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LABOUR MARKET BARRIERS TO IMPROVING THE EMPLOYMENT STATUS OF MALTESE WOMEN

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THE term disadvantaged refers to a group of workers readily identifiable on the basis of a demographic characteristic such as age, sex, or race, which, in comparison to the labour force as a whole, has, on an average, lower wages, less desirable occupations, and higher unemployment rates. Given this definition, women may be classified as a disadvantaged group in the Maltese labour force on the basis of wages, and occupational distribution. (No effort will be made to compare unemployment data for Maltese men and women. The data do not include a good indication of how many people actually want jobs, and therefore they are not very useful for analytical purposes).

Women make up about one-third of the Maltese labour force. They are concentrated in relatively low-paying jobs in light manufacturing, particularly textiles and electrical components, the domestic service occupations, and wholesale and retail trade. There are few women in the higher paying occupations, and they rarely hold executive or professional positions.[1]

Maltese wages are higher for men than for women, both on an average and when occupation is held constant. In 1972 the mean hourly wage in private industry was 26c1 for men, and 15c5 for women. In only one occupation, bus conductor, was the mean wage for men, 14c4 an hour, lower than the mean hourly wage for all women.[2] Differences between male and female wage rates appear even when occupation is held constant.

Economists specify four major types of barriers which restrict employment opportunities and create disadvantaged groups within a

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[1] Unpublished statistics, Central Bank of Malta, November 1973.

[2] Central Office of Statistics, Malta Government, *Annual Abstract of Statistics*, 1972 (Malta, 1973), p.106.

given labour market. These barriers are unequal access to training and education, restrictions to labour market entrance, unequal treatment within the labour market, and lack of access to capital markets. This paper discusses these barriers, and analyses their validity in explaining the role of Maltese women in the labour force. It ends with a discussion about the prospects for future change.

Access to Education and Training

Employment opportunities are closely related to the nature and extent of education or training an individual receives. In Malta, men and women generally have equal access to educational opportunities, including entrance to the Royal University of Malta, and to the Malta College of Arts, Science and Technology.

Although equality of access exists formally, women do not take advantage of these opportunities in the same percentages that do men. Although the number of women between the ages of 14 and 18 attending school has increased in recent years, it is still below the number of young men of the same ages attending school. Both R.U.M. and M.C.A.S.T. have recently had an increasing proportion of their student body made up of women, but the number of men at each institution far out-numbers the number of women. In addition, many women seem to concentrate in areas which do not provide specific occupational training, such as the Arts.

One reason for these differences in enrollment and course choice is that Maltese men and women have been conditioned very differently from early childhood. Malta is a traditional society, and emphasizes the need for men to equip themselves to find and hold a job and for women to equip themselves to care for a family. As a result, boys are encouraged to be active and aggressive while girls are trained to be quiet, passive, and helpful. There are many examples of how pre-school children are socialized into historical sex-roles-sentiment such as 'He's all boy', meaning he is lively and active, and 'She's more like a boy than a girl' meaning she is lively and active, are commonly heard. The message is clear, even to a small child. Boys should be active; girls should be quiet.

This conditioning continues when children enter school. Small children sing the song, 'May I Help you, Mother Dear?' How do they help their mothers? By sweeping, washing dishes and ironing. Do they help their fathers that way? Of course not; those things are not fathers' work. Children are asked to describe their fathers' occupations in class and on school application forms. Their fathers may be dentists, accountants, waiters or merchants. They are not asked their mothers' occupations. It would be redundant to ask a mother's occupation. Being a mother is an occupation, being a father is not. Men need to work outside the home; women are not supposed to work outside the home.

Later in their school life, young adults find this message repeated. In schools for young women, homemaking skills are taught. In schools for young men, mechanics and engineering are available.

All through their formative pre-school and school years, boys and girls are conditioned differently. In addition most schools in Malta are single-sex, rather than coeducational. It is generally believed that schools which involuntarily separate people on the basis of a demographic characteristic, such as race, or sex, are inherently unequal on the basis of facilities, staff and overall quality. After all, why bother to separate people if they are to be treated equally? The act of separation shows that society feels the separated groups can not, or should not, be treated the same. And usually it is the members of the group assigned to the inferior school who later find themselves to be part of a disadvantaged labour force group.

Finally Maltese women have few successful professional women to serve as role models. Most of the people in powerful and prestigious positions are men; there are few examples of women handling important positions and, among the few examples that exist there are almost no married women. These provide young women with only limited incentives to get advanced training and education.

In summary, Maltese men and women enjoy equality of access to Malta's institutions of higher learning. However, men and women do not avail themselves equally of this opportunity. This disparity reflects the impact of socially defined sex-roles and goals, which are reinforced by families, schools, peers, the church and the mass media, on individual decision-making. Perhaps the question is not why do not women take more advantage of the opportunities around them, but why, given the social forces surrounding them, so many do take advantage of available educational opportunities.

Access to the Labour Market

Restrictions to labour market access can be either formal or informal. Formal restrictions include codified government or employer rules which prevent a specific group from having access to certain jobs. Informal restrictions refer to traditions which prevent job access to a given group of people. Informal restrictions are not written down. However, their existence is well known and closely adhered to.

Many of the governments' historical restrictions on the occupations which women can fill are disappearing. For example, the government recently made it possible for women with the necessary qualifications to hold the position of Notary Public.

However, a law enacted in November, 1974, makes it illegal to fill a post vacated by a man with a woman. The implications of this law with respect to occupational distribution are enormous. It reenforces existing male and female occupations, and prevents women from moving into any new jobs, and particularly the higher paying jobs, now held by men. It does not require that posts vacated by a woman be filled by a woman, so it is very likely that in the long run it may narrow the range of occupations now open to women.

Employers use both formal and informal restrictions on the jobs women may hold. Formal restrictions are clearly visible in newspaper advertisements, where it is very common for an employer to state that only male or only female applicants are wanted for certain positions. Informal restrictions are also very common. Many employers feel that women are good at repetitions, delicate work, but they are not good at supervisory or physical demanding work. It is easier to judge people on the basis of stereotypes of what you think they are like than on their real ability, and employers often hire people on their concept of what is 'men's work' and 'women's work'.

The Constitution says that, 'The State will aim at ensuring that women workers enjoy the same rights ... as males'.[3] However, there is no law that effectuates this provision by requiring employers to hire men and women equally, on the basis of ability

[3] 'Declaration of Principles', 1947 Constitution, Malta Government, (Valletta: Government Printing Office, 1947).

rather than sex. In fact, rather than requiring that employers treat men and women equally, government policy makes it almost impossible for them to be treated equally in the employment process, and it prevents women from having access to many occupations.

Equality of Treatment within the Labour Market

Treatment within the labour market refers to how an employee fares in all aspects of the employment relationship once hired. Included in the employment relationship are wages, promotion, job security and termination.

As noted earlier, there is a large gap between the average wages of Maltese men and women. As of 1975 the Government will require that men and women are paid equally for equal work. This is a useful approach to guaranteeing equality of treatment within the labour market. However, Maltese women are concentrated in different occupations than are men, and the gap between male and female wages will persist until the occupational structure changes. This will be difficult because of the law requiring that a man leaving a job be replaced by another man. In addition, some women fear that if employers are required to pay men and women equal wages, they will prefer to hire men rather than women.

It is very difficult to prove that a given group of workers is discriminated against in the promotion and job termination process on any basis other than ability. Employers rarely admit discrimination on any other basis, and ability itself is difficult to define and measure. Nevertheless, occupational data show few women in any industry at job levels usually reached by promotion.[4] This does not prove that women are discriminated against, although it creates a strong suspicion that discrimination may take place in the promotion process.

There is little doubt that women are discriminated against in the job termination process. The government, Malta's largest employer, requires its female employees to sign contracts in which they agree to leave their positions if they marry. Many private employers use these contracts as well. There is some possibility that this requirement will eventually extend to other employers, such as Bank of Valletta and Barclays Bank, because of nationalization.

These contracts obviously prevent married women from having

[4] Central Bank of Malta, *op.cit.*

careers in either the civil service or government supported schools. A few married women have managed to continue working for the government because they have needed skills. They work part-time at salaries less than the part-time equivalent of their former full-time salaries, and they lose their civil service status.

The labour movement provides some protection for union women by requiring that termination be made on the basis of seniority. However, it has not pressured the government to alter its policies which discriminate against married women, and it is virtually unknown for collective bargaining contracts in Malta to contain clauses guaranteeing that there will be no discrimination in employment on the basis of sex.

In summary, Maltese women face discrimination within the labour market. Some of this discrimination results because employers are not legally prevented from discriminating on the basis of sex. Much of the discrimination women face, however, results not from the government's failure to take action against sex discrimination, but from its own policies which institutionalize sex discrimination. The labour movement has provided women with only protection against discrimination in the employment relationship.

Access to Capital Markets

Access to capital markets is necessary for entrepreneurial ability to be translated into business activity. Lack of access to capital markets can result from legal restrictions on who can borrow funds. For example, the law in many countries prevents minors from borrowing money. Lack of access to capital markets also results from the standards the banking system sets up as to which potential borrowers are good risks, and which are poor risks. Low-income people, for example, are often classified as high-risk borrowers.

Maltese women face both types of barriers to access to investment capital. Malta law strictly limits the rights of married women to manage their own financial affairs, and although the law has been changed to give married women more financial rights, it is difficult for them to borrow large sums of money without their husbands' consent.

Single women do not face these legal restrictions in their quest for investment capital. They do, however, face the standards of the banking system, and they are more likely than men to be classified as poor risks. Single women are most likely to be granted loans when they have significant collateral, or when a responsible man will underwrite the loan.

Prospects for Change

A number of barriers stand in the way of Maltese women attaining a more favourable labour market position. Some of these barriers result from traditional views as to what a woman's role should be. Some of them result from laws which restrict their ability to compete in the labour market.

The Government is in the unenviable position of defending its decision to limit, rather than protect, women's rights in the labour market. Its policies are justified as resulting from economic necessity, rather than from discrimination against women per se. Scarce resources, high unemployment, and the resulting emigration, particularly of young men, are painfully real in Malta. The Government puts a high priority on stemming this unemployment and emigration.

It would be extremely difficult to assess the impact of these policies on the number of jobs available for men. It is presumed, by the government, however, without empirical evidence, that the social benefit outweighs the loss of choice to women.

It is interesting to note that Malta is not the only small country with high unemployment rates and resulting emigration. Most of the Caribbean nations face similar problems. Unlike Malta, they do not attempt to protect jobs for men by limiting the employment rights of women.

