market. Yet, the workers say, one must not overdo it at work. This norm is expressed in the words *Bix ma jqażzi zghix* – meaning 'Not to make others sick' by being too greedy for money. Such a person behaves like 'a pig'.

Most workers say they migrated because they were unemployed in Malta. In fact they cannot conceive any other motive for migration. Some are deeply resentful of the patronage networks which they consider as 'necessary' in order to obtain jobs in Malta.

When asked about their spendings, only two workers replied that the *ideal* of everyone of them is to save weekly a reasonable amount of their wages and also to send a 'small sum' (*xi haġa zghira*) to their mothers in

²A. Fox – *The Sociology of Work in Industry* (1971)

Malta regularly. In practice, however, many spend most of their wages in games over the week-end, in heavy smoking and in weekend visits to London, and in buying expensive clothes and other articles which they hardly ever use. Some consider it advantageous that the hostel is far from the town because otherwise they would be tempted to spend much more money. Those who manage to save do so secretly. In fact some denounce publicly those who claim to be 'broke' on Monday without apparently having spent anything during the week-end. What influence, however, group pressure exerts on their spending is difficult to assess and requires further study. There are clear indications, however, that this influence is considerable.

If one wants a transfer from one type of work to another, one achieves this by applying informal pressure on management, for example, by being incompetent. 'If you stand up to your charge-hand you'll get what you want.'

Some time previously, when a Maltese worker was given what they considered an unfair treatment by their factory management, the Maltese got together and decided to leave the Company *en masse* unless he was treated better. 'Practical difficulties' made them drop the suggestion and the worker himself found work elsewhere. 'British Trade Unions', they say, 'are quite ready to defend the Maltese. One has to present a really strong case, though.' However, unlike some of the more experienced Maltese in London, these workers do not feel they are discriminated against because of their foreign nationality.

COMMUNAL TENDENCIES

The Maltese went to the hostel in two main groups: the first group preceding the other by an interval of fourteen months. Most of their social relationships within the hostel are limited to their fellow countrymen. They form 'Maltese groups' at lunch-time, during their free hours in the evenings and during week-ends. They usually occupy corners in the lounge and dining hall. The first impression is that there is a high degree of solidarity among them and one has to observe closely in order to perceive that a certain amount of friction exists beneath this unified front. On some toilet walls, for example, there are many coarse expressions in Maltese directed against other Maltese workers. One worker whose new, expensive, tape-recorder has been stolen, immediately suspects one of his fellow Maltese rather than the English. In fact he thinks that the theft was motivated by envy. Since his social contacts are predominantly Maltese, his main suspects are among these rather than a-

mong the more 'hostile' – but distant – 'outsiders'. Gossip – a favourite pastime – revolves around group members and covers a wide range of topics. The affected, meaningless, gestures of one Maltese, is a main source of amusement for a good part of an evening – in his absence, of course. Another group discredits one of them who claims that he has daily opportunities of sexual relations, and show their disbelief as soon as he turns away. 'Who does he thinks he is? It's all bluff!'

Nevertheless, their common cultural background, their minority and marginal situation – the language factor in particular – draws them constantly to each other. They address each other by their nicknames, sometimes by a reference to their home-town or village. An accident happening to one of them is quickly circulated around the whole group and if need be, their support is always available against the non-Maltese. This gives the group a certain feeling of strength and solidarity which they express by behaving in a rowdy manner when in each other's company. The fact that the hostel is situated in a practically deserted area and that the bus connections with the town centre are poor, invite the workers to spend most of their evenings in the hostel. Conveniently for the management, their life pivots around the factory and the hostel. There, they eat, chat, play billiards and watch television. They usually perform these activities in groups of three to five – not always made up of the same persons though certain cliques, naturally, are more persistent than others. Such groups occasionally go to the town centre ('it-town'), and more rarely to London. Though they claim to have good friends among their English fellow-workers, these are not so in the same sense as their 'Maltese friends'. Some exclaim openly: 'Who can ever make real friends with an Englishman?'

Close friendships among the Maltese tend to follow the patterns previously established in Malta and these friendships provided one of the main incentives to migrate to the U.K. Their shared experiences and characteristics confer on them a common identity which, in particular situations, over-rides personal relationships. One could also detect a 'central group caring' for the well-being of all. One of the workers, for instance, was unusually lonely on arrival – being the only one originating from Gozo. Several workers were concerned about him and tried to cheer him up. They later expressed their satisfaction when he occasionally laughed at their jokes. Possibly the fact that few English girls live near the hostel – and only two Maltese girls inside it, one of whom being engaged to be married – compels the workers to seek each other's company. At the Christmas dance, for example, one Maltese got drunk

and started behaving very rudely and aggressively. It emerged later that the man had got drunk because another Maltese had taken his girl-friend. Rather than provoke a public fight with a fellow Maltese, he got drunk and made a mess of himself.³ Trying to calm him down, several Maltese reminded him that he was making a 'bad name' for the group and would get them all into trouble! Clearly their collective reputation ('fama') is a common preoccupation.

In general, however, the other Maltese at the dance were rather bashful and quietly sat around a table, smoked and drank beer. In fact, some had never had a date with a local girl yet though these are not typical of the whole group. Those who would like to marry, at some future date, say they would prefer a Maltese to an English girl. 'The English are not like us' – as one of them puts it. 'Their principle is: tomorrow never comes!' He means this in a wider sense than simply financial matters. In one instance, at least, this attitude was due to an unsuccessful love-affair with an English girl. The Maltese boy also claims that the girl's father disapproved of the match.

SETTLEMENT:

Though the Maltese workers are reluctant to admit that they are homesick, their attachment to Malta is very conspicuous. It can be seen especially in their frequent home visits, in the anxiety with which they rush to pick up their letters after work and the frequency of their writing back, and in the amount of conversation centering around Maltese topics. The main reason why they are in Britain is for work. As one migrant sums it up, he prefers Malta 'for everything': 'That is my country!' Several disagree with this blunt view and say they do not like to live in Malta even if they have a good job!

This might indicate that in the case of these latter ones, they had other underlying motives for migrating besides the financial factor. Moreover the experience of living in Britain may have widened their horizon. In fact some say that on recent holiday visits to Malta they have been bored after the first few days. Their attraction to Malta is mostly directed towards close family members and close friends.

In general very few seriously think about their distant future – but most of them vaguely feel that they do not intend to stay on in Britain indefinitely. A few want to go to Canada or Australia and settle there.

³Of course, fear of his opponent and of the police may have been an underlying factor in this issue. In any case, he 'avenged himself' by getting drunk.

Others prefer to settle in Britain, not to be too far from Malta. When they speak about their homes and parents, they use highly emotive terms. Only on rare occasions do they refer to bitter quarrels which they may have had with their parents. And yet they often give the impression that such quarrels may have remotely pre-disposed them to leave home and to migrate.

In their letters home, they do not give a realistic or objective picture of their way of living. They write only of the attractive and acceptable things their parents would like to know about. Thus, for instance, if they send home a photo of their rooms they make sure a holy picture or a rosary get into the picture – in spite of the fact that they hardly ever use them. Similarly on their home visits they do their best to give a rosy picture of their new, 'affluent' way of living.

Probably the most conspicuous evidence of the group's religious background is the amount of swearing which goes on. Since all of it is in Maltese only they can understand it. This phenomenon is so frequent and so methodically persistent that it merits further study and needs to be explained on several levels. On their part it is an attempt at asserting their 'manliness' through discarding the sacred symbols of childhood. However, their swearing only serves to emphasize the fact that these symbols still play an important part in their lives. As one informant observed, words which go only half way are never used. And it is not only in anger that they swear! It is an accepted part of their ordinary conversation. Clearly the absence of traditional restraints available in Malta as well as the 'marginality' of their present situation accounts for the frequency of this habit.

About five to ten workers go to Sunday Mass in a nearby Catholic chapel and these are known as the 'pious ones'. On first arrival from Malta usually the number is bigger – but they soon dwindle down to this 'normal pattern'.⁴ They justify themselves on the grounds that 'it's different from Malta.' In their rooms they often parade obscene pictures of girls, their favourite film stars or sportsmen on their walls. Occasionally one has a holy picture on top of these! They have hardly had any relationship with a priest since migrating to Britain and they often express anti-clerical opinions. One worker used to go to Mass regularly for a year and even invited others to go with him. Eventually he gave up the prac-

⁴When this fieldwork was in progress it was still considered sinful for Roman Catholics to eat meat on Fridays. Nevertheless the majority disregarded this precept although alternative food was available in the canteen.

tice as he concluded that it is meaningless in his new environment. Another one who went to Mass and then spent the day swearing was 'finally dissuaded' from going any more. Group pressure to conform particularly in religious matters is often irresistible.

Several trace their religious indifference in Britain to the interference of the Church into politics in Malta. As practically all of them are Malta Labour Party supporters, they resent this. 'Here it's different, nobody tells you for whom to vote and not to vote. You vote for whoever you like.'

Many are impressed by the religious dedication of some Mohammedans who work with them and by the local Salvation Army. 'These people,' they exclaim, 'are more religious than the Maltese!'

In a heated discussion between one of the 'pious' ones and another Maltese worker they finally concluded that the Beatles are better known than God, though after much arguing they also admitted that the Beatles are not greater than Him!

The Maltese workers do not consider their educational level as inferior to that of their British work mates. They feel that their promotion depends mostly on their practical ability or actual performance at work and that their educational certificate is 'simply to be kept in one's luggage.' They recall their schooling as a series of personal relationships with certain teachers, some friendly, others not. There is only one illiterate in the group. All the others are fairly fluent in English. Their reading is limited to a few sports magazines and an occasional glance at a newspaper often sent to them from Malta. Consequently, their heated arguments, invariably on factual topics, are usually inconclusive even among the most articulate of them.

Not surprisingly, the building constantly re-echoes to a local rendition of the Beatles 'We all live in a Yellow Submarine.'

THE 'ANTI-ECONOMICS' OF THE EUROPEAN COMMON MARKET

With Special Reference to the Problem of Tax Harmonization

MELVIN B. KRAUSS

I WOULD like to preface my comments by extending a personal but public note of appreciation to the administrators, faculty and students of the Royal University for inviting me to visit and address this distinguished audience of scholars, business men and government officers, this evening on the theme of the 'Anti-Economics' of the European Common Market and its relation to the tax harmonization program of the Community.

Perhaps the title of my talk warrants clarification? What is precisely meant by the 'anti-economics' of the European Economic Community for one; and what is meant by 'tax harmonization' for the other? And even more important, why should this distinguished gathering be interested in either one of them?

By 'anti-economics' I mean simply the subordination of economic policy to political objectives – or more simply, the use of economic means for political ends. Before discussing these political motives in the EEC, the question arises as to the proper role for economic research when it is accepted that the objective of government policy is non-economic in nature? The question is a controversial one, which resolves itself into two essentially conflicting points of view. The first tacitly accepts the non-economic objective of government policy and tries to work within it – so to speak – by developing analyses whose purpose is to achieve the non-economic objective at a minimum cost in terms of foregone real income to the community. The second approach to non-economic government asks what are the economic consequences (costs or perhaps benefits) of government's economic 'irrationality' and poses the question as to whether the non-economic benefits are worth the net economic costs. One important by-product of such research is the questioning of the value of the non-economic objective and the possibility of its rejection should its costs to the community be deemed greater than its benefits.

A Public Lecture delivered at the Royal University of Malta on February 22nd 1973.

Can the title of 'anti-economic' be fairly ascribed to the various policies that are a part of or at least promise to be a part of the EEC landscape? Are EEC policies concerning economic and monetary union, tax harmonization and agriculture 'anti-economic' in the sense that I have defined the term? To answer this question, one either must have sufficient knowledge of the motivation behind EEC policies or, lacking that, compare EEC policies with known and accepted economic criteria – efficient resource allocation, economic growth, internal and external equilibrium (that is, the desired combination of internal inflation and unemployment consistent with balance-of-payments equilibrium). Should the EEC policies prove deficient from the perspective of these criteria – and there is wide consensus that they do – we are left either with the conclusion that the Common Market authorities do not know what they are doing – which I choose to reject for obvious reasons – or that they do know what they are doing but they are not doing what we – that is, the economists – want them to do. The weakness of this second procedure of comparing Common Market policies to economic criteria is that while it can satisfactorily establish what the motive for Community policy is *not*, it does not establish what the motive for Community policy in fact is. For this, the economist must venture outside the convenient world of abstract theoretical models that we have so painstakingly constructed for ourselves.

Under these conditions, implying the motive of Community policy from the facts of experience would seem to be more within the mandate of the political rather than the economic analyst. But a few comments or observations would seem to be warranted if I may be so allowed. Community policy at present appears to be imbued with what can be called 'Europeanism', but which in a less public relations-oriented context is known simply as supra-nationalism or federalism. Three types of federalism can be discerned in Western Europe today – the Dutch type, associated with the names of such men as Sicco Mansholt and Jan Tinbergen, who view a first step towards world socialism which they feel is necessary to achieve a redistribution of the world's income and wealth from the rich nations to the poor ones; the French type, which is strictly an economic federalism, by which I mean the achievement of a common European economic policy which they, the French, hope to control for purposes of restoring lost French prestige and grandeur; and a less well defined but more pervasive type which has as its goal European independence of both the Americans on one side and the Russians on the other. Without commenting on the merits and demerits of these motives from a non-eco-

conomic viewpoint, I think that they are capable of making sense out of the seemingly non-sensical policies of European Economic and Monetary Union, where member-states must adopt common rates of inflation; the Common Agricultural Policy where the form of free trade hides the fact of protectionism within the Community, with no such attempt being made to camouflage the blatant protectionism of the CAP with respect to the Community's relationship with third countries; and Tax Harmonization, the subject of my lecture this evening.

The tax harmonization program of the EEC, as set out in the 1963 Neumark Report, consists of three parts; the adoption of the value-added tax, the abolition of tax frontiers between member-states with respect to their intra-union trade, and the equalization of value-added tax rates. Properly interpreted, the adoption of the value-added tax, which refers to a method of taxation and not to some specific new kind of tax on economic activity, is not essentially a matter of tax harmonization, a concept whose underlying principle is that tax system in no way interfere with the benefits accruing to the members of an economic union from trade liberalization; but is more a matter of tax reform, in that in most of the Common Market countries, with the prime exception being France, the value-added tax has replaced the cumbersome, inequitable, and inefficient gross turnover or cascade-type sales tax, a change warranted more by the desire to bring a greater degree of equity and efficiency into the tax structure than by participation in an economic integration project. Still perhaps because of the success the Benelux countries and Germany are making of the transition to a system of value-added tax, itself in no small part due to the fact that politicians have seized upon the introduction of the new tax as a convenient smokescreen behind which they could raise average sales tax rates and blame it on the new tax, the value-added tax has become the symbol if not the essence of the EEC tax harmonization program.

Because the value-added tax is largely an unfamiliar tax, and also because it may become relevant to Malta, it seems appropriate to go into more detail concerning its nature and mechanics. The value-added tax is a device for levying taxes on a piecemeal basis, stage by stage, while avoiding double taxation, so that the tax collected in relation to final product will be precisely equivalent to that obtained by a single stage tax levied on the same aggregate base with the same *ad valorem* rate. In a closed economy, it can readily be shown that there are three major types of value-added tax: (1) a 'gross-product' VAT, which is equivalent to an equal rate-fully-general sales tax on all final goods and services —

that is, G.N.P.; (2) an 'income type' VAT, equivalent to an equal proportional tax on total factor income; and (3) a 'consumption type' VAT, equivalent to a tax on final consumption goods only. In its most popular version as a consumption tax, the VAT base may be set equivalent to that of any of the familiar sales taxes (manufacturers', wholesale, retail). In fact, until Denmark led the way in 1967 with a VAT extending through to the retail stage, no VAT extended further than the wholesale (i.e. sales to retailer) level. At the present time, however, all European examples of VAT are consumption taxes of more or less the Danish type; the only current examples of the income and product varieties of VAT are taxes recently proposed in several Latin American countries.

There are several ways of calculating and collecting value-added tax, the 'addition' method, the 'subtraction' method, and the 'tax credit' method, but only the 'tax credit' method of consumption type VAT will be demonstrated. With this method firms apply the *ad valorem* VAT levy to their gross sales, and then receive full credit for the VAT embodied in any supplies suitably invoiced to prove that supplying firms have paid their VAT assessment. This self-policing feature is considered by government officials to be one of the main advantages of a VAT as compared with a single-stage levy where Inland Revenue itself must insure that the proper amount of tax is being paid. Let us use a simple arithmetical example to see how a value-added tax works with the tax-credit method of collection.

	TAX EXCL. PRICE	TAX ON TRANS. AT 10%	PAY. TO TAX AUTH.	VALUE ADDED
1. Manufacturer (1)	25	2.50	2.50	25
2. Manufactuerr (2)	50	5.00	2.50	25
3. Wholesaler	75	7.50	2.50	25
4. Retailer	100	10.00	2.50	25
Tax-Exclusive price paid by consumer	100		100	

Fiscal economists have long been interested in the effects of taxes on efficient resource allocation. Traditionally, these discussions have ignored the method by which the taxes are imposed because on the one hand, application was, after all, only a question of administration, while, on the other, the underlying analytical model considered the factors of production as 'original', thus implying a simplified productive process in

which intermediate products were ignored. However, once the productive process is conceived of as a series of steps along which value is added at each level to that supplied by the original productive factors, it becomes apparent that the method of taxation, by discriminating between different forms of business enterprise, can effect the method of doing business. Indeed, once it is realized that the output of one industry may very well be the input of some other industry, and that a tax on the former constitutes one on the latter as well, it becomes necessary to focus analytical attention on the effect of the entire tax structure on productive *processes* rather than on the effect of a single tax on *commodities* produced by these processes.

Arguments along these lines have been important in leading the EEC and other European countries to replace their gross turnover taxes by a VAT to improve efficiency. Because the amount of tax a given commodity bears with a VAT, unlike a gross turnover tax, is independent of the number of transactions undergone by that commodity during the process of production and distribution, and independent of the relative amounts of value-added accrued at the several stages of production and distribution, a VAT will be neutral with respect to the structure of business enterprise. In addition, since the tax is levied as a constant proportion of value added at each stage in the production-distribution process, it is a constant proportion of total value added, and thus readily identifiable when, under the destination principle, export rebates and import compensatory duties are effected for goods crossing international borders. This condition will permit precise border tax adjustments, so that a tax intended to be reflected in higher prices to consumers (with destination principle adjustments) does not affect an industry's international competitive position by altering relative commodity price ratios. Such precision is quite unattainable with a gross turnover tax, although there have been no empirical studies indicating the degree to which vertical integration and imprecise border tax adjustments have in fact been encouraged by the gross turnover tax in continental Europe.

Adoption of the value-added tax has become part of the membership dues for new entrants into the Community – proof of one's Europeanism – and Britain presently is busy preparing itself for the changeover that is scheduled to occur this Spring. In Britain, where the value-added tax is replacing a set of selective excises and the unpopular SET (Selective Employment Tax), the efficiency argument for VAT is that it will bring a greater degree of generality into the fiscal structure. Be that as it may, what one is really struck with in present Britain is the pressure being

applied to Treasury by all sorts of special interest groups, each armed with incontrovertable evidence as to why it should be exempt from the new tax. The result of all this is that the tax that is supposed to be general soon degenerates into something resembling the set of selective excises that it is replacing. Inroads into generality take three paths; that of different rates for different products, tax exemption and zero-rated tax. The difference between a zero rate and a tax exemption can be illustrated by use of a simple table.

	TAX EXCLUSIVE PRICE	TAX ON TRANSACTION	TAX PAYMENT WITH ZERO RATE	TAX PAYMENT WITH EXEMPTION
1.	25	2.50	2.50	2.50
2.	50	5.00	2.50	2.50
3.	75	7.50	2.50	2.50
4.	100	0	-7.50	0
	100		0	7.50

The prime objective of the tax harmonization program, however, is not the adoption of the value-added tax but the abolition of tax frontiers between member-states in their intra-union trade, though retention of tax frontiers is envisaged with respect to trade between third countries and the Community. Tax frontiers refer to destination principle border tax adjustments, which are one of the two possible principles of border tax adjustment that a nation can apply to its international trade – the other being the origin principle. Under the destination principle, explicit export tax rebates and import compensatory duties are intended to guarantee that all goods consumed within the taxing jurisdiction are equally taxed regardless of where they are produced; while under the origin principle exports are taxed and imports exempted to insure that all goods produced within the taxing jurisdiction are equally burdened regardless of where they are consumed. Most sales taxes in the world today – not just those collected by the VAT methods – are on the destination basis. The introduction of value-added taxation and the adoption of a principle of border tax adjustment are, of course, logically quite separate questions.

It should be mentioned in connection with the issue of border tax adjustments that there is an essential distinction to be drawn between a *border tax*, which properly understood is a tax on the crossing by trade of international frontiers (a tariff, for example) and hence restricts trade

volumes below what would be indicated as desirable by the principle of comparative advantage; and a *border tax adjustment*, which is an adjustment of the taxes imposed on a producer when the goods he produces cross an international border. Tax frontiers and customs frontiers thus serve opposite functions in the world economy, the former being a trade liberalizing one, the latter being protectionist. Though this often has been misrepresented or misunderstood in EEC policy circles, the objection to tax frontiers, at least by the better informed Neumark Committee, has not been based on reasons of efficient resources allocation, but a political supranationalistic one.

Abolishing intra-Community tax frontiers implies that, with respect to such trade, exports will be taxed at a rate equal to that borne by domestically produced and consumed goods, and imports admitted to the taxing jurisdiction tax free; accordingly, such change will tend to produce balance-of-payments deficits in those countries with relatively high average rates of value-added tax and balance-of-payments surpluses in countries with low average rates. For this reason the Neumark Report has recommended that value-added tax rates be equalized in all member-states before tax frontiers are abolished, a proposal vigorously defended by the supra-nationalists though one presumes more for the 'common-action' it implies than for reasons of the balance of payments. For high-tax member countries this implies a smaller public sector and for low-tax countries a larger public sector than would exist in the absence of the EEC tax harmonization commitment or, if the size of the public sector is to be maintained, a change in the mix of direct and indirect taxes that had hitherto been deemed appropriate. When one considers the vast differences existing between EEC members in respect to both the size of their public sectors and the optimal mix of direct and indirect taxes (income as opposed to sales taxes), the 'anti-economic' aspects of the EEC tax harmonization program cannot be easily exaggerated.

A case in point is the Benelux Economic Union where the two major partners, Belgium and The Netherlands, follow widely divergent fiscal policies. Because of strong regional and cultural differences with Belgium, the national government in that country has found it difficult to collect income tax and thus relies more heavily on sales taxes than do the Dutch, who have a greater sense of national cohesion. The point is that there are sharp differences between Belgians and Dutch and these differences are reflected in their fiscal structures. Erasing the differences between the fiscal structures of the two countries, however, will not erase the differences between the Belgians and the Dutch. The failure

to equalize tax rates in the Benelux Economic Union despite considerable effort to that effect should serve as a lesson to the EEC that ambitious anti-economic programs have little chance of success unless they serve the needs of the people as they in fact exist rather than as the supra-nationalists imagine them to.

The equalization of value-added tax rates in the EEC clearly is related to the desire to eliminate tax frontiers between member states – that is, the switch from destination to origin principle border tax adjustments with respect to intra-union trade; – and the question arises as to why this change is felt to be necessary within the EEC. As I have previously argued, scientific economics has demonstrated that tax frontiers do not interfere with efficient resource allocation or any other known economic objective to my knowledge. The purpose of the abolition of tax frontiers in the Community, and the Neumark Report is very clear on this, is not related to economic objective, however, but the political one of establishing within the Community conditions analogous to those of an internal market. After all, it is argued, internal markets are seldom partitioned by tax frontiers, and since this is envisioned to be the goal to which the Common Market aspires, tax frontiers have been deemed incompatible with the Common Market concept. But the question arises as to whose Common Market concept the tax frontiers are incompatible with?

In the case of the Neumark Report, it is clear that the Common Market referred to is that of the establishment of a United States of Europe, though one assumes the name will be different. It is not only the Neumark Report's call for the abolition of tax frontiers with respect to intra-union trade that implies this interpretation of tax harmonization in the EEC, it is also its call for the adoption of value-added taxation and the equalization of value-added tax rates. With respect to this last-mentioned factor, it should be pointed out that given differences in average sales tax rates between the partners, high tax countries will suffer a deficit in their balance-of-payments *vis à vis* their partners regardless of whether tax frontiers are removed or not, since the equalization of sales tax rates behind tax frontiers implies a reduction in destination principle border tax adjustments whose balance-of-payments effect is identical to that which would occur if tax frontiers are removed without tax rate equalization. The point is that the high-tax country cannot avoid the balance-of-payments implications of removing tax frontiers by equalizing tax rates before their removal as has been assumed by the Community. In any event, the issue of border tax adjustments is essentially a mone-

tary one; so long as taxation is general, different rates of commodity taxation in different countries are compatible with efficient resource allocation regardless of whether there are tax frontiers or not. Balance-of-payments deficits or surpluses induced by the removal or adjustment of tax frontiers can be expected to be absorbed either by the currency exchange rate or, if this is held fixed, the internal level of prices and incomes. To translate this rather abstract piece of analysis to the real world of policy, its implication is that participation by a country in an economic union requires neither large-scale structural changes between direct and indirect taxation; nor substantial changes in the level of tax rates, nor modification of existing systems of border tax adjustment for reasons of efficient resource allocation. The sole adjustment necessary is to make the effect of the tax system as general as possible – a conclusion that should come as no surprise to those well-versed in the public finance literature.

As I have previously argued, the proper role of economic research when it is accepted that the motivation of economic policy is political rather than economic is to ascertain the economic costs of such policies and ask the question – which the public alone can answer – as to whether the economic costs are worth it or not. In the case of EEC tax harmonization, the economic costs are clear: member countries are forced to abandon tried and true methods of raising public revenues for new and untried methods. The adoption of the value-added tax in Italy, for example, has been chaotic; in the U.K. less chaotic but just as painful adjustments will have to be made. If such change were to guarantee a more efficient equitable fiscal structure, economists could applaud it, though even in this case the question remains as to why these countries have waited until the change has been virtually forced upon them. But if, as is the case, the motive for the change is strictly political – indeed a political motive that the countries do not equally share – economists must be first in pointing out the costs the member states are inflicting upon themselves in the form of deviations away from optimal fiscal systems – optimal, that is in the sense of long-standing cultural, sociological, and political patterns – and ask whether these costs are worth the political benefits of such action, an issue that up to now the politicians have avoided by falsely claiming that the move to value-added taxation has been rendered necessary solely by economic considerations. Every club must have its symbol, and the value-added tax has become that symbol for the EEC (it is interesting in this respect to speculate what the EEC would do if the United States were to adopt a value-added tax,

which by the way is presently being considered by the Nixon Administration. Would the nations of Europe then go back to cascade-type turnover taxation one wonders?).

A question that has probably struck more than one of you by now is what would be the implications of EEC tax harmonization for Malta should at some future date the islands decide to become a full-fledged EEC member, with all its rights, privileges and, of course, responsibilities. This, to many, would seem now a greater possibility than previously thought to be the case given what British entry and the loss of Commonwealth Preference, combined with the Common Agricultural Policy and perhaps a high Common External Tariff might mean for the Maltese economy.

The most important implication for Malta surely would be the necessity to adopt the value-added tax. And though such adoption would clearly be a political pre-condition for entry, it would be consistent with the Stolper Report's Recommendation of some years ago that 'the Government actively consider the introduction of a general tax in retail sales'.