There are a number of factors which suggest that although employment barriers faced by Maltese women may be tenacious, they are not permanent. Educational levels are rising and birth rates are falling, and these trends will probably increase the interest women have in being active in the labour market. There are also indications that Maltese society is becoming more tolerant of married women working. This approval is related to age; younger women are more likely to approve of married women working than are older women.[5]

[5]Sibyl O'Reilly Mizzi, 'The Changing Status of Women in Malta', paper delivered to the American Antropologic Association National Conference, New Orleans, December 1973.

Finally, the newly formed *Moviment Għall-Emanċipazzjoni tal-Mara,* or Women's Emancipation Movement, may be able to defeat the Maltese adage, *Ħbieb kulħadd u ħbieb ħadd*, or 'Everyone friendly and no one friends'. If Maltese women see themselves as having common problems and goals, together they may be able to attack the barriers which now prevent them from moving out of their disadvantaged labour force status.

DEVELOPMENT PLAN FOR MALTA 1973-1980; A STRATEGY FOR INDEPENDENCE AND EMPLOYMENT

by G. DEN OUDEN*

DEVELOPMENT plans are usually characterised by a strong emphasis on the economic aspects of development. This explains or is at least one of the reasons why development plans are sometimes heavily criticised.

But economic aspects can only be emphasized or maybe over-emphasized but not dealt with in a separate manner. Although it is true that the economic, social and political aspects of development can be distinguished for analytical convenience, they can never be divided from each other.

It is the purpose of this article to evaluate the broad economic, social and political strategy of the Development Plan for Malta 1973-1980, further to be referred to as the Plan. The objectives and policies of the Plan will be investigated without going into the specific and detailed aspects. It will rather concentrate upon the interdependence of the objectives and policies and how the Plan arrives at a deliberate and consistent strategy.

OBJECTIVES, TARGETS AND THE STRATEGY

The Plan formulates global political, economic and social objectives. The political objective is to become independent from any power-bloc. It is envisaged that Malta will disengage itself from any affiliations with any particular foreign country or group of foreign countries and will discontinue to serve as a military base for foreign powers. This political objective has its economic counterpart in the aim of diversified international economic relations and accelerated industrialisation. This will require a structural change from a 'fortress economy' to a modern industrial state, taking advantage of the specific Maltese situation.

An increase of the productive activities will allow for the improvement of the living standards of the people as a broad social objective of the Plan.

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The interdependence of political, social and economic objectives is explicitly recognised. 'The division into political, economic and social objectives is ultimately arbitrary.'[1]

The Plan specifies the objectives into a number of detailed quantitative targets for employment, foreign trade and payments, investment and production to be reached during the planning period. Based upon a survey of the state of the economy in terms of manpower, the existing stock of capital goods and financial resources a strategy is formulated which is primarily a strategy for employment and national independence rather than a strategy for growth.

Population and employment

The employment strategy of the Plan requires the creation of about 20,600 new jobs during the planning period. It is expected that the population will decrease between 1973 and 1979 by 2900 persons from 298,200 to 295,300 respectively, as a result of the combined effects of anticipated death and birth rates and net emigration. On the other hand the participation of females in the labour force is expected to increase from 29.5% to 35.5% of the economically active females during the planning period.[2] New jobs will also be required as a result of changes in the production structure, e.g. the run-down of the British base and for the reduction of unemployment to about 2% of the total labour force, which is the normal or so-called frictional unemployment due to people newly entering the labour force, e.g. schoolleavers and people changing from one job to another.

To create these 20,600 new jobs investment of about £M213 million is needed, which is about £M10,000 per job. This investment labour ratio[3] which reflects the envisaged technology of new investment has been based upon past experience and international profiles.

[1] The Plan p. 50.

[2] Economically active population are all males between 16 and 65, and all females between 16 and 60 according to the Plan. The labour force is that part of the economically active population which is actually seeking employment.

[3] Investment-labour ratio, $\frac{I}{L}$, in which I stands for investment and L for labour (or job). Since investment is the increment to existing capital ($I = \angle K$ in which K stands for existing capital), $\frac{I}{L}$ is also called the incremental capital labour ratio.

The new jobs will mainly be created in the manufacturing sector, in the sector of ship-repair and ship-building, and in that part of the service sector which is related to tourism.

The labour force is expected to increase from 1973 to 1979 with 8392 workers or about 8% of the total 1973 labour force. However, the total number of new jobs required to meet the employment objective of the Plan will be 20,600 or about 19% of the total labour force in 1973, which is due to the envisaged changes in the economic structure.

INVESTMENT, TECHNOLOGY AND OUTPUT

The employment strategy of the Plan requires a total investment during the period 1973-1979 to be of the order of £M213 million at 1973 prices, which is about £M10,000 for each new job to be created.

This investment target is derived from the employment objective of the Plan and the appropriate investment-labour ratio. The investment rate which is required to meet the investment target is 25% of Gross Domestic Product (GDP). The annual rate of growth of GPD resulting from this investment rate will be about 6%. The incremental capital output ratio which reflects the technological characteristics of envisaged new investment to be undertaken is therefore slightly over 4.[4] The incremental capital output ratio, like the incremental capital labour ratio, has been based upon studies of past experience in Malta and requirements according to international profiles for investment projects, taking into account the special needs of Malta. Being a small size open economy, Malta has to compete in the international market with industrial commodities of modern industrial nations. This requires that export commodities of Malta should be of high technical standards and determines to a large extent the technology of the export industry. In addition to this the absence of any raw materials and energy sources whatsoever and a high population on limited land requires a relatively capital intensive technology.

Total investment required during the planning period amounts to

[4] Incremental capital output ratio (K) is $\frac{I}{\angle GDP}$ in which I stands for investment and $\angle$GDP for the increment in GDP. The growth rate of GDP, $\frac{\angle GDP}{GDP}$ is determined by the investment rate $\frac{I}{GDP}$ and the incremental capital output ratio; $\frac{\angle GDP}{GDP} = \frac{I}{GDP} \Big/ \frac{I}{\angle GDP}$.
In the Plan $6\% = 25\%K - k = 4.17$.

£M213 million at 1973 prices. The share of public investment is £M94 million or 45% both in infrastructure and productive activities to be undertaken by the government. It is expected that private investment during the planning period will account for £M119 million or 55% of total investment.

INVESTMENT FINANCE AND INTERNATIONAL ECONOMIC RELATIONS

National independence requires that investment will be increasingly financed by domestic savings. During the planning period, domestic savings are expected to increase from 3% to 43% of total investment. This will decrease the reliance on factor in come and transfers from abroad as a source for investment finance.[5] Domestic savings will be increased by reducing the trade gap through export promotion and import substitution. Exports are expected to grow at a higher annual rate (9.1%) than imports (7.0%) during the planning period.

Increased exports should eventually enable Malta to become independent from the foreign military base. Whether the expected increase of exports will be realized depends to a large extent on development in the world economy and international trade, developments which can be very erratic and which are mainly outside the control of Malta. Main exports are envisaged to be manufacturing products, ship-repair and ship-building and tourism.

The Plan envisages that total exports of goods and services will increase during the planning period from 75% to 89% of GDP and total imports of goods and services will increase from 98% to 103% of GDP. The reduced but still existing trade gap will be offset by factor income and transfers from abroad.

The plan is, apart from being a strategy for employment, a strategy for national economic independence or self-reliance. Self-reliance however does not mean autarchy because Malta will, as a result of its size, population density and scarcity of natural resources, remain to be an open economy.

[5] $GDP = C + I + E - M$ in which GDP stands for output, C for consumption, I for investment, E for exports of goods and services and M for imports of goods and services.

The financial balance requires that $GDP = C + S$ in which S stands for domestic savings.

Combining the real and financial balance condition we obtain $C + S = C + I + E - M$ or $I = S - (E - M)$. Investment has to be financed from domestic savings and international economic transactions.

Self-reliance will rather imply international economic relations which are more diversified with respect to export package and foreign trade partners.

STRUCTURAL CHANGES OF THE ECONOMY

The employment and self-reliance objectives of the Plan will require a structural change of the economy. The reorientation of economic structure will be towards accelerated industrialization, because industry has largely to provide the 20,600 jobs which have to be created during the planning period.

Industrial production is envisaged to increase as a result of increased domestic final demand, import substitution and especially as a result of increased exports.

The home market will, in spite of import substitution, be too small for large scale industrial production. Only exports in addition to production for the home market will allow for industrial production on a feasible scale.

Apart from production growth it will be possible to increase the scale of operations through specialization and increased structural dependence of the economy.

The envisaged sectoral output and employment projections are the following (in proportions of the total):

	OUTPUT		EMPLOYMENT	
	1973	1979	1973	1979
Other[6]	.12	.11	.15	.11
Industry[7]	.30	.41	.31	.42
Services[8]	.58	.48	.54	.47

These projections give a clear indication of the envisaged accelerated industrialization resulting from the strategy of the Plan. The relative share of industry in output and employment will increase considerably.

THE SCOPE OF THE PLAN AND THE ROLE OF GOVERNMENT

The Plan is comprehensive in scope, dealing with the whole economy. It presents a macro aggregate and macro multisectoral

[6] Includes: agriculture, fisheries, construction, quarrying.
[7] Includes: manufacturing, ship-repair and ship-building, government enterprises.
[8] Includes: hotels, private services, public administration, other services.

framework for the period 1973-1979. It is particularly articulate on the envisaged macro aggregate activity such as the level of employment, investment, output, exports, imports and consumption. As far as concrete projects are concerned the Plan is of course more detailed for the public sector than for the private sector. Development Planning in a mixed economy is by nature indicative at least for the private sector which largely is outside the direct control of the government. On the production side government will operate directly in the sphere of public administration, commercial services, economic and social infrastructure and some key productive activities like ship-repair and ship-building and manufacturing. On the expenditure side the government is envisaged to perform the normal redistributive and social welfare functions involving both consumptive and investment outlays for education, health, housing and welfare.

The rationale for the Plan is to complement the private sector and to take initiatives where market forces and the private sector fail.

To reach the objectives and targets of the Plan government will initiate and guide institutional changes, like the introduction of workers participation and qualitative changes, e.g. introduction of new types of taxation.

Government will also make use of the traditional quantitative instruments such as fiscal and monetary policies, foreign exchange management and wage and price policies, whether in a global or selective manner.

Public investment in infrastructure and direct productive activities is envisaged to be of the order of £M94 million or 45% of total investment to be made during the planning period. Government consumption will be about 22% of total consumption expenditure during the period 1973-1979. Furthermore government will influence private consumption indirectly by its redistributive functions in the form of social security scheme.

SOME REFLECTIONS ABOUT THE STRATEGY AND POINTS FOR FURTHER RESEARCH

Development planning is, like all planning, an effort to reduce uncertainties with respect to the future. It is deliberate and coordinated action initiated by the government aiming at development objectives and targets by means of certain policies and instruments.

The rationale for development planning is the notion that market forces and private initiative alone cannot deal with a number of development problems such as a low level of living, unacceptable inequalities in the distribution of income, wealth and power and the need for structural and institutional changes of society. Planning is a process of 'learning by doing' which involves a good deal of trial and error, but those who are committed to planning believe that planning is at least better than no planning.

The following observations are an effort to point out certain aspects of the Plan strategy which may need further consideration and research in the ongoing process of development planning on Malta. The commitment of the government to a process of continuous review and updating of the Plan or so called 'rolling plans' will provide ample opportunity for this.

A Supply-Oriented Strategy

The Plan is relatively articulate on the supply side of the economy, but not very elaborate on the demand side, especially with respect to consumption.

This merely reflects the strategy of the Plan which is a strategy for employment and economic independence. The employment target of 20,600 new jobs requires, based upon the incremental capital labour ratio of £M10,000, about £M213 million total investment. Accepting a certain incremental capital output ratio production is then determined. Economic independence and balanced international economic relations imply certain targets for exports and imports of goods and services and domestic savings. If production, investment, exports and imports are fixed, total consumption is determined as a result. The Plan is very brief about consumption; the annual growth rate of consumption has to be kept at about 4.2% with output growing at an annual rate of about 6%.

No evidence is provided as to whether this anticipated fall of consumption relative to output is realistic. However, government could, through the budget, influence private consumption and could play a guiding role if undesirable developments in the level and distribution of private consumption as a result of the strategy would occur.

Whether the demand for capital goods can be sustained at the envisaged level, depends on the public and the private sector. Government can also play a direct guiding role with respect to the level and direction of total investment through its capital budget.

World demand is outside control of the government. Forecasts of exports of goods and services, by far the largest component of final demand of the Maltese economy, are therefore a crucial element in the Plan strategy for full employment. If exports would be lower than estimated, national economic independence could only be realized by an appropriate reduction of imports. In that case, however, full employment could not be achieved anymore.

If one investigates the evidence provided in the Plan on supply and demand during the planning period, demand seems to be underrated. Since Keynes, Say's Law does no longer command belief and supply oriented strategies need therefore careful consideration.

Structural Interdependence

The Plan emphasizes equilibrium and consistency among the various economic aggregates such as employment, output, consumption, investment, exports and imports. However, it does not elaborate upon structural interdependence of the economy, although changes in the economic structure and changing production linkages are envisaged throughout the Plan as a consequence of the strategy for employment and economic independence.

A change in the production structure is only feasible if it responds to changes in the final demand patterns. Essentially we carry the argument further which we have developed before with respect to the relation between aggregate demand and supply. Investigation of the demand structure and its relation to the production structure is more realistic because it avoids unjustified aggregation when analyzing aggregate demand and supply linkages. Inter-industry analysis allows for a systematic and consistent evaluation of the effects of changing demand patterns on the use of production factors, e.g. how changes in the structure of consumption as a result of income distribution policies will affect the production and employment structure of the economy. Changes in investment behaviour of the private and public sector will have effects on the production and employment structure, and so will changing world trade patterns and import substitution policies.

Increased specialization and large-scale operations in agriculture and industry will be reflected in changing inter-industry transactions. In 1971 intermediate demand already accounted for about 13% of total output.[9]

[9] National Accounts of the Maltese Islands 1963-1972, pp. 34-35, Table 14b.

Changes in the production structure require a good deal of planning of inter-industry transactions during the process of accelerated industrialization, because it is generally recognised that market forces are not adequate for this.

Reorientation of the production structure and technological innovations require changes in the structure of the labour force not only with respect to the numbers employed in each sector of production, but also in terms of the skill structure of the labour force.

The educational system, especially secondary and tertiary education, has to meet the new requirements for the skill structure of the labour force resulting from industrialization. Manpower planning dealing with the supply and demand aspects of the labour force is a necessary condition to guide the reorientation of the economy, because expansionary fiscal and monetary policies cannot cure structural unemployment and will only lead to inflationary pressures.

A strategy which involves structural changes of the economy has to consider all these points, because structural changes require structural and selective instruments. Setting the economy on a new path has to be planned carefully and cannot be left exclusively to spontaneous market forces.

MALTA'S LABOUR MOVEMENT: A COMPARISON WITH LABOUR IN DEVELOPING NATIONS

by EDWARD CLIFFORD KOZIARA*

THE purpose of this article is to compare certain characteristics of the Maltese labour movement with general features of labour movements in developing nations in order to assess the degree of the Maltese labour movement's development.

GENERAL FEATURES

There are certain characteristics of the labour movements in developing nations. Although individual movements differ from the stereotype that follows, Millen suggests a great number of the developing nations have the following features in common.

(1) Quite often the unions are weak financially and have to depend upon government, political parties or other sources for support.

(2) An elite group leads the unions and these leaders are at times divorced from the rank and file. This elite is composed of the educated, foreign language speaking, who spoke the language of colonial officials. These individuals are also conversant with industrial relations concepts.

(3) Instead of engaging in collective bargaining the unions will push for specific demands. Neither labour nor management frequently are sophisticated for collective bargaining covering a wide range of issues, as a result the written agreement is a rarity.

(4) The craft structure is virtually unknown because the craft workers have largely stayed outside the mainstream of industrialisation. The labour force is overwhelmingly unskilled. Generally the earliest type of union was organisation of a plant. In many countries national organisation only includes railway workers because of the nature of their work. General unions also developed which placed workers of various skills and industries into one organisation.

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(5) In Asia and Africa unlike the West, workers solidarity spread first among white collar workers rather than factory workers or agricultural labourers. Millen subscribes the reasons for this: steady employment by colonial employers; also literary and education made the workers more frustrated by the discrimination of European employers.[1]

(6) In many developing nations the labour movement has been supressed or become a tool of the state. Many leaders of developing nations, even former labour leaders, and economists have argued that unions can retard development by diverting resources from capital formation, disrupting production and interfering with efficiency.[2]

THE MALTA LABOUR MOVEMENT

In comparing the general features of labour movements in developing nations and the Malta labour movement's characteristics, it is necessary to specify the Maltese labour movement. Thirty-four different unions of employees with a declared membership of 36,175 were registered in 1974. Because some organisations had not submitted 1974 data, the number of people actually in such organisations is probably understated by about 2,000. Complete 1973 data indicated a total union membership of 38,170. The General Workers' Union contains 25,317 members and is the dominant union force. Two other organisations have over 3,000 members, the Malta Government Employees' Union and the Malta Union of Teachers. The others are relatively small. Sixteen of the 34 unions have less than 100 members. Seven have over 100 but less than 200 members. Seven have over 200 but less than 900 members.[3] These smaller organisations along with the MGEU and MUT are found mainly in the public sector. Overshadowing all of these is

[1] Bruce H. Millen: *The Political Role of Labour in Developing Countries* (Brookings Institute, Washington D.C.) 1963, pp. 20-36.

[2] Asoka Mehta, 'The Mediating Role of the Trade Union in Underdeveloped Countries', *Economic Development and Cultural Change*, October 1957; Karl de Schweinitz, 'Industrialization, Labour Control, and Democracy', *Ibid.*, July 1959; Adolf Sturmthal, 'Unions and Economic Development', *Ibid.*, January, 1960. Adolf Sturmthal, *Comparative Labour Movements Ideological Roots and Institutional Development* (Belmont, California: Wadsworth Publishing Company, Inc., 1972) 143-150.

[3] *Edward Clifford Koziara, The Labour Market and Wage Determination in Malta*, (Malta University Press, 1975) 13-17.

the GWU with sections for private, public and United Kingdom employees. Closely allied with the GWU is the socialist oriented Malta Labour Party which has been in power since 1971. The GWU-MLP alliance dominates the Malta labour movement and the other organisations quite often are in conflict with the GWU-MLP partnership.[4] The discussion which follows will primarily equate the Maltese labour movement with the GWU-MLP alliance although it should be remembered that the GWU-MLP are not representative of the entire labour movement.

COMPARISONS AND CONTRASTS

(1) The pattern in most developing nations is of relatively weak unions. Where tolerated these unions are financially poor and dependent on political parties and government for support. The situation in Malta is somewhat different in that the GWU is relatively strong financially, its assessments are £M5.20 per year; additionally it engages in a number of enterprises including a union press and a tourist operation. To some extent it has been dependent upon the MLP for support and significant gains have been made through government action which supplement collective bargaining accomplishments. At the same time the MLP is dependent upon the cooperation and support of the GWU. Although it is questionable as to the precise nature and the degree of dominance in the relationship, it can be concluded that a symbiotic relationship does exist.

The other organisations in comparison with unions in developing nations are also relatively strong financially. However these organisations, officially, generally assume a politically independent posture. This is largely because these are public employee organisations and political activity is prohibited.

(2) The leadership is also quite different from the elites mentioned earlier. The union organisation, labour legislation, and even industrial relations terminology have been patterned and influenced by the British labour movement. The leadership of a number of union organisations worked for the United Kingdom Defence Establishments. However the large gap between the leadership and the rank and file which continues to plague industrial relations in Great Britain and a number of other countries, does not exist in Malta. Because of the smallness of the country, a homogeneous population, the small size of the labour organisations and enter-

[4] For a statement of the mutual interests of the GWU and MLP see the *Joint Election Manifesto of 1971.*

prise level bargaining, there is an intimacy within the labour movement; fractious and harmonious, which cannot be found elsewhere in Europe.[5]

The rank and file has entré to labour union leaders and labour party leaders. Also enterprise rather than national bargaining contributes to membership involvement because the workers become familiar with leaders and issues. This close contact makes it less likely leaders and led will have contradictory life styles.

(3) In many developing nations labour movements push for a specific demand rather than bargain on a wide range of issues; as a result the written collective agreement is a rarity. In Malta's private sector this is not true, sophisticated signed collective agreements covering a wide range of issues have been reached between the GWU and employers. The Malta Employers Association and the GWU have agreed to a contract format. As a result the language of the agreements are quite often identical although the terms vary. In the Malta Government and United Kingdom Defence establishments consultation takes place and the scope of consultations is either limited to a single issue such as a pay claim or fewer issues than what are raised in the private sector.

(4) One feature which the Maltese labour movement does have in common with labour movements in many other developing nations is plant level bargaining. Although plant level or enterprise bargaining takes place in Western Europe it usually acts as a supplement to national or industry-wide agreements. Malta has experimented with industry level bargaining but because of various factors including differences in ability to pay and the failure of employers to maintain a united front, enterprise level bargaining is the norm.