There has been, in recent years, considerable support for the use of a broad-based general value-added tax in developing countries. Most recently, in a yet unpublished paper, Ronald McKinnon most forcefully and convincingly has argued the benefits of such a tax, especially in economics where customs duties constitute a large percentage of public revenues – the Maltese case. One of his arguments relates to distinction made, in a Maltese context, by Salvino Busuttil who noted the difference between revenue or fiscal tariffs on the one hand, and protective tariffs on the other. The main purpose of revenue tariffs is to raise money for the public exchequer; the main purpose of protection tariffs is to subsidize local industry. The two are not entirely disconnected, however, since protective tariffs rather than direct production subsidies are often used for subsidization of local enterprise in developing countries, because local governments do not have the financial where-with-all to finance the subsidies from exchequer funds. The beauty of the tariff is that it gives the impression that it is the foreigner who pays; but the argument is a false one, since the domestic consumer pays as well by having to pay a higher price for the good than would otherwise be the case.

Drawing on his experience from Ethiopia, McKinnon warns us to the danger of using tariffs for revenue purposes because, 'they tend to become "protective" as capital becomes available for industrialization. Resources are drawn into industries – particularly those producing "luxury" consumer goods – by historical accident, since it is precisely these

goods that tend to be taxed for revenue purposes.' The result can be a mis-allocation of scarce resources to industries that are not appropriate to a country's economic development. A further shortcoming of heavy reliance on customs duties for revenue purposes pointed out by McKinnon is that they tend to be inelastic to rising income, since import-substituting industrialization which takes place behind tariff walls initially designed to raise revenue empties the public exchequer as imports decline. On the other hand, a broad-based VAT – on the destination principle – would enable a country like Malta to preserve its revenue base in foreign trade more easily as it industrializes.

It should be mentioned in this respect that should a value-added tax be adopted by Malta, the Community's expressed desire to eliminate tax frontiers between member states could have a disastrous revenue effect for the Islands, since so much of Malta's trade is carried on with the Community, especially now with British entry. This, of course, is an argument against abolishing tax frontiers not against adopting a value-added tax. A further argument related to budgetary revenue and Community policy is that of the effect of adopting the common external tariff on such revenue. We are all familiar with the famous 'trade deflection' argument by now – how with different tariffs *vis à vis* the outside world and no tariffs *vis à vis* member states, goods would tend to enter the high tariff country through the low-tariff one. Presumably 'rules of origin' can handle such situations. But if in the name of the 'New Europeanism' Malta is asked – indeed required – to adjust its tariffs to those of the other member states, revenue tariffs may have to be lowered on some items and raised on others in a manner that is not consistent with Maltese standards of equity and need. The point is that with a value-added tax, Malta would be in a much better position to adjust the burden of taxation as *it* sees fit than it would be under the present system of revenue duties should Malta join the EEC in a customs union.

Besides preventing accidental protection by having revenue tariffs become protective ones, the use of a value-added tax could have another substantial efficiency advantage in a LDC by enabling governments to discontinue their present practice of using the tariff for protection of local enterprise. With a broad-based value-added tax, tax exemption could be pinpointed at the desired stage in the production-distribution process and government have enough fiscal reserve to withstand these intrusions on its revenue even if the tax were imposed at relatively modest rates. The value-added tax is a selective instrument of control. In comparison, the tariff is a clumsy one, hitting consumers unnecessarily and granting

protection indiscriminately to all stages of domestic enterprise.

A final argument that can be registered for the value-added tax that could be relevant for the Maltese situation is that use of a general consumption tax would preclude the need for further personal income taxation. The Busuttill Report was very convincing on this point: in an economy that wants and needs entrepreneurship, a tax on personal income can be very costly in terms of industrialization foregone.

To summarize, there would appear to be substantial advantage for Malta from adoption of a broad-based value-added tax of the consumption variety. These advantages would hold true – indeed be exaggerated – should such adoption be independent of the EEC. Membership in the EEC might force upon Malta an increased reliance on personal income taxation that has hitherto been deemed undesirable. Abolition of intra-union tax frontiers could substantially cut into the budgetary revenue gains that Malta could expect from the tax. Unilateral adoption of a value-added tax, on the other hand, may convince the powers that be in Bruxelles that Malta is indeed European, or at least subscribes to the EEC conception of what Europeanism means, and thus be more sympathetic to Maltese terms in the forthcoming second round of negotiations for tariff reductions.

My remarks to this point have focussed on what can be called the 'micro-economic' or resource allocation aspects of tax harmonization in the EEC. Some attention must now be paid to the 'macro-economic' or economic stabilization aspects of this program.

In a 'macro-economic' context, the prime question of relevance is whether individual member countries will have the ability to run autonomous fiscal policies within their overall commitment to the EEC tax harmonization program. Two types of autonomy can be usefully distinguished, 'nominal' autonomy and 'effective' autonomy. Nominal autonomy refers to the ability of a member government to run a different budgetary when budgetary policy simply refers to the budget itself and not the effect that the budget might have on macro-economic variables. Such nominal autonomy depends on the scope or coverage of the tax harmonization proposals. A program that constrained all countries to the same community-determined level of taxes and expenditure would preclude even this modicum of fiscal independence. The EEC program, however, is not nearly so thorough-going, and there would seem to be no present statutory limitation on the freedom of individual countries to varying expenditure levels and tax rates as they see fit, though the commitment to equalize VAT-rates implies that direct taxation would have to be used for this

purpose. 'Effective' autonomy, on the other hand, does not simply refer to the ability of a member-state to have a different budgetary policy from that of its partners, but from having a different macro-economic result from that budgetary policy in terms of the rate of inflation that the given country wants to pursue. Can a member-state run a different rate of inflation from that of its partners because of different budgetary policies within its overall tax-harmonization commitment?

The answer to this question depends on the context in which the autonomous policy is attempted. Abstracting from other harmonization policies, there would appear to be no reason why even 'effective' autonomy could not be achieved. This, however, is not the present case in the EEC where monetary union is being attempted. EEC monetary union requires that all countries run the same rate of inflation, regardless of the repercussion of this policy for unemployment levels in the various states. Given such a commitment, 'effective' fiscal autonomy clearly is not possible – hence, the argument that the unemployment consequences of monetary union can be offset by fiscal action is not tenable. An effective monetary union would take all macro-economic initiatives out of the hands of the member states, leaving a void that could only be filled by some new supra-nationalistic institution.

E.E.C. ECONOMIC POLICY TOWARDS THE MEDITERRANEAN THE SPECIAL CASE OF MALTA*

D.R. JONES & J.C. GRECH

AT a meeting of the Association Committee in Luxembourg on April 25th 1972, the Maltese delegation expressed their dissatisfaction with the functioning and results of the EEC/Malta Association Agreement which commenced in April 1971. The delegation stated that although Malta had obtained substantial tariff concessions in the industrial sector, she was 'unable to take advantage of them'. The *raison d'être* of the Agreement was to consolidate and extend the economic and commercial relations, between the EEC and Malta, by the harmonious development of trade. This was made possible under the terms of Article 238 of the Treaty of Rome.¹ It was hoped that the Agreement would result in an extension of Malta's home market for industrial exports which would absorb the existing spare capacity within the industrial sector. It was also seen as a natural extension of European integration, consolidating the political and economic interests involved.

However just over one year after the inception of the Agreement the Maltese Government were asking for its extension. The Association Council met in Malta in June 1972 to review the performance in trade and to examine how the present agreement should be exploited to the full. The requests made by the Maltese Government fall into four categories:

1. To include Malta among the beneficiaries of the Community's Generalised Preference Scheme.
2. To modify the 'rules of origin' in order that they be less restrictive.
3. To extend the Association Agreement to cover agricultural products of interest to Malta
4. That the Community would provide technical and financial assistance to Malta in order that industrial efficiency may be improved. The

*This study was completed in September 1972.

¹Article 238 states 'The Community may conclude with a third country, or union of states, or an international organisation, agreements creating an association embodying *reciprocal rights* and obligations, joint actions and special procedures.

government hopes that this increased efficiency will facilitate a more complete exploitation of the trade preferences provided by the existing agreement.

These requests indicate that the Maltese economy was not 'ready' to take advantage of the preferential treatment afforded by the Agreement, or rather, that the Agreement itself was not properly geared to the most important needs of the Maltese economy. There has, of course been one major change in the international sphere since the inception of the Agreement. Mainly the speed with which U.K. negotiations for membership of the EEC were concluded. The resending threat of the removal of the Commonwealth Preference Tariff was guaranteed to cause some anxiety in official circles.

This paper examines Malta's pattern of trade, and industrial structure in the five years prior to the inception of the Agreement. We isolate the actual products that are eligible for preferential treatment under the terms of the Agreement, and investigate the potential benefits to the Maltese economy of this treatment. We also examine the overall policy of the EEC towards the Mediterranean countries.² This involves a comparison of the terms of the EEC/Malta Association Agreement with the terms of EEC Association Agreements with other Mediterranean countries. We do this in the light of recent statements by the EEC which express dissatisfaction with the mixed bag of arrangements that exists at the moment e.g. '..... The Commission considers that, taken as a whole, the agreements concluded with the Mediterranean countries are no more than an inadequate expression of Europe's interest in this region. Through these agreements the Community has so far made only a limited contribution to the economic development of this part of the world.'³ We suggest various ways in which the community can improve her limited contribution to Malta within the scope of existing policy, and conclude by considering the future economic development of the Mediterranean basin.

RESUME OF THE TERMS OF THE EXISTING EEC/MALTA ASSOCIATION AGREEMENT

The association Agreement is divided into two stages, both of five years duration. The first stage commenced in April 1971. It was envi-

²Excluding France and Italy which are members of the EEC.

³Commission Memorandum on: A Community Development - Cooperation Policy (Summary Document). Supplement - 5/71. Annex to the Bulletin of the European Communities 9/10-1971.

saged that negotiations for defining the terms of the second stage would commence eighteen months prior to the completion of the first five year period. Under the terms of the first stage, the Community has agreed to reduce by 70% its common external tariff rates on industrial products originating in Malta. The protective stranglehold of the Common Agricultural Policy was the reason given for the exclusion of agricultural products. The reason given for the exclusion of petroleum products was the absence of a Common Community Policy on Energy. Reductions in tariffs on textiles are restricted to certain specific products, and only for a limited tonnage of these products.⁴

In line with the reciprocity clause of Article 238, Malta agreed to a reduction of 35% in her tariffs on goods originating in the Community. This is to be effected in three stages; 15% on 1/4/71; a further 10% on 1/4/73; and the final 10% on 1/4/75. A tail-piece is added, to the effect that by April 1st 1975 no product originating in the EEC will be at a competitive disadvantage vis-a-vis those products covered by the Commonwealth Preferential Tariff. There are some exceptions to this reciprocal action by Malta. These include specific protective tariffs and tariffs of a fiscal nature, whilst for some products reductions will be limited to the extension of the C.P.T.. Malta also reserves the right to re-establish, increase, or introduce duties against the E.E.C. for the purpose of protecting new and/or infant industries. The 'rules of origin' clause, agreed to by the contracting parties, restricts the tariff concessions to products manufactured from raw materials wholly obtained in Malta, or any other member state of the EEC. If 'Third-Country' raw materials are used, the products concerned are not eligible for preferential treatment unless there is a change of tariff heading.⁵

There are no formal plans for the terms of the second stage, or for the length of its duration, except that 'in principle' it will be for five years. However, at the time of negotiations, there seemed to be a tacit agreement among the contracting parties that this second stage will culminate in a complete customs union. Thus the duration of the second stage will depend on the rate of progress achieved in preparing Malta for the adoption of the Common External Tariff.

⁴See p. 56.

⁵There are some exceptions to this proviso. Some products will qualify even if there is no change in tariff heading; others will not qualify – even if they undergo a change in tariff heading – unless there is also a specified minimum proportion of value added or, in other cases, a change in two tariff headings.

TRADE WITH EUROPE (INCLUDING THE U.K.) 1965-1970

In 1970 83% of Malta's exports (value) went to Europe, and in return Malta received 84% of the total value of her imports from Europe. The predominance of Europe in Malta's pattern of trade is caused by geographical and historical factors. It is the nearest industrialised continent and has a large sophisticated market. History has also created a special relationship between Malta and the U.K. providing for preferential treatment in trade between the two countries. The U.K. was Malta's most important trading partner in 1970, providing approximately 50% of all imports from Europe, and consuming 54.4% of all exports to Europe. Table I shows that total imports have almost doubled over the six year period 1965/70, (91%), while imports from Europe more than doubled during the same time period, (106%).⁶ The E.E.C. has provided a constant share of total imports from Europe, averaging 35% of this total, while EFTA has also maintained a steady average of approximately 56%. Thus in the six year period studied, the pattern of imports between the EFTA, the EEC, and Malta has remained fairly stable. It is reasonable to expect that these stable import trends will continue, except for the enlargement of the EEC total consequent upon U.K. entry in January 1973.

Table I

	IMPORTS				VALUE £000's	
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Total Imports	35,144	38,880	40,509	51,399	61,516	67,121
Europe (Total)	27,134	30,296	32,741	43,039	50,737	56,013
E.E.C.	9,392	10,635	11,608	14,470	17,693	19,576
E.F.T.A.	15,228	16,802	17,392	24,756	28,721	31,094
U.K.	13,655	15,232	15,803	22,560	26,195	28,123
Continental EFTA ⁷	1,573	1,570	1,589	2,196	2,526	2,971
Rest of Europe	2,514	2,859	3,741	3,813	4,323	5,343
EEC as % of Europe	34.5	35.1	35.4	33.6	34.8	34.9
EFTA as % of Europe	56.1	55.4	53.1	57.5	56.6	55.5

Source: COS Trade Statistics, compiled.

⁶ We would like to express our gratitude to Mr. Edwin Causon of the Department of Trade for the compilation of these tables, and for the provision of statistics which were otherwise unavailable.

⁷ Switzerland, Denmark, Austria, Norway, Portugal, Sweden.