An additional common feature is the general union structure as opposed to the craft or industry structure. However the origin of the General Workers Union and its predecessors comes from both skilled and lesser skilled employees in the British Defence establishments, the drydocks and the port. Many of the craftsmen have remained outside the labour movement, again paralleling the pattern of developing nations, either because they were self-employed or worked in very small establishments.

[5]Even the 'large' General Workers Union is divided into sections which have a great deal of autonomy. There are eight sections currently. The largest has over 5,000 members, the smallest has slightly more than a thousand.

(5) Worker solidarity in Malta spread not from the white collar workers as in Africa and Asia, but from workers at the drydocks and port who came in contact with foreign labour leaders, union members, labour newspapers and ideas. However the oldest continuing labour union is the Malta Union of Teachers which dates from 1919. This organisation was established not as a professional society but as a labour union to attain better wages.

(6) In many developing nations the labour movement has been viewed as an obstacle to economic growth. It has been held in check to prevent work stoppages and increased consumption. In Malta the labour movement preceded independence by half a century. The major development in Malta's labour history was the organisation and growth of the General Workers' Union in World War II. Article 43 of the constitution gives citizens the right to freedom of association and specifically allows them to form or belong to 'trade or other unions or associations for the protection of their interests'. The union-employer relationship, following the British pattern is generally of a voluntary rather than a legislated nature.

The labour movement in Malta has been a 'free' labour movement. However it has also become a highly politicized movement. This means that it operates under constraints imposed by a unified party-union relationship. As a result the GWU is more cooperative with government when the MLP is in power. Critics have charged that the GWU is not able to function as a free trade union. On the other hand the GWU maintains that it is in the best interest of the workers to follow a cooperative policy with government.

There have been suggestions that the GWU should disentangle itself from the union-party alliance. However when Western Europe union-party relations are taken into account, and this is important because the GWU does view itself as a Western European labour organisation, it can be seen that the relations between political parties and labour unions have formed a vital part of the political systems in these countries. Most Western European labour movements pursue their objectives through alliances with political parties, and most parties take into account the objectives of the trade unions. This is because many of the union objectives are at the very core of political controversy. Workers' participation, income distribution, economic growth, unemployment and inflation are just some examples of such issues. One writer has summarized the party-union relationship controversy:

political parties aspiring or clinging to power can no more afford to disregard the vital concerns of major trade union groups than trade unions can afford to abstain from participation in the political process. If there is a choice, it is not over the principle of party-union interaction but over degrees of commitment, links that might become too confining, rights of reciprocal representation, and subtle distinction between what is justifiable and what is excessive influence.[6]

The GWU has engaged in both political and economic action to improve the position of the Maltese worker. Although political affiliation may incur some costs as far as immediate gains are concerned, the GWU perceives a long-run betterment for its membership as worth the price. However it is also necessary for government to deliver to maintain the support of the rank-and-file. Failure to do so in a reasonable period of time could lead to alienation, defections, and defeat.

ASSESSMENT

From the comparison and contrasts it can be seen that Malta's labour movement does not fit the model of a developing nation's labour movement. Probably the most important Malta similarity to the model is the presence of enterprise level bargaining and the general structure of the labour movement. The most important contrasts relate to the sophistication of the labour movement and its political and economic strength. Malta rather than fitting the pattern of labour movements in developing nations comes closer to the Western European patterns diverse as they may be, and particularly resembles the British movement in a number of ways. But Malta's small size gives it a tremendous advantage over the labour movements of Western Europe in that the differences between leaders and led are not as great as in a number of European countries and the intra-movement communication process is almost a daily occurrence contributing to union democracy. Probably the most interesting area for further study is the development of more insight to union-party relations and the way these relations evolve over time.

In brief it may be concluded that the Maltese labour movement approaches the sophistication of labour movements found in developed countries and the characteristics attributed to the model of unions in developing nations has limited applicability to Malta.

[6] John P. Windmuller, 'European Labor and Politics', *Industrial and Labor Relations Review*, (October, 1974) Volume 28, Number 1, p.3.

ON THE DESIRABILITY AND THE IMPLEMENTATION OF A FACTOR SHARE POLICY FOR MALTA

by E.P. DELIA*

INTRODUCTION

'WHAT is produced is distributed in the process of production' is a simple economic statement implying, as often happens, complex connotations. For, the interrelationship between the production and the distribution of a given output is only crudely understood in economic theory. In addition, ideological conflicts regarding asset ownership, income distribution and wealth accumulation render an understanding of the production – distribution relationship more difficult still to achieve. A recurring socio-political concensus, effected through Government policies, becomes therefore essential for the attainment of a series of partial solutions through time.

The problematic relation between production and distribution could be briefly stated as follows: There exists the necessity, on the one hand, to examine the issue of how a quantity of commodities should be produced; to concentrate upon the optimal resource allocation, including sectoral shifts, devising incentives geared mainly to production, with the aim to produce the highest attainable output. On the other hand, it is necessary to examine how distribution could be managed to exert the greatest influence on production without causing hardships, i.e., how to redistribute the growing national product among those who are active in production and also those who for valid reasons e.g. age or infirmity, are unable to participate in the productive process. Viewed thus distribution becomes an incentive or a brake to economic growth.

If a Growth/Distribution trade-off is unavoidable, cooperation within a society becomes not only desirable but crucial. Political consensus, at least among the majority, is indispensable for socio-economic development, the more so if social changes, considered radical from a community's traditional views, are called for.

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This article applies various elements from several economic theories and models to the gradual transformations experienced by the Maltese economy over the twenty-year period recorded in the official National Accounts data, 1954-1973. Concentration is set upon the functional distribution of income during this period. The main observation rests upon the necessity to determine a relative factor-income distribution policy taking into account the restructuring process continuously operating within the Maltese economy. In order to understand the motive for such a share policy the present structural state of the economy, together with the prevailing social attitudes, must be highlighted; in turn, any future projected schemes and resulting changes in economic and social aspirations would demand to be integrated within the present Maltese socio-economic structure. Although the argument could be very succintly introduced, the actual dimensions of the potential difficulties could only be realistically evaluated after a detailed analysis of the several factors involved is carried out. This paper therefore combines policy with the state of theoretical debates about production and distribution relationship in economics, and with the underlying socio-political situation in Malta at this time period. For this purpose, a theme is developed in every separate section; the observations introduced help elucidate the intricate nature of the problems involved. The discovery and the study of a problem are the primary steps leading to a solution.

An evaluation of the present Functional Income Distribution theoretical debate is submitted first; this is necessary to dispel any possible distorted views about an existing homogeneity of thought about this subject. The ambiguous role of the State in Economics is emphasized, for no social policy can be implemented outside a political framework. The observed factor shares movements and the associated computational difficulties in Malta's Gross National Product (GNP) for the past two decades are then discussed. Finally, selected characteristics and influences observed active in the Maltese economy are analysed in terms of their potential contribution in assisting public policy making upon factor-shares. These include the need to distinguish between the Production and the Commercial profit motive; the linkages between economic growth and factor income distribution; the possibility of alternative employment and its relation to intersector and inter-country labour mobility; and the need to plan capital-labour intensity within production units with the objective of being in a position to meet changing market needs and changing aspirations of investors and workers.

This paper is an introductory work; hopefully it should lead to a series of articles dealing with the personal income distribution, and the impact and repercussions of the Government budget upon household income in Malta. Such work could be rewardingly undertaken when the required data become available.

INCOME DISTRIBUTION AND THE ROLE OF THE STATE IN ECONOMIC THEORY[1]

The distribution of the aggregate output has long been acknowledged by economists as an important element in the mechanism through which market forces function in an economic system. However, despite this awareness, the state of theoretical analysis about this subject remains uneasy. This follows from the lack of a coherent exposition in which distribution is accorded a degree of autonomy. Those analysts who emphasize the social element in distribution without minimizing the power of market forces, insist that people react as collectively conscious groups to the conditions under which the social product is allocated through primary distribution. They emphasize that it is not enough to assume income distribution as an intermediate stage between production and income generation on the one hand, and spending or allocating distributed income to consumption and saving, on the other. If this were so, income distribution can be approached through production (following the neo-marginalist, supply-oriented 'theories') or through effective demand (in accordance with post-Keynesian demand-oriented 'theory') and the debate would be concluded.

Economic thinking, however, appears to be converging upon the need to approach the distribution issue through an eclectic analysis, difficult and problematic as that is. Theories about distribution need not be considered mutually exclusive. A theory could be regarded as attributing predominant influence to a particular process of adjustment in the socio-economic system, and several processes could be in action at the same time and react to one another.[2]

The tenacity with which theorists have defended their selected views and attempt to rebutt the ideas of their academic opponents is understandable. At stake there are personal ideals and social

[1]See (i) Bronfenbrenner M.: 'Income Distribution Theory' (Macmillan 1971)
(ii) Marchal J. and Duclos B. ed. 'The Distribution of National Income – Proceedings of a Conference held by the International Economic Association at Palermo' (Macmillan 1968).

[2]See: Phelps-Brown E.H. 'Pay and Profits' (Manchester University Press 1968) pp. 9-10.

convictions camouflaged as the source that inspires the behavioural reactions and policy targets in the economic models constructed. Besides it sounds practical to integrate an analysis around a single tenet and thereafter concede shortcomings rather than produce eclectic models which, being highly complex and restrictive in the behavioural assumptions introduced, are rendered unsuitable for testing in a real world economy.[3] Theoretical expediency should be integrated with, rather than divorced from, pragmatic policy considerations.

The theory of functional distribution of income concerns the distribution of the social product among the factors of production which combine to produce it. To simplify exposition, productive factors are generally limited to two, Labour and Capital where the latter term is made to represent the non-labour factors of production, namely, capital, land and entrepreneurship.[4] The study of functional distribution reveals the shares accruing to factor labour, but not to the labourer, and to factor capital, but not to money lenders, investors or land owners. The theory of functional distribution is thus by no means a theory of the distribution of incomes among factors of production. The size of the primary income i.e., income before tax deductions and transfer payments from Public sources are allowed for, going to every individual – the personal distribution of income – can be ascertained only when the amounts of la-

[3]See: Krelle W. 'The Laws of Distribution in the Short Run and in the Long Run: An Aggregative Model' (in Marchal/Ducros Ed. op. cit)

[4]It is essential to distinguish between *means* of production and *factors* of production. For the purpose of studying the processes of production and the size of relative shares in the product, it may be convenient to utilise the concept of several factors of production. In a complete theory of the distribution of income, however, there is only *one* factor, namely, labour; the rest are *means* of production.

Reference should also be made to the current economic debate about the term and estimation of 'Capital' and the determination of 'a' profit rate. The debate in capital theory has led to the temporary conclusion that the value of capital cannot be known unless the rate of return or profit is given; this cannot therefore be used in turn to determine the rate of return on 'capital'. Relative bargaining power between owners of productive assets and labour rather than relative market forces determine who gets what in the allocation of the national product.

See: Kregel J.A. 'Rate of Profit, Distribution and Growth: Two views' (Macmillan 1971).

Blaug M.: 'The Cambridge Revolution: Success or Failure' (The Institute of Economic Affairs 1974).

bour and other productive inputs – land, liquid and/or fixed assets and their composition – at the disposal of every individual are known.

Theories are meant to explain and not just describe interrelationships within a system. Unfortunately, income distribution theories describe rather than explain the factor-commodity interrelationships in an economy. Analyses are carried out in 'real' terms within the context of a full-employment situation. The theoretical conclusions thus arrived at are, in turn, applied to interpreting the processes that could be presumed to have evolved in an economy in the attempt to relate observed factor movements with the theoretical results e.g. in terms of the elasticity of substitution in a neo-classical set-up or in terms of a factor's propensity to save in a Kaldorian approach.

In addition, the application of theoretical results to real-world conditions must consider the role of the State in an economy. Therefore, attempts to construct a framework for the derivation of economically optimal situations without accounting for value-judgements involving socio-political set-ups could lead to dead ends when policy prescriptions are sought. The situation becomes confusing when analysis is carried out in compartmentalised steps introducing ambivalent roles to a main factor (in this case, the State) at different stages. This incongruency of the assumed behaviour of the State, and the possibility for a member of society to think unemotionally and disinterestedly are fundamental issues which have not been resolved. Failure to resolve them has meant an incomplete policy-oriented theoretical analysis of the distribution issue.

Practitioners of 'Positive' economics base their approach upon existing political and social structures which they consider as data; their aim is to spell out the optimal social welfare conditions within such a framework, retaining fundamental the freedom of an individual to choose what to sell (labour services or goods) and what to consume. Accepting a given social structure and attempting to maximise welfare within such a constraint implies that the economist would become a propagator of an existing system. For if the analysis could suggest that crucial changes in the social framework itself is necessary for welfare maximisation, the approach adopted need no longer be entirely applicable; and, anyway, by definition, theoretically optimal situations abstain from redistribution consideration. Analyses carried out in 'vacuum' or dated i.e. within the constraints of a particular socio-political framework, are destined to be of limited value to an understanding of the real world; they would lead, as they have actually led, to ambiguous situations. Consider the role attributed to the State in economic theory.

Welfare theory, based upon orthodox abstract microeconomics, starts from the premise that the State should refrain from disturbing the pattern of resource allocation as determined by market relationships, except when the allocation is inconsistent with what it should be under perfect competitive conditions. The State's intervention is a corrective force; it is solely justified for removing the distortions which obstruct the proper functioning of the economic system from attaining the presumed highest possible welfare level (however 'welfare' is defined). Misallocation of resources is attributed to anyone, or a combination of two general categories of distortions, namely, a monopolistic market structure and externalities in production and consumption. These categories could, in reality, prove to be the rule rather than the exception; the concept of externalities is very hard to define rigorously to meet real-world situations. State intervention could generally be recommended upon this tenet. With such an elastic rule, it is doubtful how practical it is to assert that the State should refrain from actively participating in the market economy.

Directly opposite is the attitude of theoreticians towards the State in macrotheory. Macroeconomics considers the State the means whereby output growth is achieved with minimal friction in terms of rising prices or resource unemployment; still, in principle, a corrective force. Once active participation is envisaged for the State, however, it is unrealistic to assume that Government becomes a mere adjusting force that comes and goes without getting itself involved in the economic process. If the State is to be handed over the task of seeing that output growth is promoted with the minimal costs in terms of unemployment and social injustice — for, it must be recognized, that one man's 'equity' need not be another's notion of 'fairness' and, hence, injustice would become a subjective evaluation of events — it becomes difficult to relate this idea with the notion that while influencing the economy through the Public Budget and appropriate legislation — introducing or modifying tax incentive schemes and income subsidies — the State is simultaneously forbidden to acquire productive assets. As the State accumulates assets, the balance of Power within an economy shifts and market structures and policy tools change accordingly. Dispassionate intermediation by State Authorities in the real world is a myth; theorising on the premise of 'no government' become, therefore, a quasi-sterile mental exercise with little positive gains for practical policy making.

This is precisely the reason why current economic theory is undergoing an intra-disciplinary ferment. Economic man and social man are one. In time certain ideas become accepted or are forced upon a resistent minority; other ideas are discarded. Though mankind changes very slowly in its basic aspirations, yet in his ways of expression Man can differ over time and places. Production, Distribution, Justice, Sympathy, Greed and Generosity are closely interlinked; the means society implements to achieve social ideals, vaguely defined by its leaders, appear to derive force from the State Authorities that must somehow reflect the social pulse and brain. Consequently a Stateless, mechanical analysis could be deluding rather than illuminating.

Development of theory is not the intent of this paper; rather it is the utilisation of the corpus of ideas in economics to Malta at a transitional stage of economic development. Crude and uneasy as theory is about the subject and related topics, it could be gainfully applied if its shortcomings are correctly and explicitly recognized. So the main contributions of different economic theories and models are briefly explained wherever deemed relevant; these are, in turn, used as a starting-point from which to discuss public policy implications.

The following section submits a 'factual' assessment of relative shares of productive factors in Malta for the twenty year period, 1954-1973.

MOVEMENTS OF RELATIVE FACTOR SHARES IN MALTA'S GNP: 1954-1973

The observed behaviour of the relative factor shares in the Maltese economy is presented, percentagewise, in Table 1; the mean values by category for the four quinquenniums are given. Table 2 submits a different activity classification for the same years. The two tables together enable one to meet certain objections about factor share allocation raised about similar studies for other economies. The discrepancy in terminological usage between concepts in economic theory and their counterpart in National Accounting together with the difficulties met in allocating the proper share to a factor are discussed in notes (5) and (6).

[5] Economic theory defines 'wages' as the payment for human effort exerted in the production process, 'rent' as the return to non-reproducible resources supplied in fixed amounts by nature; 'interest' as the return to non-human, reproducible means of production; and 'profits' as the residual reward to entrepreneurship for risk-bearing, co-ordinating and innovating activity. Factor rewards are, therefore, conceptually homogeneous and distinct.

The conceptual problems indicated in notes (5, 6) render the task of interpreting movements in income shares a heavy one. The observed changes in factor shares could result from measurement bias rather than the outcome of structural economic transformation. These difficulties are recognised as elements tending to weaken the reliability of empirical investigations.

The data in Table 2 suggest a small increment in share accruing to factor labour; a relative increase in Public capital income, mainly in the form of interest and dividends, and a fourfold rise in Un-

In the National Accounts, however, the measures are formed of heterogeneous income elements. Thus, for example, labour income includes indeterminate amount of 'interest' yield on investment in education and training plus 'rent' on unique ability in addition to pure wage income. Also included is entrepreneurial income because the salaries of company executives are added.

[6] Self-Employment ('Mixed Income') has contributed, substantially to the GDP in Malta. The problem of attributing a share to Capital and a share to labour has everywhere proved controversial. At least three positions have been taken regarding its disposition.

According to one view, it is virtually impossible to identify the 'labour' and 'capital' components and, therefore, any separation must be completely arbitrary. It is advocated that analysis should be limited to those sectors of the economy not dominated by unincorporated forms of business enterprises.

A second view argues that proprietors' income is too important to ignore and that it should be assigned to the labour category. Proponents of this view rationalise that a large part of proprietors' income goes to self-employed professionals, e.g. doctors who are engaged predominantly in labour type activity. (Note that in the Maltese National Accounts 'retailers' are included as a separate class).

A third view is opposed to the complete allocation of proprietors' income to labour because such a procedure implies that the property used by the self-employed in their work has a zero yield. Suggested techniques advanced to obtain reasonably accurate disentanglement of the constituent parts of self-employed income include:

(i) dividing the shares in the same ratio as they are divided in the corporate sector; and

(ii) imputing to each self-employed person a labour income equivalent to the market yield on assets similar to those owned by the self-employed.

In Table 2 we consider self-employment income as a separate item. Table 1(b) aggregates wages and salaries and the income for farming, fishing and private services as suggested in the second view above. It was not possible to follow suggestion (ii) of imputing a market value for the capital of the self-employed; statistical data are nonexistant.

Table 1

(a)

MEAN VALUES PER QUINQUENNIUM OF FACTOR SHARES IN MALTA'S GROSS NATIONAL PRODUCT 1954-1973 – PERCENT

ACTIVITY	1954-58	1959-63	1964-68	1969-73
1. Income from Employment	50.59	50.94	50.21	52.04
2. Income from Farming, Fishing and Private Services	7.73	8.54	8.42	8.32
3. Gross Trading Profits	28.04	27.17	27.52	25.42
4. Gross Trading Surplus of Government Enterprises	0.80	0.70	1.04	1.11
5. Income from Property	5.50	4.98	4.85	5.09
6. Net Investment Income from Abroad	7.35	7.68	7.96	8.02
(b)				
FACTOR LABOUR (Items 1 and 2)	58.32	59.48	58.63	60.36
FACTOR CAPITAL (Items 3, 4, 5 and 6	34.34 7.35 41.69	32.85 7.68 40.53	33.41 7.96 42.37	31.62 8.02 39.64

Source: Based on Table 1 National Accounts of the Maltese Islands (C.O.S. Malta.).

distributed Company Profits. The share of Private Capital registered a conspicuous decline in its 1959-63 mean value from that estimated for the preceeding quinquennium, but since then appears to have established itself at about twelve per cent of GNP. Could one interpret the changes in relative factor shares as being indicative of the underlying transformation process in the Maltese economy over the past two decades? Although a definite answer would be hard to obtain, one could attempt to select certain factors that could be presumed to have influenced, or could potentially prove to be basic for socio-economic change.

Table 2

MEAN VALUES PER QUINQUENNIUM OF FACTOR SHARES IN MALTA'S GROSS NATIONAL PRODUCT
1954-1973 – PERCENT

ACTIVITY	1954-58	1959-63	1964-68	1969-74
Labour Incomes	53.22	50.90	50.21	52.02
Mixed Incomes	29.07	29.92	27.17	20.92
Private Capital	13.55	12.37	12.51	13.75
Undistributed				
Company Profit	1.07	2.77	4.72	6.66
Public Capital Income:				
Profits of Govt. Enterprises	0.50	0.50	1.04	1.35
Rents	0.67	0.65	0.60	0.47
Interests and Dividends	2.02	2.45	3.74	4.02
	3.19	3.60	5.38	5.84

Source: Based on Tables 7 (or 6) in the 'National Accounts of the Maltese Islands' (C.O.S. Malta).