Table II**DOMESTIC EXPORTS**

	<u>VALUE £000's</u>					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Total Domestic Exports ^a	6,199	7,645	7,159	10,205	12,506	12,212
Europe (total)	4,358	5,229	4,818	7,506	9,907	9,705
E.E.C.	1,216	1,378	1,269	2,461	3,846	3,843
E.F.T.A.	2,641	2,886	3,082	4,653	5,506	5,489
Rest of Europe	501	968	467	392	555	373
U.K.	2,074	2,525	2,739	4,170	5,117	8,279
Continental EFTA	567	361	343	483	399	210
EEC as % of Europe	27.8	26.3	26.3	32.8	38.8	39.6
EFTA as % of Europe	60.6	55.2	63.9	61.9	55.7	5.5
U.K. as % of Europe	47.5	48.4	56.9	55.5	51.7	54.4

Source: COS Trade Statistics, compiled.

Table III**DOMESTIC EXPORTS BY SITC SECTION 1970**

<u>SITC SECTION</u>	<u>TOTAL</u>	<u>VALUE £</u>	
		<u>OF WHICH</u>	
		<u>E.E.C.</u>	<u>U.K.</u>
0 Food and live animals	776,440	497,522	193,455
1 Beverages and tobacco	201,947	37,698	5,212
2 Crude materials	1,410,293	808,742	312,278
3 Mineral fuels	—	—	—
4 Animal and vegetable oils and fats	223,053	6,520	4,492
5 Chemicals	195,623	2	510
6 Semi manufactured goods	3,666,034	1,220,739	1,643,685
7 Machinery and transport equipment	747,482	110,760	604,318
8 Manufactured goods	4,977,736	1,159,277	2,505,842

Source: COS Trade Statistics, compiled.

^a Visible Exports only.

There has been a continued increase in exports to both the EFTA and the EEC. Over the six year period studied, exports to the EFTA increased by 108% while those to the EEC increased by a remarkable 216%. In direct contrast to this is the fall in outgoings to the rest of Europe, the 1970 total being 25.5% lower than that for 1965. These are mainly socialist countries of Eastern Europe. It is conceivable that, with a Socialist Government in Malta, this trend will be reversed especially due to the fact that more of the importing is now being carried out by the Government who can more easily 'trade' with the Eastern bloc than can a private businessman.

In January 1973, when the U.K. joins the EEC, the community will be consuming more than 95% of Maltese exports. It seems likely that this percentage will increase if the countries of continental EFTA (i.e. excluding EEC) remain outside the EEC, since they have reduced their intake from Malta by 64% between 1965 and 1970. If some of these countries do join the EEC there is bound to be some reduction in total demand but this will not be marked. It is obvious that the enlarged EEC will play a crucial role in the development of the Maltese Economy. The increased size and sophistication of the European market will create a demand for certain products. This following section investigates how well adjusted the export sector of the Maltese economy is to take advantage of this demand, and its new, more competitive position vis-a-vis other non EEC countries.

COMMODITIES ELIGIBLE FOR PREFERENTIAL TREATMENT

Within the context of the present agreement certain commodities benefit from the full 70% tariff reduction, others are restricted by quota limits, while others are ineligible for any form of concession. It is crucial for the Maltese economy that the commodities which benefit are in value terms, produced by important growth industries. It is only if these industries are making a meaningful contribution to national prosperity in terms of increased employment and higher productivity that the Association Agreement will be of benefit to Malta.

Table III provides a breakdown of Malta's exports in 1970 into groups classified according to the SITC. The two most important items, which comprise 71% of all exports are semi manufactured and manufactured goods.

SEMI MANUFACTURED GOODS

The export of semi-manufactured goods is the second most important

bringing in a total value of £3,666,034, which was approximately 30% of total export revenue in that year. Although the section comprises forty one items, the bulk of the revenue comes from four types of commodities which account for £3,474,642 or 95% of the section total. Of these four items (Table IV), three qualify for the full 70% tariff reduction; – rubber, nylon yarn and knitted fabric. Rubber articles are the most important, having thrived on the preferential treatment afforded by the U.K. They are produced almost exclusively by one foreign owned company, and take the form of oil seals for automobiles. The company, which has a labour force of 1350, consisting almost totally of Maltese nationals, has considerable scope for expanding its production. It is a subsidiary of a large international group of companies, and thus already has a marketing advantage within the EEC. In 1967 total exports of rubber to the EEC were £38,734, whereas this figure had more than trebled to £117,769 by 1970. In the one year since the inception of the agreement the company has not received any new orders which are 'directly attributable' to their new preferential position.⁹ However, due to the technical nature of the product and severe competition from the Japanese, one year is probably too short a period to assess the effect of the tariff cut.

Since the major market for cotton yarn is Canada, the tariff cut from 15% to 4.5% is not expected to cause any large diversion of trade. In 1970 Canada imported £215,596 of cotton, compared with £15,513 to the EEC and £9,447 to the U.K. In the case of knitted fabric Italy accounted for 95% of the total value of exports in 1970. The reduction in duty from 20% to 6% will undoubtedly improve the products' competitive position, and possibly create some new trade with other EEC countries. The most important semi-manufactured export to the EEC is cotton yarn, which brought in £611,358 in 1970. This product is eligible for 70% tariff reduction but is restricted by a quota of 750 tons. Cotton yarn exports are also restricted by a quota under the U.K. Cotton Textile Arrangement of 1966, resulting in only £160,000 going to the U.K. in 1970. However it was the intention of the U.K. to abolish this system and replace it by import duties of 85% of the full rate for exports of Commonwealth countries. This would have resulted in exports to the U.K. being subject to a tariff rate of approximately 6.4%, but no quota restriction. The strength of Malta's bargaining position *vis-à-vis* an increase in quotas, will depend on the speed with which the U.K. eliminates Commonwealth Preference after January 1973. Whatever the situation it seems certain that Malta has a case for an increase in the allowed quotas. Exports to the

⁹ According to the Management.

EEC have been increasing steadily, partly caused by the need to find markets other than the U.K. An increase in quotas would be of considerable benefit to the cotton yarn industry in Malta.

MANUFACTURED GOODS

The most important section in Table III is item 8, Manufactured Goods, which consists of 86 separate items. Textile articles predominate within this category, with fourteen major export items. Of the fourteen items listed in Table IV, four are subject to quota restrictions, nine are eligible for the full preferential treatment, and one, namely printed books, is exported duty free.

The items that receive an unqualified improvement in their competitive position are, textile gloves; leather gloves; nylon stockings; shirts; capes, coats etc., of furskin; footwear; dolls; smoking pipes; and wigs. Of these nine commodities, five have no previous record of trade with the EEC:

- (a) The major receivers of textile gloves are Australia and New Zealand, although the U.K. did take £16,828 in 1970. This pattern remained unchanged in the six years from 1965 to 1970.
- (b) The existence of high tariffs and quota restrictions have apparently been the major obstacles to the creation of a nylon stocking trade with the EEC and the U.K. It seems that competition within the EEC is so severe that any imposition of a tariff will eliminate the demand. Thus, even a tariff cut of 70% has brought no new orders from the EEC.
- (c) Most of the shirts produced in Malta have been exported to developing countries. Although this commodity is eligible for the full tariff concession some of the manufacturers receive their raw cloth from 'third countries' and are thus prohibited by the 'rules of origin' clause. The possibility of substituting raw cloth from EEC member states, at no increase in cost, is being investigated.
- (d) Manufacturers of footwear have avoided the EEC because of high tariffs and fierce competition. This severe competition will probably prevent any marked improvement in demand that might have followed from the tariff concession.
- (e) The U.K. has been the major market for smoking pipes, but it is hoped that the new tariff of 5.4% will re-direct some exports to the EEC.

Of the four products which have an existing market with the EEC, only two are of importance. Capes, coats, etc., of furskin are allowed duty

free into the U.K., compared with the CET which stood at 24% in 1970. In 1970, the U.K. imported three times the value imported by the EEC. The 70% tariff cut is expected to result in an improvement in trade with the Community, but the 'rules of origin' clause may pose a problem. Exports of dolls have revealed a steady increase, both to the U.K. and the EEC. The reduction in duty to 7.5% brings it below to 12% imposed by the U.K., and thus some improvement in the Community market is expected.

Thus, of the fourteen textile items which make up the major proportion of the exports of manufactured products, the nine that are eligible for the full tariff cut contributed only £41,854 or 0.34% of the total export value in 1970.

Quota restrictions of 300 tons maximum, severely handicap exports of the first three commodities listed in Table IV. Exports to the EEC have been steadily increasing, and it was the major market in 1970. The major company concerned is anxious to increase its trade with the com-

Table IV

EXPORTS OF SELECTED MANUFACTURED GOODS 1970

	<u>TOTAL</u>	<u>VALUE £</u>	
		<u>E.E.C.</u>	<u>U.K.</u>
Men's trouser, shorts and slacks	1,588,042	710,833	361,200
Boys' trousers, shorts and slacks	103,577	5,835	—
Other outer garments, men's and boys	516,149	162,755	316,687
Textile gloves and mittens	89,549	—	11,828
Leather gloves	137,829	2,828	89,914
Nylon stockings	69,694	—	—
Shirts	32,606	—	2,402
Cardigans and infants' garments	438,531	42,448	317,023
Capes, coats etc. of furskin	69,846	17,325	51,231
Footwear	106,007	—	70,724
Printed books	230,431	6,094	169,176
Dolls	94,386	20,446	56,838
Smoking pipes	38,335	—	34,325
Wigs	43,478	1,255	40,809

Source: COS Trade Statistics, compiled.

munity and is hoping for an increase in the quotas, when renegotiations take place. Exports of cardigans and infants garments to the EEC, increased three-fold between 1967 and 1970. It seems obvious that the 100 tons quota limit will seriously hamper the development of trade in this product.

OVERALL EFFECT

The previous statistics suggest that the Association Agreement is not likely to have a profound effect on the Maltese Economy. The potential for trade creation is limited to isolated commodities, and is often hampered by quotas or the rules of origin clause. In fact, the previous analysis presents a somewhat optimistic picture, in that the restrictive effects of this 'clause' are not specifically included. It is assumed that these restrictive effects will be essentially short-term, and that the comprehensive industrial infrastructure of the EEC will provide a substitute source of raw materials presently received from 'third countries'. Malta's industrial sector is such that the majority of export-oriented industries import their raw materials. The main sources of these raw materials are the U.K. and the EEC. The inclusion of the U.K. within the community will remove its 'third country' status, and eliminate the need to switch to the EEC as an alternative source. It seems likely that this switching of sources would have occurred if the U.K. had remained outside the Community. It can be said, that the EEC countries produce competitively all the materials which Malta's export industries presently import from the U.K., therefore minimising the risk of preferential benefits for exported goods being offset by an increase in the cost of raw materials. Also, the bulk of materials used in exportable goods are imported duty free from any source, so that the U.K. has no preferential advantages over EEC countries in this respect.

IMPORTS

In the case of imports to Malta, the basic aim of the Association Agreement was to eliminate the preferential position of the U.K. It was as a direct result of the Commonwealth Preferential System and the historical links, that the U.K. provided 55.7% of total imports from Europe. The percentage share of the two groups has remained relatively stable, with the EEC providing 34.7% of the value of the same import total. It was envisaged that the progressive reduction of 35% in the Maltese tariff would eliminate the difference between the General and Commonwealth Preference rates, which is of an average of 15 percentage points. Thus by the termination of the first Agreement period the Preferential rate will

be equal to or even higher than that to the EEC. In the majority of items the duty charged on items imported from the U.K. and the EEC would be equal – mainly 13%, 15% and 23%. The inclusion of the U.K. within the EEC in January 1972 has made this largely academic, but it does not seem likely that there would have been a dramatic switching of imports from the U.K. to the EEC. Since the tariff reductions were phased the global effect would only have been felt after four years, and also the EEC would only have gained a position of equal competition.

As was stated previously, the EEC are fully aware that they are only making a 'limited contribution to the economic development of the Mediterranean countries'.¹⁰ They admit that the hotch-potch of agreements signed with these countries are no more than an inadequate expression of Europe's interest in this region. The absence of an overall policy towards the Mediterranean reveals itself in the inconsistency of the terms of these agreements. This inconsistency has been particularly unsatisfactory in the case of the agreement with Malta. If the EEC is genuinely interested in making more than a 'limited contribution', then steps should be taken to eliminate these disparities. The following section highlights some of the disparities which are particularly relevant to Malta by contrasting its Agreement, with those between the EEC and other Mediterranean countries.

ASSOCIATION AGREEMENTS WITH OTHER MEDITERRANEAN COUNTRIES

Juridicially the Agreements signed between the EEC and Mediterranean countries can be classified into two categories:

1. those signed on the basis of article 238 of the Treaty of Rome¹¹ which contain the 'reciprocity' clause; and
2. those based on article 113 of the Treaty of Rome which provides for the formation of a 'common commercial policy' after the transition period.

Agreements falling in the first category are those signed with: Greece (9/7/61); Turkey (12/9/63); Tunisia (28/3/69); Morocco (31/3/69) and Malta (5/12/70). Those falling in the second category are: Lebanon (21/5/65);¹² Yugoslavia (17/3/70); Israel (29/6/70); and Spain (29/6/70). However, if the agreements were to be classified according to their

¹⁰ See footnote 3.

¹¹ See footnote 1.

¹² Negotiations are in progress for a second agreement with Lebanon, since the first has elapsed.

economic features and implications a regrouping would be necessary:

CATEGORY	COUNTRIES	FEATURES AND IMPLICATIONS
A	Greece and Turkey	<ol style="list-style-type: none"> 1. Large number of concessions, both industrial and agricultural. 2. Free movement of persons and services (consultations on). 3. Financial assistance provided. 4. Long transition periods with adoption of CET. 5. Full membership at termination of transition period, if beneficial.
B	Tunisia and Morocco	<ol style="list-style-type: none"> 1. Agreement of 5 years with provision for renegotiations. 2. Covers both industrial and agricultural products. 3. On industrial products, originating in Morocco & Tunisia, immediate freedom of entry into Community Market – free of restrictions as to quantity and free of customs duty or dues having an equivalent effect, except for cork products.
C	Malta	<ol style="list-style-type: none"> 1. Agreement of 5 years with provision made for a second phase which is intended to pave the way for the establishment of a customs union between Malta and the EEC. 2. Covers <i>only</i> industrial goods originating in Malta.
D	Spain and Israel	<ol style="list-style-type: none"> 1. Preferential Trade Agreements with provision made for renegotiation – in the case of Israel a specified date for renegotiations established. 2. Covers both industrial and agricultural products, originating in Spain and Israel.
E	Lebanon and Yugoslavia	<ol style="list-style-type: none"> 1. Non-Preferential Trade Agreements. 2. Providing for the most favoured nation treatment. <ul style="list-style-type: none"> – with the addition of technical assistance in the case of Lebanon.

– with special concessions for beef for Yugoslavia.

Having classified the various agreements into five categories there follows a comparison of the concessions made. This comparison omits the case of Lebanon and Yugoslavia since these agreements do not concern preferential treatment in trade. The case of Malta is taken as the point of reference i.e. the agreements in categories (A), (B), (D) are compared to the case of Malta.

The products dealt with are divided into two groups:

1. Agricultural Products¹³
2. Energy Products – in this context meaning Petroleum products covered in B.T.N. ch. 27.

Industrial products are omitted from discussion in this section since, as shown in the first part of the article, it is these products which really form the subject of the Malta-EEC agreement and practically all these products are included in the tariff concessions.

1. (a) The EEC – Greece Association Agreement provides for the harmonization of both partners' agricultural policies, at the latest, by the end of the transition period. Until such harmonization takes place, the products listed in Annex III of the Association Agreement benefit from the general rules concerning the elimination of customs duties, import quotas and dues, and measures of equivalent effect contained in the Agreement. Annex III covers such products as dried grapes, olive oil and preserved olives and citrus fruits, which are some of Greece's most important export products. Protocol 14 of the same Agreement provides for special treatment for Greek wine in the Community market.

A somewhat similar situation exists with regards to Turkey. The EEC – Turkey Association Agreement provides for three stages: a preparatory stage, a transitory stage and a definitive stage. During the first stage, agricultural concessions were given for specific products. But with the signing of the Additional Protocol,¹⁴ a transitory period of 22 years has been provided for, over which, Turkey shall seek to adjust its agricultural policy with a view to adopting the Common Agricultural Policy by the end of the period. Still, at the beginning of the transitory stage, as shown in Annex 6 of the Additional Protocol, concessions giv-

¹³ See Appendix.

¹⁴ Signed 23rd November 1970. The preparatory stage came to an end 1/9/71 and until the Additional Protocol comes into force an Interim Agreement – which was supposed to expire on 30/9/72 but has been extended – is effective.

en vary according to product or group of products; with concessions covering such important foreign exchange earners as hazel nuts, olives and capers, olive oil, dried figs and citrus fruits.

(b) In the case of Morocco, Tunisia, Spain and Israel, products contained in Annex II of the Rome Treaty (this Annex covers the products subject to the Common Agricultural Policy) are excluded from the concessions made in the respective agreements. But in all four cases important exceptions are made. Tariffs applicable to the import of citrus fruits into the Community from these countries have been reduced. For the export of olive oil from Morocco, Tunisia and Spain a reduction of the variable levy applicable on import into the Community has also been conceded. Other agricultural products originating in Spain and Israel benefit from various reductions, with a 100% reduction in CET for lobsters originating in Spain. As regards certain fish and fish products originating in Morocco and Tunisia tariff quotas have been allocated for exports to Germany and Italy, whilst the already existent privileges obtaining on the French market were retained.

Products listed in Annex II of the Rome Treaty are also excluded from the EEC/Malta Association Agreement, but unlike the other agreements mentioned above, in Malta's case there are *no* exception. This may be justified by pointing to the fact that agricultural products have not played a predominant part in Malta's trade with the EEC. However, the EEC imports the largest part of Malta's export of potatoes, with over 90% going mainly to Belgium and Holland in 1971. The EEC also imports a considerable portion of Malta's exports of wine. The favourable climatic conditions plus more intensive systems of cultivation can make the horticultural industry into an important growth sector in Malta's economy. For a number of years, the export of tomatoes, cut flowers and buds, and horticultural plants has been significant. The EEC, so far, has proved to be a limited and unstable market for these products whilst the U.K. has turned out to be the chief importer. The EEC could have provided a stimulus to this industry via the giving of trade concessions, but it was prevented from doing this by its static policy of basing these concessions on past export performance. The entry of the U.K. into the Community in January 1973 will pose a further problem in that at present it is the most important market for the island's agricultural exports. A revision of the terms of the Agreement is thus inevitable unless local producers are to be placed at a disadvantage *vis-à-vis* competitors from Southern Italy.

2. The EEC does not, as yet, have a Common Energy Policy. How-

ever, the numerous discussions and decisions of the Council and the Commission indicate that the formulation of such a policy is being given priority. Given that approximately two thirds of the EEC's energy supplies are imported, a common policy is essential. Trade in energy products is a particularly important component of the EEC's trade with Mediterranean countries.¹⁵ In fact 45% of all the exports from Mediterranean countries to the EEC in 1970 were Petroleum products.

In the case of Greece, Petroleum Products are included within the general terms of the Agreement. Turkey and Spain were respectively given an annual tariff quota of 200,000 tons,¹⁶ and 1,200,000 tons.¹⁷ For Morocco and Tunisia a guaranteed effective annual tariff quota (at zero tariff) of 100,000 tons was allocated.¹⁸ Beyond this amount customs duty *may* be levied in the case of strains on the Community market. It should be noted that a condition placed on these concessions was that they may be altered consequent to decisions relating to the EEC commercial policy and to the drawing up of a Common Energy Policy. Only Israel and Malta have not been given any concessions for Petroleum products. In Israel's case this is a direct disadvantage since it does actually export petroleum to the EEC - to the value of \$U.S. 17 million in 1970. For Malta the disadvantage is only an indirect one. Malta does not have an oil refinery nor does it possess known Petroleum resources. However two major oil companies are prospecting off the Maltese coast, and it seems that chances of success are quite high. At present all petroleum products are excluded from the Agreement, with the exception of EEC exports to Malta of lubricating oils and greases which receive a 14% tariff cut. It seems advisable that provision should be made for the inclusion of petroleum products within the terms of the Agreement, if and when they materialise.

In the case of Agricultural products, the reason given for their exclusion from the Agreement was the prohibitive rules of the Common Agricultural Policy. The reason given for excluding Petroleum products was the non-existence of a Common Energy Policy.¹⁹ Both factors, as

¹⁵ Here, Mediterranean Countries, with the exception of France and Italy, are taken to mean all Mediterranean Basin countries and not only those signatories of Agreements with the EEC.

¹⁶ At zero tariff for Turkey.

¹⁷ Tariffs to be equal to CET reduced by 60% by 1/1/73 for Spain.

¹⁸ The products covered by these tariff quotas are those under CCT headings: 27:10, 27:11, 27:12, 27:13, 27:14, with the specifications as to certain subdivisions for Turkey and Spain.

¹⁹ Malta Government White Paper 19/10/70.

seen above were of no hindrance in other agreements.

The previous classifications indicate clearly the heterogeneous relationships existing between the EEC and the Mediterranean. The nature of the Agreements signed are directly linked to the commercial and political ties existing prior to such agreements, to the political atmosphere at the time of negotiating, and to the commodity content of the exports of the countries involved. It can be seen that the concessions given to Greece and, to a certain extent, Turkey, were more generous than those given in later agreements. This is especially true of agricultural products. Since the Common Agricultural Policy was still in its infancy, and the Six probably did not foresee how complex its mechanism could get they were ready to grant more concessions than were possible later. Tunisia and Morocco, being ex-French Colonies, and hence historically dependent on the French market, have also been granted generous concessions, covering practically all products. The policy of basing concessions on past export performance, although politically neutral, tends to be economically static, in that it does not necessarily encourage economic growth. If the EEC are sincerely interested in promoting development in backward countries they must gear their efforts to fostering potential growth sectors in these economies. This will involve an intensive economic study of each country, and of the prospects of adjusting the economies of these countries to trends in the E.E.C., and the world, market. Trade concessions, although normally tending to increase the amount of foreign exchange earnings of developing countries do not necessarily foster their growth. Developing countries are notorious for their high marginal propensities to import, especially of manufactured products. This problem is aggravated by the fact that these products are mainly articles of conspicuous consumption, such as cars, and transistor radios. This situation is more likely to occur if a general form of reciprocity is sought by the developed countries party to trade agreements i.e. the increased demand for imports following from the rise in foreign earnings will be amplified by the lowering or removal of import tariffs. As we have seen above, 'reciprocity' is an integral part of those EEC Association Agreements signed under the terms of Article 238 of the Rome Treaty.

THE MEDITERRANEAN BASIN

The existing system of Agreements between the EEC and the Mediterranean countries concerned is a fragmented one. If the EEC persists

in its recent attitude of identifying the Mediterranean as a region, then a more consistent and positive approach has to be taken in its relations with this area.

The Mediterranean²⁰ is a developing area with many of the characteristics of backward economies. It is also a very heterogeneous area with significant variations in the level of development and social infrastructures of the various economies.

From the commercial point of view the Mediterranean's relations with the EEC are rather disturbing. The European Community, which runs a deficit *vis-à-vis* developing countries in general, is running a surplus *vis-a-vis* the Mediterranean Countries. This situation seems to be settling into a trend, as shown in Table V.²¹

The productive structure of the Mediterranean economies is not very diversified with the result that the bulk of trade with the EEC consists of a few, mostly primary, products. Petroleum made up of 45% of Mediterranean exports to the EEC in 1970. Four products, raw cotton, wine, olive oil and citrus fruit together made up 25% of the remaining 55% of exports. Often the bulk of exports of the particular countries consists of very few products. It seems that only Israel and Lebanon have a wide range of exports.

A disturbing factor is the increasing deficits of Greece and Turkey both of which have had an association agreement with the EEC for many years. In the case of Turkey this deficit doubled over the space of five years (1966-1970) while in the case of Greece it increased by about 30% over the same period. Meanwhile the outflow of workers from the Mediterranean countries to the EEC continues. This flow of labour conveys benefits in that it alleviates unemployment problems in the Mediterranean while also proving to be a significant source of foreign exchange in the form of remittances by these workers to their domiciled families. But it is certainly creating social problems in both the countries of emigration, and the areas of immigration. Besides, this flow of labour, is depleting the Mediterranean countries of some of the most enterprising and skilled members of its labour force.

The agreements under discussion here contain no provisions concern-

²⁰ In this context Mediterranean countries means *all* the Mediterranean Basin countries excluding France and Italy.

²¹ The largest relative deficit is that of Malta with the EEC.

²² Libya is a special case since the boost in exports it is experiencing is due to the extensive resources of oil in that country. These exports are almost exclusively of Petroleum.

Table V

Exports to, and Imports from, EEC of the Mediterranean Countries 1966-1970 in Millions of U.S. Dollars

	1966			1967			1968			1969			1970			
	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	
	Morocco	333	249	+84	309	270	+39	295	264	+31	328	301	+27	358	343	+15
Algeria	695	481	+214	716	457	+259	771	588	+183	817	659	+158	859	812	+47	
Tunisia	114	129	-15	110	129	-19	95	130	-35	94	151	-57	113	174	-61	
Egypt	92	194	-102	89	149	-60	98	184	-86	133	238	-105	173	280	-107	
Israel	128	190	-62	125	206	-81	159	346	-187	186	376	-190	194	429	-235	
Lebanon	46	174	-128	34	154	-120	76	204	-128	67	186	-119	55	203	-148	
Turkey	210	265	-55	215	303	-88	207	314	-107	243	345	-102	279	412	-133	
Greece	176	507	-331	221	550	-329	269	584	-315	300	654	-354	344	809	-465	
Yugoslavia	348	457	-109	401	660	-259	418	739	-321	544	921	-377	678	1270	-652	
Spain	497	1247	-750	500	1202	-702	520	1135	-615	700	1358	-658	903	1476	-573	
Malta	4	26	-22	3	31	-28	5	33	-28	9	39	-30	10	48	-38	
Cyprus	33	37	-4	23	42	-19	34	42	-8	36	55	-19	36	62	-26	
Mediterranean Balance:			-1280			-1407			-1616			-1836				-2376
Libya: ²²	767	197	+570	900	243	+657	1295	293	+1002	1584	297	+1287	1787	249	+1538	

Source: Terza Conferenza delle Nazioni Unite sul Commercio e lo sviluppo - Allegati Statistici.
Commissione delle Comunità Europee: Bruxelles: 3/3/72.

ing cross relationships within the Mediterranean area. It may be argued that it does not rest with the EEC to take the initiative in encouraging the Mediterranean countries to co-operate amongst themselves. But to a certain extent such economic co-operation is implicit in defining the Mediterranean basin area as a region. The European Community could certainly help the Mediterranean countries take the initiative by rationalizing the existing agreements with these countries. Given that economic conditions in the Mediterranean basin vary quite significantly, the term economic co-operation needs further qualification. It would seem feasible to propose close economic co-operation between countries with similar economic and political features, within the scope of a broader system of co-operation with the rest, whilst a revised relationship is maintained with the EEC.