Such structural factors affecting the intra- and inter-labour and non-labour shares during the period would include: the decline in the importance of the British Defence Departments; the growth of a manufacturing sector motivated by production-profit; and the relative influence of foreign capital markets and the returns from deposits with bank and non-bank financial institutions. Consider these three items.

The data indicate a fairly stable, or slightly rising, labour's share; this would appear conformable to the much-discussed stability of labour's share in other economies. However there exists the possibility of incongruency in the Malta case. Arguments could be forwarded to back hypothesis that in this period of transition, when corporate enterprise is extended, there should have been registered an *observed* increase in the share of factor capital though this would not necessarily imply an *actual* shift. We explain.

It is noted, for example, that the wages and salaries of Maltese personnel employed with the U.K. Defence Department represented only one item in the expenditure of the Armed Forces in Malta. Whatever capital investment was undertaken at the expense of the British Government (say, the purchasing and installation of radar units or other equipment for the maintenance of the airport) is not accounted for in the Maltese GNP unless Maltese contractors are employed and the installation costs appear under wages or personal profit – if the contractor is not registered as a limited liability company. The Service Departments, as officially estimated, are 100% labour intensive; the subsequent yield on capital invested is nil.

As the British Government reduced Maltese personnel engaged with its Departments, the discharged employees had the choice of emigrating, of turning themselves into self-employed by setting-up small businesses of their own, or of retraining and re-employment in the other sectors of Industry and Tourism or in the Public Civil Service. Consequently, the hypothetical labour intensity for the Maltese economy as suggested in the National Accounts would decrease. For the private sector makes allowance for its capital and assume a rate of return. Capital starts being considered productive; its absolute returns become positive, and, therefore, its relative share should increase compared to its pre-industrialisation value. But such a rise should not imply a shift towards factor capital; rather, it would simply represent the persuit of proper accounting procedures where the non-labour factors are allocated their actual or imputed remuneration.

Similarly, the output of Government Administration as officially recorded is also hundred per cent labour intensive. If Government stabilise the intake and level of recruitment of public employees, thus bringing about a relative decline in the public sector employment to a growing labour force, the overall relative labour-intensity would register an observed fall. The rate at which this partly apparent drop in the aggregate labour/non-labour (L/K) ratio would depend on several factors including the momentum of the industrialisation programme; the average L/K ratios in every sector reflecting the respective L/K intensity in separate units of industry or tourism; the growth of the labour force resulting from changes in school-leaving age, official retirement age, movement in female participation rates, and changes in the length of the working week. The share accruing to corporate capital, whether publicly or privately owned or of mixed ownership, would show the tendency to rise. However, in the cases referred this movement towards an increment in capital's share is due to the omission of allocating a return to capital in the Malta Government and the British Defence Departments. The actual distribution, i.e. one combining a return to capital in these sectors could differ substantially from what the tabulated data suggest. Even within the manufacturing sector itself, if activity proceeds as normally assumed, there exists an inherent element contributing towards an increase in the profit share. In the first years of production, a company could be expected to register negative profits; it aims to break even after two or three years of actity. So, while profits are nil, dividends would not be distributed and it would appear that labour is rewarded at the expense of capital. Once profits are registered the return going to capital becomes positive in turn and the composition of final output of a productive enterprise changes; labour's relative share would indicate a decline. This case would represent another example in accounting techniques, although the cause for such a change in output-sharing is different from the one noted in connection with the Government and the U.K. Defence Departments.

This type of shift in relative shares is important especially since under 'Manufacturing' is included the output of the Malta Drydocks. This industry operated beyond its earning potential since 'commercialised' in 1959; its debts were financed by direct Public subsidies paid out of total Government revenue. Whenever the enterprise turns from a deficit to a surplus, the relative composition of final output could be regarded as the normal distributive share in this unit.

Intersectoral movements between the self-employed units and factory production in favour of the latter would also reveal a tendency towards an increase in the income share going to profits; once again the observed shift would reflect, in part, the diffusion of proper accounting procedures. Self-employed and owners of small units employing, say, up to four persons, regard the difference between total costs and total revenue as income in the sense of remuneration for their labour efforts. No attempts are made to distinguish between the 'transfer payment' and the 'pure profit' components of the periodic inflow of the funds earned.[7] With the application of proper accounting methods, the self-employed would impute a wage and salary for themselves based upon the value of their

[7]This attitude could have changed with the introduction of Provisional Tax (under the P.A.Y.E. system of tax collecting) introduced in 1973. With unincorporated business the residual between costs and revenue is considered as personal income for income tax purposes. But, apart from Income Tax considerations, the distinction between 'wage income' and 'profits' could have a deeper significance than it appears to in so far as different types of consumption expenditures could be related to different sources of funds, e.g. expenditure upon household durables correlated to accumulated savings.

services in the labour market, estimate the residual and find out the gross return on the funds invested in their business. If the number of self-employed declines, labour moves into corporate enterprise where total output is allocated among the inputs utilised for production; under these conditions capital's share turns positive and, consequently, the apparent overall labour's share falls. It must be emphasized, however, that capital must be obtaining a return, small as it may be, in the one-man self-employed units; only it is not recognised as such by its earners.

Other elements that could be considered to have led to an increase in capital's share are the upward movement in interest rates in Malta and in London where Maltese were habitually investing their savings; and the opportunities in the real-estate market that contributed to the breaking up of the traditional rental ceiling.

The Maltese individual has demonstrated in the period studied a relatively high marginal propensity to save, about twenty five per cent of incremental disposable income. So far, the main choices available for the small savers were: the retention of funds in idle cash balances at home; savings, and time deposits with Maltese or London banks; bonds issued by the British Government in England and since 1959 local stock by the Malta Government; and real estate. High interest rates in recent years could have affected a transformation in psychological attitudes toward deposits with financial institutions; idle cash was transferred into deposits, mainly time deposits, and into Defence or Development bonds where security is guaranteed. As the volume of savings deposited increased and as there occurred simultaneously an upward shift in the structure of rates paid, the annual absolute return in the form of interest earnings rose.

In addition the social conception of the share of housing expenditure in the household's budget is being gradually modified as an effect of a more diffused awareness of costs and of rising standards. The rental issue is highly complex; it involves social and legal considerations in addition to those of a purely economic nature. What is outstanding over the last five years reviewed is the fact that the rentals currently demanded and paid are higher than they were, say, a decade ago; which signifies an increase in the absolute volume of funds earned from house renting.

The above influences were certainly observed over the period discussed. Their effects have been either negligible or counteracted by comparable radical changes in labour incomes or, still, never recorded properly in the National Account Statistics. The third consideration would demand a study for a new approach to meet the transformed socio-economic conditions in Malta; but the first two factors could be elaborated further.

There did occur a radical shift in wages and salaries in the Government sector, following the report of the Wage and Salaries Anomalies Commission in 1969, backdating payments to 1966; wage increases on a minor scale spread to the remaining commercial sectors of the economy through higher expenditure on consumer durables, for example. Such an income rise could have offset the expansion of factory work and service units. Or, it could have happened that since the effects of the British Services run-down fell, in part, upon men nearing legal retirement age, which was lowered from 65 to 61, wage or salaries earners with the Services retired and did not form part of the emerging enterprises where labour and capital factors were allotted their share. Still, those who became unemployed could have either emigrated, or got themselves employed at rates which were comparatively lower than the remuneration with the British Defence Departments; the increase in men employed compensate for the relatively lower financial rewards per head.

The Underdeclaration of personal incomes; the proper distribution between wage income, actual or imputed, and residual or profits in every unit; and the knowledge that actual income per head, as reflected in the domestic standard of living, is greater than the one imputed from National Accounts; these point to one direction: they question the adequacy of the National Accounts data. If the underestimation turn out to be great, one could challenge the usefulness of the present statistics where these are to be compared to those obtained in the future.

Finally, a remark about the share of undistributed company profits (Table 2), which steadily increased. It is assumed that like dividend and profit shares, this item is governed mainly by general business conditions, but undistributed profits tend to fluctuate more than the distributed because companies seem to prefer to maintain their dividend distributions as stable as possible. In the Malta case, this share kept on rising; this could be interpreted as a sign of buoyant activity in several markets. But such an interpretation could be misleading; it is estimated that the marginal propensity to save by Maltese firms is low.[8] This partly reflects the fact that there arises an inducement to distribute rather than retain corporate profits in the existing provisions for tax-free holidays. The increasing relative share and the relatively low corporate

[8] Waldorf, W.H. 'An Econometric model of the Maltese Islands (Office of the Prime Minister 1969) p. 17-18.

propensity to save at the margin, however, could be integrated once it is realised that over the last decade reviewed there occurred an increase in the number of corporate manufacturing and tourist units whose aggregate savings rose relativewise to the GNP. If Waldorf's estimates are accepted, it becomes a matter for speculation what the behaviour of such an item would be when the tax concessionary period expires or if industry is wholly or partly nationalised through the direct participation of the para-statal Malta Development Corporation.

The above comments apply to the past; policy considerations however, look ahead. An attempt is therefore essential to detect factors that would help comprehend a changing society and that would assist in the achievement of economic policy targets. Profit Motives and Entrepreneurial mentality are analysed in the next section while putting forward a case for a share policy.

The Production-Profit Motive in the Maltese Economy – Need for a Shares Policy?

It is analytically helpful to distinguish between two types of profit: Commercial profit and Production Profit. Such a profit dichotomy identifies the source of profits and thereby suggests entrepreneurial aspirations and probable reactions to different policy measures.

Commercial profit in the wholesale and retail business is based primarily on commissions in the form of a percentage mark-up. It depends, therefore, upon the value of period turnover for its determination. In Malta, this profit is a result of the local consumers' demand for foreign produced goods and services and, consequently, is mirrored in the volume and composition of imports.

Production profit arises from the manufacturing of goods and from the provision of services which are directed either towards the domestic market to substitute imported commodities or to supply foreign demand. This type of profit is consequently affected by the import costs of raw materials and transport, and the export of the finished product.

The wholesale-retail profit relies upon the internal competition among importers and retailers and could be influenced by the availability of funds of a person or a company; such facilities would be reflective of the credit span obtained from the foreign supplier and forwarded to the local distributive outlets. The production profit, on the other hand, depends upon world market conditions in factor costs and product prices, upon marketing knowhow at the pre- and post-production stages, on shipping and air schedules, as well as upon the quality of manufactured goods and delivery time. (This comment does not entirely apply for the sector of Tourism which, being service providing, demands consumption on the spot). The 'importer's profit' arises, like tourism's, out of the rendering of a service, in the tertiary sector; the production profit emanates from the secondary economic sectors.