On the broader base of co-operation, trade in industrial products can be encouraged by a certain amount of freeing of trade within the Mediterranean area. An obstacle in the way of such co-operation lies in the provision which the EEC made in all trade and association agreements regarding most favoured nation treatment. The EEC and its Mediterranean partners grant each other most favoured nation treatment. This treatment makes it impossible for Mediterranean countries to reduce tariffs and other restrictions on trade with each other, without giving the same preferences to the EEC. Exceptions to this provision are to be found in the agreements with Morocco, Tunisia, Spain and Israel where this clause can be overruled in the case of the formation of a customs union or a free trade area involving these countries. But it might not be feasible to the formation of a customs union or a free trade area, and a partial reduction of tariffs and elimination of other trade restrictions might be all that is required. Most of the Mediterranean countries were still only a colony only a decade or so ago. Hence it is unlikely that they will be attracted by arrangements that would seem to remove their new independence. Hence, effectively, this can hardly be considered as a relaxation of the most favoured nation clause in face of the wide variations existing in the Mediterranean. What is more in line with the needs of this region is the joint declaration of the Final Act concerning Art.17 of the Interim Agreement that came into force with Turkey on 1/9/71. This provides for an exception to the most favoured nation clause in the case of economic co-operation between Turkey and other developing countries and in the application of Regional Cooperation for Development.²³ The

²³R.C.D. is a system of economic co-operation existing between Turkey, Iran and Pakistan.

existing situation in the Mediterranean brought about by the signing of agreements with the EEC, is far from an optimal one. For what is happening is that Mediterranean countries are removing trade barriers with the European Community and maintaining them with the other Mediterranean countries. Generally speaking, Mediterranean markets are less sophisticated than the European Community ones, and firms located in the Mediterranean area are often less efficient than firms located in the EEC. The outcome is that EEC firms often find it easier to sell in the Mediterranean, than vice versa. This is one of the causes of the continued increase in the trade deficit of the Mediterranean with the EEC. The European Community can help to foster economic growth within the Mediterranean area by adopting similar provisions as those existing in the Final Act of the Interim Agreement with Turkey.

The EEC could further foster the region's growth by waiving its strict rules of origin. As things now stand, products exported by the Mediterranean countries, partners to Association Agreements, qualify as originating in the country of export only if the raw materials used are obtained in the country concerned *or* from the European Community itself. In several cases these raw materials can be obtained from the Community at competitive prices but this is not necessarily always the case. Mediterranean countries may, at higher prices, still obtain their raw materials from Community sources as long as the benefits are not totally eroded. Where such cases arise, we are faced with trade diversion, sometimes to the detriment of developing countries. The EEC can help to avoid this trade diversion problem by waiving the rules of origin in the cases where raw materials are obtained from other Mediterranean countries (or for that matter from other developing countries) at lower prices than those ruling in the Community.

In the case of countries with similar economic features and levels of development, closer links could be sought. In this case sectoral industrial co-operation²⁴ could be feasible; especially for the smaller eco-

²⁴ Sectoral industrial co-operation has proved to be fairly successful within the L.A.F.T.A. By 1971 something like sixteen of these agreements have been signed involving various countries and sectors. The main aim of this co-operation is to achieve industrial complementarity by creating adequate conditions for the promotion of investment in a form which avoids destructive competition. These agreements are directed towards: (a) the extension of the process of import substitutions; (b) the full utilization of productive capacity; and (c) benefits from economies of scale. U.N.C.T.A.D.'s 'Current Problems of Economic Integration' U.N., New York, 1971.

nomies with limited resources. The case of Malta and Cyprus²⁵ could serve as an example. Both countries are small, densely populated, and resource poor islands, but with relatively high incomes per capita. Due to their small size and lack of resources, they are not likely to be able to benefit from large scale production if they individually attempt to establish complete production processes. It would seem more feasible for each to specialize in only part of the production process of any particular good, leaving the remaining stages for the other. This would ensure that the overall value added is maximized whilst the benefits of large scale production are reaped. These advantages would be increased by the economies that would result from the improvements in marketing, bulk buying of raw materials and better transport facilities associated with large scale production. Such an arrangement would certainly necessitate a high degree of co-operation between the countries concerned but would still allow for flexibility. The EEC could help similar arrangements by reducing the risk of such joint-operations by giving concessions to these products, so that they could compete on its markets without having to face discriminatory tariffs or other trade restrictions. Reciprocity should not be sought by the EEC until the economic environment in the developing partners concerned is well established enough to bear it.

The absence of a co-ordinated policy with the Mediterranean countries has led to continued deficits in their trade relations with the EEC. The basis of the piecemeal policies that exist is Article 238 of the Rome Treaty, which was more inspired by a desire for a political grouping rather than a need to foster economic growth. Article 238 was drawn up at a time when the ideas of 'the most favoured nation' clause and reciprocity in trade concessions, ruled supreme in G.A.T.T. But today, after three conferences of U.N.C.T.A.D., experience has created disenchantment with the value of these two concepts in relations between developed and developing countries. The EEC has taken upon itself a political commitment towards the Mediterranean. A commitment which is understandable in the light of history and geographic proximity, as well as by the volume of trade linking the two regions. Hence a revitalisation of Article 238 is required, which besides embracing political aims, would also accept economic realities. Development of the Mediterranean basin,

²⁵ Cyprus is negotiating an Association Agreement with the EEC which is expected to lead in two stages to the formation of a Customs Union between the contracting parties.

as already recognised by the EEC Commission, would benefit both the EEC and the Mediterranean in the long run, and should be regarded as a natural extension of European integration.

Since the writing of the article the EEC has signed agreements with Cyprus, Lebanon and Egypt, all of which have come into effect after January 1. Turkey has now entered into the second stage of its association also since January 1 (it took the Community national parliaments two years to ratify the Additional Protocol).

At the end of September 1972, the Commission issued a communication to the Council on 'Relations between the Community and the Countries of the Mediterranean Basin' which seeks to coordinate the Community's policy towards the area. This document proposes the establishment of a free trade association between the EEC and the Countries of the Mediterranean based on reciprocal concessions.

Appendix

Reductions in CUSTOM DUTIES APPLICABLE TO AGRICULTURAL EXPORTS from Mediterranean countries having a Preferential Trade Agreement or Association Agreement with the EEC:CCT = 100%

PRODUCT	GREECE	TURKEY	MOROCCO	TUNISIA	SPAIN	ISRAEL
Oranges	100%	40%	80%	80%	40%	40%
Tangerines, Mandarines, Clementines	100%	50%	80%	80%	40%	40%
Lemons	100%	50%	80%	80%	40%	40%
Grape Fruit	100%	-	-	-	-	40%
Crude Olive Oil	Variable Levy calculated ac- cording to Greek supply + reduction of 0.50 u.c./100 k.g. of the variable levy	Reduction of 0.50 u.c./100 k.g. in the variable levy + supplementary <i>conditional</i> reduction in the variable levy.				-
Refined Olive Oil	Fixed element not paid	-	Fixed Element not paid		-	-
Unworked Tobacco	100%	100%	-	-	-	-

Wine	Preferences in accordance with Protocol No. 14	Temporary and partial suspension of the CCT ²⁶ applicable for the period 1/1/72-31/8/72. +A system to be decided by Ass. Council.	A system of Preferences to be introduced for certain quality wines.	Exemption from compensatory taxes for wines whose price is guaranteed.
Raisins	100%	100%	100% for an annual quota of 1,700 tons.	-
Dried Figs	100%	100% after 3rd ²⁶ year of coming into force of Add. Protocol	30% for an annual quota of 200 tons	-
Hazel Nuts	100%	2.5% ad valorem ²⁶ for annual quota of 18,700 tons	-	-
Reserved Fruit Vegetables	100%	50% for certain preserved vegetables with or without vinegar. 50% for preserved olives and capers	50% for certain preserved vegetables with or without vinegar also for preserved olives and capers	40% for preserved Grape-fruit and Pomelos

Source: Rapport sur la politique commerciale de la Communauté dans le bassin Méditerranéen. Rapporteur: M. Rossi — Documents de Séance Doc. No. 246/71.

²⁶ Added details or updated.

SOCIO-ECONOMIC ASPECTS OF AIR POLLUTION

SALVINO BUSUTTIL

It may be said that the central socio-economic problem posed by air pollution stems from the circumstance that the perpetrators are seldom the sufferers. Aggravating the problem is the fact that our knowledge of the quantitative behaviour of air pollutants is quite inadequate.

Thus pollution from vehicular exhausts affects the pedestrian and passengers in cars following the pollutant vehicle which speeds ahead immune to its own exhaust. The emission of smoke from industrial furnaces pollutes inhabitants living in the vicinity but not the people working in the air-conditioned guilty factory.

In such circumstances, the interplay between social and economic cost and benefit arising out of air pollution becomes unusually complex. It is rendered more intricate by the cumulative causality one notices in social life, whereby the combined interaction of given social and economic factors accelerates the movement of the socio-economic system from initial equilibrium towards ecological imbalance.

Taking location of industry as an example, one could argue that one could hardly speak of atmospheric contamination detrimental to human health caused by industrial grit and dust unless there were concentrations of residential areas in the vicinity of industrial zones. And yet experience has repeatedly shown that towns have sprung up in the wake of industry; and that the more unrestrained industrial growth has been, the greater the problem of social costs and benefits.

Qualitatively, therefore, the problem is twofold: firstly, the socio-economic costs and benefits of air pollution are borne by different groups of people, one's economic benefit becoming the other's social cost. Secondly, this transmission of costs and benefits is intrinsically a social phenomenon, caused by society and for which society is responsible.

Basically, of course, the problem arises out of industrial development itself, the economics of location favouring industries being close to their sources of manpower, of supply of raw materials and fuels, and of ultimate consumption. If the principles of economic feasibility apply positively to a given project, manpower -- if it is not at hand -- will follow, and so will, in many instances, several other industries. Furthermore, it is becoming commonplace in developing countries to have

industrial estates, often planned and built by the public authority; and such estates are either erected close to townships or townships are created for them.

This systematic polarization of industry of itself begets the complexity inherent in the socio-economic cost-benefit analysis of air pollution. Some would hold, however, that where this polarization is a major accelerator of economic growth – wider spread of overheads, centralized industrial and municipal services, better communications, lower marginal production costs – the problem of cost to society arising out of air pollution is negligible.

It is felt that to take such a stand is to ignore an important part of the social process which may be attributed to air pollution. Above all, there is the fundamental factor of the finality of industrial activity. Assuming that the concentration of industry produces the highest economic returns, does one then argue that no social price is too high, no air pollutant too detrimental?

In his excellent analysis of 'Social Costs of Business Enterprise', Karl William Kapp holds quite validly, in the view of the present writer, that 'by concentrating on the analysis of internal and external economies, and by stopping short of the introduction of the concept of social costs of unrestrained industrial concentration, traditional theory lends tacit support to the overall rationality of cumulative growth processes, no matter what their socially harmful effects may be. After all, what could be more "rational" than to exploit to the fullest extent the availability of internal and external economies? So long as social costs remain unrecognised and as long as we concentrate on costs that are internal to the firm or to the industry, we shall fail to arrive at socially relevant criteria'.¹

Given the above considerations, it would not seem unreasonable to postulate that pressure against air pollutants might well derive greater significance and, hopefully, better results if the 'socially relevant criteria' referred to above are applied as rigorously and effectively as possible. Society might thus increasingly recognize – in a manner and to an extent which traditional economic analysis might ignore – that the cost to society of air pollutants is, even where prima facie negligible in relation to economic advantage, so far-reaching and of such a long-term nature that the whole structure of a given society might be imperilled in the process.

¹Kapp, Karl William 'Social Costs of Business Enterprise' in 'Ecology and Economics' by Marshall I. Goldman, p. 129. (Prentice-Hall, 1972)

One or two examples might illustrate the situation. The presence of air pollutants in a locality may affect social mobility and social stratification. The first circumstance could trace its origins to the location of the polluting source. If a farmer felt that he would rather stay on his holding to inhale the pure country air than to move to an industrial air-polluted zone, the end-result would not simply be the impossibility of the farmer deriving potentially a higher income as a factory worker, nor would it just be a stark fact of geographical immobility. Wherever such a circumstance verified itself, it could well produce a significant measure of social stagnation in that, air pollution acting as a deterrent to physical mobility, the advance of society, of people moving upwards within the social system, might be thereby blunted.

One is, of course, aware that where real economic straits are encountered, or where overriding economic advantage is perceived, such considerations as are indicated above are usually ignored. But the argument is advanced as a hypothetical illustration of the longer term impact of widespread air pollution, and could well be applied to the whole process of social stratification itself.

Thus, to take a different approach, air pollution might, at the other end of the scale, produce an unrestrained social mobility leading to a lop-sided structure in a given society. If we assume that the main incentive for a group of wealthy people to move from one country, or from one region, to another were air pollution, then one could say that air pollution were directly responsible for the social effects this type of mobility produced on the stratification of, on the one hand, the society they left and, on the other hand, of the one they joined.

While it may be easy to state that the level of air pollution in many countries justifies central planning, it may be more difficult to identify a yardstick or an instrument which would measure and control the pollutants and their effects. Direct controls constitute usually the main remedy applied by central authorities; but such an approach is somewhat crude and haphazard.

As already indicated at the opening of this paper, one of the major aspects of the air pollution problem is created by our inadequate knowledge of the quantitative behaviour of pollutants. In consequence, it is not at all easy to determine what cost-benefit yardstick to apply to pollutants as a more objective alternative to direct control. In theory, naturally, there is no problem in enunciating a principle governing the level of socially acceptable pollution, as Edwin S. Mills has done, as follows: 'Any given pollution level should be reached by the least cost-

ly combination of means available; the level of pollution should be achieved at which the cost of a further reduction would exceed the benefits'.²

In the absence of the requisite quantitative data, Mills identifies the basic characteristics of an objective scheme of air pollution control: de-centralized decision machinery, which should be experimental and flexible and based, as far as possible, on cost-benefit evaluations of air pollution abatement.

The first two characteristics are clearly commendable in any system of sound administration. The third, however, seems to be begging the question, although Mills rightly says that 'our present ignorance of benefit and costs should not be used as an excuse for doing nothing'.

Ideally, the economist would like to apply to air pollution his usual yardstick of viability obtaining in situations where discounted net benefits exceed the present expenditure to be incurred in the project. But apart from the problem of measurement alluded to before, there exists also – in the cost-benefit approach – an obvious possibility of bias in figures supplied, on the one hand, by organizations that have to bear the cost of environmental improvement due to air pollution and by those clamouring for such improvement.