Gross Trading Profits increased from an estimated £M8.3 million in 1954 to £M27.6 million in 1973; though, the gradual absolute rise in value does not mean an increase relativewise. Averaged over five-year periods, Gross Trading Profits declined by 2.5 percentiles (Vid. Table 1). The production profit in the Maltese economy in the past is conspicuous by its absence. It could be argued, in general terms, that the profit motive as ordinarily understood and implemented in economic theory has been non-existent in the Maltese economy. An impression of the comparative importance of profit-motivated behaviour in the Maltese economic set-up could be formed by classifying the various sectors according to the presence or absence of considerations about the yields on capital invested; importance is judged by the relative labour content of every productive category.

PROFIT MOTIVATION AND ECONOMIC SECTORS IN MALTA 1954 – 1973

	(% OF LABOUR FORCE)	
	1954	1973
I. Profit Motive: Nil		
Public Administration	16.9	18.34 (a)
Defence Departments	26.8	4.54
II. Profit Motive: Indefinite		
Agriculture and Fishing	10.54	6.28
Certain units in retail, construction and private services		
Government Enterprises		
III. Profit Motive: Dominant		
Manufacturing and the Malta Drydocks	10.69	28.56 (b)
Hotels and Restaurants) Insurance, Banking & Real Estate)	7.59	10.38
Wholesale and Retailing	13.01	11.08

(a) excluding Malta Pioneer Corps (which amounted to 4.01% of Total Labour Force)

(b) including Personal Services.

The profit motive is absent in the sectors of Public Administration and the U.K. Defence Departments which, between them, accounted for 43.7% of employment in 1954 and 32.88% in 1973. This implies that the upward shifts in wage and salary structures would not affect the level of employment or the working conditions in these sectors: demand for labour is relatively wage inelastic within remuneration changes normally experienced. The market price mechanism for the services sold tends to be blunted by non-economic considerations.

To these two sectors could be added the Malta Drydocks, formerly under the British Admiralty, but in the sixties converted into a commercial ship-repair yard and since 1969 the responsibility of the Malta Government. When work was commissioned by the British Navy, the accent of production was not so much upon the turnover rate as upon the quality of work. Under the altered conditions, quality *and* time determine, to a great extent, the volume of contracts. Up to 1973 this sector was operating at a loss. So although the profit-motive prevails it is a goal that has yet to be realised. It appears appropriate for the period reviewed to consider this industry with the two sectors in the first category. This would mean that the employment data for 'Manufacturing' for 1973 need to be adjusted accordingly, reduced by 4%.

Profit in the second category is termed 'Indefinite' because there are strong reasons for doubting the true interpretation given to, and the connotation such a concept conveys, in the sectors indicated. It is observed, for example, that in the Agricultural Sector farmers do not distinguish between the components forming the residual resulting from the excess of receipts over costs. With a rising generation of farmers introducing, among other things, the correct accounting methods, a change in attitudes towards capital invested could be expected to occur. The resultant modified views should benefit not solely the persons involved but also the economy in general. Prices would attain their role in the economic system; they would start passing clear messages to producers; resources could be better allocated if ideas about social provisions were to change.

For similar reasons, Government Enterprises were included under the second category; for such services as pasteurised milk could be administered upon profitable lines or, at least, managed with the objective of reducing to a minimum the subsidy per unit (per pint bottle of milk).

Profit appears as the determining factor in the institution and the running of a project and in the employment opportunities and the security attached within the sectors classified under the third category. At the present stage of development these are the sectors that demand careful manipulation and that could generate social friction. These sectors stand in sharp contrast to the rest; the remarks that follow are primarily directed to them.

Within the third category, the profit motive is dualistic. Though conceptually it could be defined homogeneously, yet its sources are distinctly different and policies could be persued to bear direct effect on one but not on the other. Still, since the Maltese community is numerically relatively small, and considering that the Maltese importer or wholesaler of a certain commercial stature would exert direct influence upon industry and the real estate or tourist business, it could happen that pessimistic psychological inclinations, the results of adverse running of affairs in the import trade, for example, could spread and restrict the momentum of activity in the other sectors. This would not represent the case of the 'average opinion' among industrialists of what their prevailing 'average opinion' about the future in industry and commerce is likely to be. Rather, it would be the impression and attitude of an influential, committed individual the repercussions of whose plans are rapidly diffused and extended over various economic sectors. To avoid adverse and unwanted effects, it becomes essential to clarify the aims and the implementation procedures of whatever public policies are persued.[9]

For planning purposes, shares policy, whether declared explicitly or implied, becomes essential in regulating the movement in the shares accruing to productive units in the industrial and tourist sectors, predominantly, and in the GNP in general. *Ideally,* within a mixed economy, the phases of procedure should be worked out by

[9] It is useful to distinguish between *goals* and *principles* of economic policies. The *principles* determine actions of economic policy, but they are general in scope and mainly qualitative in character. They can be understood as including rules and prescriptions for the shaping of economic life, and in particular the economic order, such as can be found especially in constitutions, laws and also governmental programmes.

Economic policy goals, on the other hand, are defined in a way as to be generally quantifiable. They are taken to mean variables, changes in variables and relationships between variables which relate to matters relevant to the economy as a whole, e.g. the general price level or the size of the GNP. They can be expressed in a cardinal form, e.g. a real growth rate of 5%, or can be set in ordinal form, e.g. a higher degree of involvement in foreign trade. Those economic policy goals which can be expressed in the ordinal form only, lead over to the principles of economic policy.

a constituent body representing the Government, the Labour Movements and the Business Communities; the goal being the channeling of resources where they could be most productive and in ways that would cause the minimum hardship on the sides involved. The restructuring of the economy is currently accorded priority by Public Authorities in Malta; stimulating production along set patterns demands the knowledge of both the benefits and the costs that could be expected to be associated with different programmes. This task is never easily tackled anywhere; it could prove harder still in a country that lacks experience in production planning and in executing schemes directed towards foreign markets in purchasing materials and selling finished goods.

The absolute values of earnings could be established, within limits, through appropriate legislation determining the financial remuneration for the identified economic sectors, the length of the working week, the rates of benefit payments, and private or social insurance contributions. Capital's share, then, depends upon the measures that influence the structures of interest rates, rents and profit. Return in the form of interest is affected by controls over the range of rates stipulated; by the encouragement, or otherwise, of bank cartellisation; and by exchange controls to shield the local market for funds and securities from foreign competition. The rental structure follows from policies regulating controlled or decontrolled residential housing; subsidised public housing programmes; the stimulus to mortgage securities and the introduction of mortgage guarantees or insurance. Rent legislation is tied closely to a set of politically visualized social standards; so policies aimed at interest rate structure (influencing the cost of borrowing funds) and labour wages should contribute towards the degree of success achieved, or to the outright failure of, rent laws' implementation. Profits are directly affected by tax-incentive schemes and depreciation procedures adopted; but they represent the final outcome of a series of forces, namely, education programmes reflected in the quality of labour and of management, local credit facilities and export credit guarantees, a reliable transport network to and from Malta, and harbour and airport management.

Production profit, pre-tax, in a firm is determined by the excess of total revenue over total costs. The latter consist of labour costs; material costs plus other expenditures contracted for the accounting period, including rent, physical asset depreciation (independent of the way estimation is arrived at or whether adequate provision is made), and marketing-costs including transport. Revenue is the outcome of the volume of sales and prices. The wage structure in the manufacturing units, originally devised to encourage investment by widening up the gap favourably to corporate savings, was set up on the absence of a tradition in relatively large factory manufacturing processes. It would therefore be enlightening for policy-making to obtain information about the unit costs and market conditions in the various sectors before plans regulating a sector's nominal or real functional share for a period could be drawn.

Sacrificing corporate savings at this stage would be detrimental to future growth. On the other hand, sacrificing labour could be socially disruptive, economically harmful, and, surely, politically unacceptable. The Maltese economy seeks the ability and willingness of investors, local and foreign, private and governmental, to provide jobs in sufficient number to absorb the envisaged labour supply. Funds are important; but knowhow assumes a crucial character and, unless it is forthcoming, the ability to raise funds may turn out to be sterile vis-a-vis the employment objective.

Cooperation from the private sector, local or foreign, cannot be reduced to secondary importance. For unless foreign governments are prepared to supply temporarily managerial skills, in addition to financial, the Malta Government, aiming at profit-making in the industries it controls, would require collaboration from non-Governmental sources until the time a class of local managers is formed.

A shares policy, then, should be worked out determining the relative shares of labour and capital in industry and tourism based upon feasible projections of growth in every commodity market, account being taken of the overall expansion of the aggregate activity. Such a policy expects the formation of a realistic attitude towards social cooperation founded upon comprehension of the economic needs and the particular problems which the size, natural resources and the social intermixture of Malta give rise to. A shares policy could produce the desired results if it succeeds in minimising friction that usually manifests itself in the form of social unrest.[10]

[10] A shares policy could be drawn up in real and/or nominal terms. One example of the application of such a policy is offered by the wages policy persued by the Netherlands in the post-war period, namely:

	REAL WAGES	WAGES AS SHARE IN GNP
1945-1954	Constant	Decline
1954-1959	Increase	Constant
1959-	Increase with productivity	Movement depended on market influences. e.g. if wages rise

Shared understanding and cooperation among Government, Trade Unions and Business are not obtained effortlessly anywhere; Malta is no exception. Industrial labour in Malta is led by a strong union; unless this organisation is prepared to coordinate its strategy with that of the Public Authorities and Business by temporarily sacrificing certain claims for better work conditions and pay, the setting up of a tri-partite council entrusted with the regulation of shares would be of no avail. Defining incomes may effectively turn out to mean solely wages and salaries, for these constitute the cost components over which local control is feasible; manufacturing profits, being a residual, are controlled in part by international market conditions for raw materials, product prices and transport and no 'National Council', or a similar body, in Malta could ever realistically hope to influencing these forces. Labour, apparently would have to bear the brunt at this transformation stage.

Besides, labour movements are currently bent upon the idea of workers' participation in Industry and tourism. Ideal and deserving encouragement as this goal may be, careful discriminate implementation alone could make it function adequately. If introduced hastily and unconditionally, it could create unforeseen consequences including the loss of trade union control over its members. However, if applied selectively and opportunely it would develop an atmosphere of mutual understanding and participation between the parties involved, and help reduce, if not eliminate completely, future social-industrial unrest.

Restraint and foresight assume critical importance in the export industries where international market forces set the rules. This suggests that whereas wages could move independently of their related labour's productivity in a substantial component of the economy, certain sectoral wage movements would rely exclusively upon the type of industry and the business conditions subject to fluctuations over time. This dual gauge for wage increase could lead to

in excess of productivity and prices remain constant, share of wages would increase.