Generally speaking, it would appear that the former tend to over-estimate benefits. Thus, in the sphere of air pollution, the cost of smoke nuisance – in terms, for example, of additional cleaning of clothes, house maintenance, extra lighting – is to be assessed also in relation to the effects of air pollutants on human beings, and on animal and plant life generally.

It is, therefore, of great importance to the cost-benefit analyst of air pollution to ensure that he covers, on both sides of his balance sheet, the whole spectrum of advantages and disadvantages, and should be careful not to limit himself to physical damages which, although quite complex in themselves, are a bit more amenable to measurement than other types of damages.

Crocker and Anderson have shown, for example, the utility of marginal cost analysis applied to air pollution some of the effects of which were demonstrably present in property values. The two professors found that in St. Louis Washington and Kansas City the incidence of air pollution variables (sulphur trioxide and suspended particulates) and property values were inversely related to a significant degree, such that

²Mills, E.S., 'Economic incentives in air pollution control', in *op. cit.*, p. 143.

about 1% increase in either of the air pollutants produced a fall of about 0.08% in the value of the property concerned.

If damage to economic values can be demonstrated in this way, it would not appear to be too difficult to exercise air pollution abatement through market forces. It can be reasonably submitted that the economic argument, taking *all* economic aspects into consideration, would provide a clear-cut case, on economic grounds alone, for control of air pollutants.

A similar approach to the harm brought about by air pollution to human health could bear fruit. Damage to health through bronchitis, emphysema, heart and circulatory troubles, irritation of the air passages and other diseases can be assessed to fairly reliable levels.

The Italian study, 'Economic Costs and Benefits of an Antipollution Project in Italy' just published by E.N.I. for the U.N. Conference on the Human Environment at Stockholm, gives a breakdown of the field of enquiry which the cost-benefit analyst may employ to reach an estimate of the effect of air pollution on health. The researchers enlist the following areas: employees' wage losses and less domestic work in the home by housewives due to diseases that may be attributed to air pollution; increased expenditure for medical treatment; prevention expenses; losses in efficiency at work, including nervous conditions arising out of air pollution.

A further cost included in this study is that due to premature deaths, and the calculation is based on the capitalization of the present value of the presumable future incomes of workers who died from diseases associated with pollution and considering their survival probability at the age of death. While this cost is a real one, it would seem to be of too nebulous a nature to be amenable to satisfactory computation.

The E.N.I. researchers applied the same methodology to assess the damage caused by air pollutants to cultural assets. They assumed that the expenditure to be incurred on restoration and preventive conservation was at least equal to the damage that might be wrought if that expenditure were not carried out. On that basis, they drew up a hypothetical budget which the authorities would require to implement an adequate programme for the restoration and preventive conservation of archaeological remains, medieval and modern works of art, monuments, records and books. Against these estimates, the Italian study produced an alternative budget – much smaller than the previous one – which would be needed to protect adequately cultural assets in a hypothetical situation of non-pollution in Italy.

In concluding their report, the researchers confirmed the view expressed earlier in this paper, namely that on economic grounds alone, fighting air pollution is a worthwhile task. They write: 'Bearing in mind the cautious criteria and restrictions that characterized our direct benefits estimate, and our failure to quantify the indirect or secondary (derived, induced) benefits and some tangible effects, which are certainly most important in the field of "indirectly productive" or infrastructural investment programmes, it is quite certain (in spite of the omission from the calculation of the "associated costs") that the analysis made (despite its orientative and very rough character) justifies public action in the field of depollution on strictly economic grounds'.

It is therefore apparent that, in spite of conceptual (e.g. finding an appropriate discount rate to give present value of costs and benefits, the subjectivity induced by a range of value judgments) and measurement problems, the cost-benefit methodology remains a useful tool for air pollution control. It is still an unrefined instrument; and although the economist still has a lot to contribute to its eventual sophistication, yet he cannot proceed as rapidly as he might wish until the problems of scientific measurement of the physical effects of air pollutants are adequately solved.

On the macro level, the economics of environmental control would seem to suggest that as air pollution decreases, the national income increases. Improvements in productivity and in overall industrial efficiency would produce a higher gross national product. But there are many resulting benefits which G.N.P. tends to ignore (e.g. increases in property values which would only appear as imputed higher rents for national accounting purposes). Sanford Rose³ has proposed that, in order to assess validly the effect of the absence of air pollutants on national income, we should introduce a new economic yardstick - G.N.E., or Gross National Effluent. 'G.N.E. would be a statistical basket for all those negative goods and services produced in the cause of, or as a result of, the production of positive goods and services. Negative goods and services in this sense include additional transportation to escape the effects of environmental impairments, additional cleaning, additional medical services, goods prematurely replaced because of soiling, or corrosion, and, of course, pollution-control equipment. If we subtracted

³Rose Sanford 'The economics of environmental quality' in Goldman, Ecology and Economics: Controlling Pollution in the 70's Prentice-Hall, Inc. 1972. p. 164.

G.N.E. from G.N.P., the remainder would be a better measure than G.N.P. of what the economy has done for us in any year'.

Naturally, neither G.N.E. nor cost-benefit ratios can establish with any scientific precision that air pollution control must, on economic grounds, command the highest priority in the investment hierarchy of public authorities. However refined its economic methodology, society must decide for itself its order of values. The economist might observe that affluence reduces effluence, but society has to determine whether it is willing to go through the exercise, as it spends billions of dollars on exploring outer space and extinguishing inner lands, of finding out that it is only one earth, only one air.

DUALISMO TRA CONCEZIONI ECONOMICHE ED EVOLUZIONE GIURIDICA E SOCIALE DELLA SOCIETÀ CONTEMPORANEE*

GIUSEPPE PINO

VALIDITÀ DELLA SCIENZA

Se l'Umanità, come altre volte affermato, è pervenuta all'attuale grado di cultura e di progresso, ciò è dovuto al contributo dei Maestri di ogni epoca, di ogni disciplina e di ogni astrazione politica. Ciò ci rende riconoscenti e grati, consapevoli come siamo che gli schemi della cultura economica delle epoche passate hanno consentito quelle spinte evolutive che sono state capaci di rendere più facili le intese fra popoli e individui.

L'ultimo conflitto mondiale ha interrotto la gradualità dell'evoluzione di tali intese in quanto rappresenta lo spartiacque fra un'epoca ancora tradizionale e un'altra caratterizzata dallo spettacolare sviluppo della tecnica e da inediti rapporti fra individui e popoli, sanciti nelle Carte Costituzionali dei singoli Stati e delle Comunità sovranazionali da questi formate.

OSSERVANZA DEI PRECETTI COSTITUZIONALI

Per l'attuazione dei precetti costituzionali, ispirati a principi di universale riconoscimento dei diritti 'naturali' e dei diritti 'acquisiti', in relazione, questi, al contributo che ogni individuo conferisce alla società alla quale appartiene, sono state approntate istituzioni ritenute idonee allo scopo (BIRS - F.M.I. - Banca dei Regolamenti Internazionali - FAO - Organizzazione Mondiale della Sanità - Organizzazione delle Nazioni Unite per l'Educazione e la Cultura - ecc.). Si delineò, cioè, in maniera più evidente, la necessità e l'utilità di instaurar rapporti non già di mero scambio, ma di integrazione per assicurare la più razionale diffusione del benessere individuale e collettivo.

INADEGUATEZZA DEGLI SCHEMI SCIENTIFICI

A questa nuova struttura, inedita sul piano giuridico e umano, non fu assicurato il necessario supporto di schemi scientifici in chiave con essa, ma si perpetuò il dilemma fra investimenti e consumi, a cui si ricollegano le teorie che hanno nome: risparmio; prelievo fiscale; quantità

*Malta 28 novembre 1972.

e qualità della moneta; stabilità; inflazione, con articolazione attraverso gli strumenti operativi che caratterizzano la politica economica contemporanea.

La mia attenzione fu polarizzata dall'osservazione dei risultati, non certo positivi, che via via sono stati registrati in ogni emisfero e dalla concomitante osservazione di tanti fatti della vita quotidiana dei popoli che denunciano l'esistenza di qualche fattore che aliena sempre di più la possibilità di conseguire gli obiettivi previsti. E tale alienazione si accentua – sembra paradossale – con l'impiego di strumenti sempre nuovi o rinnovati e di mezzi finanziari sempre più ingenti.

Mi accinsi, pertanto, alla ricerca che qui ho l'onore di presentare, la quale ebbe una prima esplicitazione attraverso un breve saggio, pubblicato nel 1966, dal titolo: 'Moneta creditizia, credito e sviluppo economico'. Questo titolo è indicativo del contenuto delle mie analisi che nel luglio del 1971 trovarono sistemazione nel mio libro, dal titolo 'Aspetti evolutivi di politica economica e finanziaria'.

CARATTERE INNOVATORE DELLA RICERCA

Attingendo alla letteratura, sotto un certo profilo, io rappresento un esponente della 'Scapigliatura economica' e con il Cameroni ripeto che la 'Scapigliatura è una negazione del pregiudizio, la propugnatrice del bello e del vero, l'affermazione dell'iniziativa individuale contro il quietismo'. Quel quietismo che caratterizza certi ambienti i quali trovano più agevole uniformarsi alle teorie che, per il lungo tempo di applicazione, sono largamente accettate. In tal modo non ci si espone a sicure critiche e si dimostra di avere letto autori noti. Per converso, però, si dimostra che non si fornisce nessun contributo al progresso della scienza.

CONVALIDA DELLE CONCLUSIONI ALLE QUALI PERVENGO

Appena quindici giorni dopo la pubblicazione del volume, la mia ricerca ottenuta una obiettiva e realistica conferma dal noto 'terremoto' monetario internazionale. L'incapacità a trovare una via d'uscita alla difficile situazione, stagante in ogni emisfero, poi, è una permanente convalida dell'accettabilità delle mie conclusioni: 'la moneta attenua il processo di sviluppo economico, determinando squilibri e remore'.

Che il male stia alla radice del sistema è a tutti noto. Esso è posto in chiara evidenza da queste parole del Governatore della Banca d'Italia. Dr. Guido Carli: 'Gli eventi contemporanei hanno reso più manifesto l'intreccio, che talora sembra paralizzante, delle contraddizioni delle quali soffre il sistema delle relazioni economiche internazionali. Le decisioni statunitensi del 15 agosto scorso non hanno provocato la crisi

del sistema monetario internazionale, ma ne hanno accelerato la maturazione'.

Ritengo di potere affermare che la situazione — grave e preoccupante — in cui versa il mondo, può essere intesa, secondo un concetto letterario, come la 'diana' della riscossa degli economisti, come il 'bastone di Ulisse sul dorso di Tersite per vincere lo sconforto, lo smarrimento, lo stato di tensione' e realizzare ciò che alcuni chiamano 'utopia'.

I risultati della mia ricerca lasciano, di certo, perplessi e scioccati; possono non essere condivisi, ma io non mi posso accontentare di una risposta evasiva. È doveroso, specialmente nei confronti dei popoli sofferenti e inquieti, dare una risposta reversibile, purchè si esca dalla situazione di cui ci stiamo occupando.

A confronto di questa esigenza, ricordo il pensiero del Triffin che così si esprime in merito ai problemi in argomento: 'Per più di vent'anni un semplice principio fondamentale ha guidato i miei studi sul sistema monetario internazionale'.

'Questo principio si riferisce al principio ed al ruolo delle crisi che in questo campo come in altri periodicamente scuotono le nostre istituzioni. Queste crisi provengono normalmente dal nostro ritardo nell'adattare le istituzioni alle circostanze ed ai bisogni nuovi. Sono parimenti indispensabili per accelerare le necessarie riforme che governi, burocrazia e opinione pubblica non sarebbero altrimenti disposte a mettere in atto'.

'Queste crisi hanno nel sistema sociale la stessa funzione che nel corpo umano hanno le malattie. Gli uomini non si preoccupano del loro fegato fino a quando non hanno male. Nello stesso modo, non abbiamo ancora incominciato a capire e correggere i cattivi funzionamenti dei sistemi monetari successivamente adottati — dal gold standard, al gold exchange standard ed ora al paper exchange standard — prima che il sistema cominci a funzionare male ed a farci male'.

RICONOSCIMENTI

Ecco perchè molti validi consensi alla mia ricerca sono stati accordati in via ufficiosa, significando che non si può rinnegare una tradizione culturale consolidata in volumi posti in commercio e che consente l'assolvimento di pubbliche remunerative mansioni. Questo è di già un dato positivo, rappresentando un riconoscimento che mi ha fornito altra carica per 'continuare ad amare' come dice il Cameroni, 'ciò che non esiste ancora, a sostenere la radicata convinzione'.

Però, accanto a ciò esiste un riconoscimento assai prestigioso, lusinghiero, che mi rende ancora più umile, perchè solo l'umiltà è luce.

'Lei dimostra di possedere una grande conoscenza della letteratura in cui sono incentrati i più importanti problemi di politica economica contemporanea'. Così si è espresso il Premio Nobel Jan Tinbergen nel restituirmi il dattiloscritto del mio citato volume, prima della pubblicazione. Proseguendo i contatti con questo prestigioso economista, egli mi ha esortato a 'portare avanti le nuove idee' intraviste nella mia ricerca.

FUNZIONE STORICA DEL MEDITERRANEO

Questa è una forma validissima per portare avanti tali mie 'nuove idee' e di tanto rinnovo la mia gratitudine per la possibilità offertami, auspicando che da questo incontro possa sortire, per merito delle genti dello storico Mediterraneo, l'affermazione delle 'nuove idee' che, a mio modesto giudizio, sono capaci di congiungere le genti di ogni latitudine, affermando, ancora una volta, che questo grande nostro mare è culla di civiltà, di progresso e di pace, nel rinnovato spirito che anima i precetti costituzionali di ogni Comunità.

Una ricerca di questo tipo è tanto più compiutamente eseguita se è permeata di un afflato di accenti ideali e umanitari. Mi sia consentito, a questo proposito, ricordare un giudizio del Prof. Giuseppe Tucci: 'Ho letto oggi stesso la prefazione e ne ho apprezzato il contenuto umano e ideale'. Noi popoli mediterranei abbiamo la vivezza e il calore del sole e siamo permeati dell'armonia della natura di queste contrade.

PROVANDO E RIPROVANDO

Il contenuto del mio libro può essere considerato come una somma di prove di laboratorio, con l'impiego della 'cartina al tornasole'. Infatti, sia attraverso particolari indagini scientifiche, sia osservando fatti spiccioli di cronaca, sia, ancora, mediante l'esame del contenuto dei precetti costituzionali di ogni latitudine e di Enti e Istituzioni internazionali, ho preso coscienza degli insuccessi che, in maniera più o meno ampia, a seguito dell'applicazione dei più aggiornati strumenti di politica economica posti in essere, si registrano in ogni tipo di società. I risultati, con l'andare del tempo, si identificano e si chiamano: accrescimento dei divari e delle asimmetrie economiche e sociali; costante, talvolta macroscopico, rialzo dei prezzi, cioè, svalutazione della moneta; insufficienza del reddito nazionale, non solo ad alimentare lo sviluppo, ma ad arrestarne il recesso; mancata attenuazione della moria per fame nel mondo, dello analfabetismo, delle malattie e di ogni altra piaga morale e materiale che caratterizza l'attuale periodo storico.

A tutto ciò si accompagna l'alternanza degli investimenti e dei con-

sumi il che equivale ad alternanza di accrescimento e di contrazione dei posti di lavoro; chiusura di aziende; fallimenti; passaggio degli operai alla cassa integrazione guadagni; limitata utilizzazione degli impianti e degli investimenti.

STRUTTURA DELLA RICERCA

La ricerca compiuta può essere così ripartita: (1) analisi degli strumenti fiscali e monetari; (2) analisi degli strumenti di politica economica. Con questa ripartizione si è inteso porre a confronto diretto la funzione della moneta con gli obiettivi di politica economica contemporanea, con lo scopo di rilevare se il mancato conseguimento dei fini posti in ogni tipo di società attiene al sistema monetario ovvero a quello economico.

Nella prima parte, dopo avere accertato che l'attività economica privata è chiamata a svolgere l'inedito ruolo di coadiuvante del benessere sociale, viene accertato che la politica finanziaria non è più circoscritta negli angusti criteri di prelievo per spendite occorrenti per assicurare solo servizi, ma essa è strumento coadiutore e condizionatore della politica economica, rivolta all'espansione della produzione e alla massimizzazione del benessere, attraverso una distribuzione capillare.

L'analisi del bilancio dello Stato moderno che segue, pone ulteriormente in rilievo, mediante l'accertamento dei più accettati criteri giuridico-tecnici, in base ai quali esso viene compilato e gestito la finanza pubblica deve rispecchiare le esigenze della politica economica che, in ultima analisi, intende fare perseguire il progresso sociale, essendo l'uomo protagonista e destinatario, insieme, di ogni attività.

Per potere pervenire, poi, ad una compiuta valutazione critica dei risultati conseguiti, si disquisisce sulla necessità della disaggregazione dei dati che esprimono la dinamica dei complessi e vasti fenomeni che il fatto economico manifestano.

FENOMENOLOGIA DEL DUALISMO MONETARIO

La necessaria premessa fin qui esposta, introduce il lettore nell'argomento che segue, consistente nell'accertamento del dualismo monetario che inficia il processo di sviluppo economico. Tale dualismo si riscontra allorquando, supposta una situazione di equilibrio, per cause economiche ed extra economiche, si determina, anche in un solo ramo dell'attività produttiva, l'aumento dei prezzi, sia a livello di 'piccola come di grande circolazione'. In altri termini è come se per tale ramo di attività si usasse una moneta meno pregiata rispetto a quella impiegata in tutte le altre ragioni di scambio. Man mano questo fenomeno si amplia e diventa macroscopico, generale, tal che si ha, come si dice, la lie-

vitazione dei prezzi i quali si attestano ai livelli più alti. Da questo fenomeno prende consistenza la nota 'spirale prezzi-salari', con le conseguenze che, specialmente in questo momento, dominano molte economie mondiali.

FUNZIONE DEL REDDITO NAZIONALE

Al carattere unipolare, tradizionalmente attribuito dalla scienza al reddito nazionale, si è sostituito quello che distingue la civiltà moderna. Esso ha impresso alle attività umane una funzione integratrice e di complementarità. Questo nuovo carattere consiste nella bipolarità della funzione cui è destinato ad assolvere il reddito nazionale, inteso come contemporaneo stimolo del processo di sviluppo nell'ambito della Comunità nazionale che lo ha prodotto ed in quello di altre Comunità, con le quali esiste un rapporto di scambio e di integrazione.

A questo postulato innovatore di tanti principi economici ed extra economici, obbediscono gli indirizzi e gli Istituti nazionali ed internazionali contemporanei, in quanto il prodotto di ogni nazione non serve soltanto per la più equa e diffusa soddisfazione dei bisogni dei cittadini appartenenti alla Comunità nazionale, ma concorre, in rapporto reciproco ed integrativo, a soddisfare tali esigenze in altre Comunità, specialmente in quelle meno progredite.

Questa ulteriore prova affettuata con l'impiego della 'cartina al tomasole', ci conferma che tante, troppe cose sono cambiate, compresa la destinazione e la funzione del reddito nazionale.

INCONSISTENZA DI TALUNE TEORIE

L'analisi così riassunta ci permette di concludere che non si può considerare ulteriormente valido il rapporto:

inflazione : sviluppo = risparmio : stabilità

Ne consegue che l'iniziativa privata presenta aspetti che l'hanno sostanzialmente modificata, tanto che la libertà economica, una volta intesa come 'un lusso che potevano permettersi i popoli ricchi', oggi non può più trovare cittadinanza né negli schemi scientifici, né nell'attività pratica, nemmeno nei paesi considerati ancora estremamente conservatori. Ciò per effetto della sempre più stretta interdipendenza dei fatti economici e delle loro concause.

QUALCHE INDICAZIONE INNOVATRICE DELLA RICERCA

Sono certo che abbiate formulato di già qualche domanda: 'Quale è la logica di questa prova con "la cartina al tomasole"? E, ancora: 'Quale è il risultato che introdurrebbe una sostanziale innovazione negli sche-

mi scientifici che debbono governare la società contemporanea?'.
Il risultato costante, inequivocabile, permanente, quello che ha ottenuto una convalida obiettiva e certamente non discutibile il 15 agosto 1971, è questo: 'la moneta attenua il processo di sviluppo economico, determinando squilibri e remore', così come è espresso nel sottotitolo del mio libro. Infatti, al rapporto avanti indicato dovranno essere apportate le seguenti sostituzioni, rispettivamente con riguardo al processo produttivo e con riguardo a quello dei consumi:

risorse : sviluppo = impieghi : stabilità

e

risorse : sviluppo = consumi : stabilità.

Nelle due proposizioni, quindi, i fattori sono costanti ed omogenei a meno di uno, il terzo, che costituisce la variabile che non inciderà mai sullo sviluppo e sulla stabilità economica, ma soltanto sulle quote dei flussi che confluiscono, rispettivamente, nella formazione dei beni capitali e dei beni di consumo.

È ricorrente l'accento che la FAO, tanto per portare un esempio, pone, in maniera marcata, sullo stato di miseria di circa due terzi della popolazione mondiale e per sottolineare la povertà — che il Presidente della Banca Mondiale recentemente ha definito 'la povertà nella povertà', — che malgrado gli ingenti mezzi finanziari erogati, non solo non si attenua, ma cresce costantemente.

Perché questo fenomeno, così macroscopico si manifesta e ristagna nella drammatica realtà di interi Continenti, mentre nelle stesse economie opulente vi è chi non ha mezzi di sussistenza? Per dare l'acqua a molti centri (compresa la mia città); per costruire gli ospedali, gli asili, le scuole, le infrastrutture, ecc., mancano forse i materiali, gli ingegneri, i tecnici, le maestranze? Certamente no! Manca soltanto il danaro che si frappone, come diaframma permanente alla combinazione ottima dei fattori produttivi. Peraltro, molte aziende sono costrette a chiudere od a lavorare a ritmi ridotti, mentre i posti di lavoro si contraggono e non sono in chiave con il crescente incremento demografico, non perché non vi sia bisogno di prodotti e servizi, ma perché nella generalità non si dispone di danaro per soddisfare i bisogni primari e quelli di civiltà.

QUALCHE ALTRO ASPETTO CONTRADDITTORIO

Risulta estremamente chiaro che il ciclo ed il trende nell'azione regolatrice della politica economica, contraddiscono l'individuata realtà, perpetuando l'adozione di misure che appartengono ai periodi storici in

cui le Carte costituzionali dei singoli Stati non contenevano impegni precisi nei confronti dei cittadini né per la loro sussistenza, né per il loro lavoro, né per la cura delle loro malattie, né per la loro vecchiaia, né per il loro benessere. Le Comunità sovranazionali – se pur vi era qualche esempio – avevano ben altro carattere, limitandosi agli aspetti politici e difensivi.

CENNI SUGLI STRUMENTI OPERATIVI

La seconda parte del mio volume riflette l'insieme degli strumenti moderni posti in essere, a carattere nazionale e internazionale, ritenendo di potere con essi attenuare i postulati costituzionali avanti cennati, come, per esempio: le partecipazioni statali (e forme similari); gli incentivi; i piani di sviluppo economico; il Mercato Comune Europeo; il Fondo monetario Internazionale, e, per similitudine, tutti gli altri Istituti aventi scopi analoghi.

Anche in questi casi la 'cartina al tomasole' ci conduce alle stesse conclusioni: 'la moneta attenua il processo di sviluppo economico, determinando squilibri e remore'.

Per quanto concerne il Fondo Monetario Internazionale, il miglior modo per dimostrare la sua insufficienza, a parte i negativi risultati registrati, è quello di ricordare le parole del Keynes, pronunciate proprio nel momento in cui il Fondo venne costituito: 'Quanto sarebbe meglio che i nostri piani dovessero cominciare, non già finire, con una delusione'. Dal 15 agosto 1971 ad oggi non è stata trovata nessuna idonea soluzione al noto grave problema che assilla il mondo, eppure, nell'ambito della Comunità Economica Europea si parla di una sorta di duplicato di detto Fondo. Questa, mi sembra di potere affermare, è pertinace volontà di perpetuare e accumulare i macroscopici errori.

Ciò si verifica a livello degli Istituti internazionali che regolano – o dovrebbero regolare – la funzione della moneta, ma si verifica anche a livello scientifico nel tentativo di formulare schemi che siano capaci di disciplinare il sistema monetario in maniera tale che esso possa coadiuvare il sistema economico senza ingenerarvi gli aspetti negativi di cui è portatore.

CENNI INTORNO A QUALCHE TENTATIVO

Gli autori che hanno tentato ricerche di questo tipo sono tanti, fra cui: HANSEN, CAFFÈ, DELL'AMORE, PATIKIN, ARCHIBALD, LIPSEY, GULEY, SHAY, TRIFFIN, FRIEDMAN, TINBERGEN. In ogni caso i tentativi sono rimasti tali, senza giungere alle soluzioni sperate. Ciò, come è ovvio,

non è dispeso dalle capacità degli eminenti ricercatori, ma soltanto dal fatto che la ricerca compiuta ha avuto come oggetto uno strumento che ha i caratteri dell'epoca del mercantilismo che nel denaro vedeva racchiusa la quintessenza del dominio, della potenza, della ricchezza. Chi possiede tanta dovizia di denaro può essere — individuo o nazione — assai povero ed incapace di sopravvivere, in questa era che possiamo definire spaziale e interplanetaria. Essa esige la sostituzione del 'modulo monetario' con il 'modulo diritto', così come, del resto, è sancito nelle Carte costituzionali. E nella Carta dei diritti dell'uomo.

Il Tinbergen ha il merito di avere per primo approfondito la ricerca, tentando di porre la soluzione di questo problema suggerendo un modello ridotto di equazioni strutturali formate da relazioni fra valori di variabili indipendenti. Cioè sono esclusi dal sistema le variabili endogene ed esogene, per cui non vi è correlazione interdipendente con il complesso della realtà economica, non soltanto di un solo paese, ma anche dei paesi che si integrano. È da osservare, però, che nel 1939, in cui l'Autore pubblicò i risultati della sua ricerca, il problema dell'integrazione internazionale non era ancora protagonista della realtà, così come lo è intensamente nell'attuale periodo storico.

Il Keynes rilevò che l'originale modello proposto dal Tinbergen non contribuiva a risolvere il problema dell'alternanza ciclica della depressione e dello sviluppo che tanto incide sulla stabilità e sulla pace mondiale, appunto perchè, pur non indicando una ininterrotta serie ciclica, riusciva solo a porre in evidenza che la teoria del ciclo era tuttavia valida. E ciò conferma che ogni ricerca, per quanto originale e dotta, è destinata all'insuccesso appunto perchè è incentrata sempre nell'impiego della moneta che è la causa principale del problema in argomento.

La stessa sorte è toccata al Keynes allorché affrontò il problema dell'unificazione della teoria della moneta con quella della produzione, mediante l'innovatrice e provvida Teoria Generale.

L'equazione algebrica posta nel mio volume, infatti, spiega l'essenza degli insuccessi di ogni ricerca in questo campo e conferma l'esigenza dell'uso della 'moneta neutra' o dei 'buoni di prelevamento dal grande serbatoio', e quella della necessità dell'innovazione del sistema bancario, in modo che i prelievi dal 'grande serbatoio' possano verificarsi con la naturale sequenza derivante dal costante e reversibile rapporto beni-bisogni al quale ognuno può dare il suo contributo, al di fuori dei vincoli e delle limitazioni che le attuali strutture, in maniera anacronistica, pongono all'estrinsecarsi delle dinamiche forze naturali.

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