The Netherlands moved from a policy of virtually direct controls to progressively less restriction. There is reason to believe that the policy aided that nation to achieve a stable reconstruction without seriously eroding its international competitive position. As the recovery proceeded the vital cooperation between economic sectors began to diminish, and the Government's ability to rely on volontary restraint dissipated.

a decline in deference[11] among the local working classes. An aggressive attitude would tend to accentuate itself for two main reasons. First, wages in the profit-motivated enterprises have been comparatively low to those in the other sectors (in terms of both financial and non-financial remunerations); the discrepancy could be reduced following the imposition of a national minimum wage applicable to male and female employees effective for all from April 1976. Secondly, the diversification of education facilities has led to the apparent saturation of those posts formerly reserved for young people with secondary and tertiary education and thus compelled young men and women with equivalent academic or technical qualifications to seek employment in activities deemed, in the not distant past, reserved for unskilled or semi-skilled workers whose education training did not exceed the primary school level. It is difficult for a young man or woman entering the labour market to understand the logic behind income differentials merely in terms of time and demand conditions. Data for the past years indicate the gap among the average sectoral eamings in three main groups, namely Government, U.K. Defence Establishments, and the Private Sector.

Table 3

(a)

AVERAGE WAGE/SALARY (£M)

	1968	1969	1970	1971	1972	1973
Government and Public Utilities	499	639	767	774	764 + 715 *	845 + 705 *
Defence Establishments	626	694	900	1016	1025	1263
Private Sector	352	393	458	496	557	594

(b)

RELATIVITY BETWEEN AVERAGE WAGE/SALARY 1968, 1973

(Private Sector = 100)

	1968	1973
Government and Public Utilities	141.76	142.26 * 118.69 +
Defence Establishment	177.84	212.63
Private Sector	100.00	100.00

* including Malta Pioneer Corps Members. (1495 men in 1972; 4322 in 1973).
+excluding Malta Pioneer Corps Members.

[11] The concept of 'deference' was introduced by political scientists to account for the apparently curious phenomenon that a good proportion of

With the gradual disappearance of the Defence Establishment a head-on clash could arise between the workers in the Government and Public utilities, including the Malta Drydocks, and the labour forces in the industrial and tourist sectors. The rising generation of Maltese consumers dependent at this phase in life solely on wage or salary as the source of income could expect living standards that may not be compatible with the earnings from activity in a profit-motivated enterprise. Whereas employees within the Government or Defence Establishment could eventually exert the necessary pressure to improve their salary scales, similar efforts by workers in the private sector could possibly lead to their unemployment. Government Authorities, with an eye on the inflow of foreign capital participating in development, have continually advertised the relatively abundant labour available with the result that wages in the developing new sectors, especially those for female workers, could possibly have been pegged over the period at an unnecessarily low level.

In a market-oriented economy, an individual's view of oneself depends on success; this leads to investment for one's career. A remuneration-differential enters the expectations of young people. Therefore, the facilities provided by the State in education require intelligent distribution within a small economy. Otherwise oversupply of specialised labour would retain the sectoral wages and salaries at socially unacceptable low levels. Qualified worker participation, though, in production and profits, say, in the form of bonus correlated to preceding year's profits could partly counterbalance this factor.

The success of a share distribution policy depends upon this mechanism based on restraint in rapid upward shifts in consumption patterns to enable the formation of an industrial sector sufficiently sound to repay the workers for the deprivation endured at a point in time. Workers would be investing in wage restraint hoping to be compensated at a compound rate at a future date. The time horizon and the rate of return would be the issue which, after detailed statistical information and several projections, one could attempt to determine. Relative share participation could be computed

working class voted for a Party which did not represent their interest. The explanation given is that these workers hold deferential attitudes, ie. they feel they are inferior to well-educated middle class people: that it is the business of such people to govern society; and therefore they ought to vote for them as their natural leaders. Applied to the economic field, the effect of a decline in deference means that workers are less and less prepared to accept that they should be paid less than 'middle-class' people.

upon different basic assumptions regarding commodity and labour prices together with probable social change.

A shares policy is inherently dynamic; economic growth considerations, therefore, cannot be abstained from if a flexible plan is to be drawn as a policy guide. A synoptic exposition of the present inconclusive theory delineating the relationship between growth and distribution is useful not only for what it suggest but also for what it does *not* suggest. The next section introduces the main features of one theory of this complex issue and proceeds to infer indications for policy formulation.

GROWTH AND THE DISTRIBUTION OF INCOME IN ECONOMIC THEORY: A GUIDE TO POLICY MAKING.

There is no universal agreement about the possibility of formulating a general theory of economic growth; differences in socio-polical conditions render every growth process specific. It is harder still to incorporate the distributional effects of different growth processes upon different income groups.[12] However, economic growth is commonly explained by these factors: abundant resources, with high elasticity of labour supply to start with; capital accumulation; more efficient allocation of resources i.e. the transformation of the productive structure and the redistribution of resources among the different sectors; economies of scale; and qualitative improvement of resources (the application of new or higher technologies with respect to natural resources, and education in the use of human resources).

The effective economic growth rate depends upon the rapidity with which the socio-economic system transforms itself. This transformation rate is supposedly at a maximum level in an 'intermediate' phase of the growth process when both the elasticity of the labour supply and exceptional opportunities for the reallocation of resources and economies of scale are found together. The flexibility of an economic system may become accentuated by characteristics of the investment process and technical progress during this phase which can lead to continuous transfers of resources from low productivity sectors to those with a high level of productivity.

Unfortunately, growth theory, in spite of the complex models[13] in

[12] Vid. Chenery et al: 'Redistribution with Growth' (Oxford University Press 1974).

[13] It must be pointed out that a model does not constitute a theory. The latter is concerned with providing reasons for activity: it is interested in causes. A model, on the other hand, traces the effects of a given change upon a set of variables. It accepts a cause as a datum.

which it is expounded, and in spite of its practical motivations, has become concerned with rather esoteric issues. Its link with public policy is often very remote. Accordingly, it would be highly misleading to draw any theoretical conclusions relevant for policy considerations from the models presented.[14] Despite these limitations, reference is here made to the neo-Keynesian model of distribution to derive the implications that it could be interpreted to suggest. Kaldor's model,[15] departing from the basic assumption that Investment is a variable behaving independently of an economy's saving, would suggest that to achieve a positive growth rate, the distribution of factor income would have to be shifted in favour of capital (non-labour factor). The argument can be briefly stated as follows: the profit (capital's) share could be shown to depend upon the investment share in aggregate output; with positive growth rate, if the investment share increases, the profit share would have to increase to bring about the Saving-Investment equality and attain equilibrium. Besides, emphasis in other models based upon Keynesian thinking elucidate the existence of a two-way relationship between the rate of profit and the rate of investment, such that the latter will be the major determinant of the former but the former, through expectations, would affect the value the latter obtains.

Kaldor's model is developed in terms of a closed economy. If foreign trade is accounted for, as it should be if concrete policy implications are to be derived, the model could become worthless as soon as exports play a major part in the economy;[16] if we assume in addition a high price elasticity of both imports and exports, the close relation between aggregate demand – prices – profits would no longer automatically hold.

Moreover, investment raises income but it increases productive capacity as well. The distribution of income could change in the short run, favouring non-labour factors, but there exists also the potentiality of a higher output. The increased output could be distributed according to a Kaldorian mechanism i.e. in terms of saving propensities. Yet the outcome would be uncertain if capital is not considered a limitational factor and the wage bill increases as a response to an increase in the demand for labour. Once again, the

[14] Vid. Eltis W.A.,'Growth and Distribution' (Macmillan 1973) ch. 14.

[15] Kaldor, N. 'Alternative theories of Distribution' (Review of Economic Studies 1955) and Kregel J. op. cit Ch. 9

[16] Vid. Falise M. 'The Distribution of National Income in Belgium 1953-62' in Marchal/Ducros ed. op. cit pp. 149-170.

consequences for the distribution under such conditions cannot be analysed within the framework of the widow's cruise theory. Investment would not be solely a function of profit and capacity but also of another factor, say, the firm's struggle for domination in a particular market.

Of course, it is very difficult to elicit practical specific conclusions for the Maltese economy from such general observations. The local economy is both outward looking and growing; diversification of production units and of the ownership of productive assets, so important from the above model's point of view, are objectives currently actively persued by the Malta Government. Besides, although preferential treatment is given to capital investment and profits assuming implicitly a 'standard' propensity to invest, one can distinguish, at least, five marginal propensies to save, namely of labour, of the domestic entrepreneur, of the foreign private investor, of a foreign government as an investor in Malta, and of the Malta Government. These could range from 0.25 for labour to nil for the Malta Government. Hence the two-owner model would fail to indicate a solution for a five-factor situation where behavioural reactions are certainly different. But, assume, that in principle there potentially exists an 'equilibrium' solution and that whatever solution evolves it is socially acceptable.

For policy purposes, considerations should focus upon the volume of capital required to stimulate growth from local and foreign sources, and the trend in wage rates over a period starting from a basic low initial level to the potentially highest over a given time horizon. Local wage-bill increases could mean either a resulting rise in exported commodity prices and a possible loss of a foreign market; or a reduction in profits; or, under the pressure of inflationary situation in the economy where commodities are sold, no effect whatsoever on factors' shares within the unit of production in Malta.

The relevant approaches to encourage *private* capital to move into Malta together with the probabilities of applying the funds thus attracted are insisted upon in Government economic plans. Yet a misguiding attitude is often implied regarding investment exclusively as an income-propagating force. Apart from the relatively high leakage element that reduces considerably the short-run multiplier effect within the Maltese economy of a unit of autonomous investment, (the lags being unknown), investment outlays, as already observed, add to the productive capacity as well. The infrastructural pattern relevant to assist or directly produce output once constructed would influence activity for a long time. Increased effective demand, mainly achieved through exports of goods and services for consumption, has to meet the demands of the profit-oriented newly-instituted production units (factories and hotels). The preoccupation with unemployed labour, regarded a national concern, could detract attention from the considerations that should be given to idle technical capital or idle liquid funds generally thought of as being the responsibility of private industrial concerns or of the banks. Apart from the fact that the Public sector is gradually extending its control over a wider area of economic activity, and, as a consequence, the national interest could, in time, directly assimilate itself with the interests of many productive units; the small size of the Maltese economy, and the commercial-industrial capital-ownership considerations introduced in the previous section, do not permit such a dichotomy in social attitudes. Fixed capital needs to be fully active as much as labour, and liquid savings should be provided with the potential for outlets where they could be profitably absorbed.

In addition, the physical size of the Island discourages the setting up of very large manufacturing concerns whose commodities are subjected to regular demand fluctuations abroad. If scale economies and the realisation of ancillary industries could be profitably envisaged, the type of enterprise relevant need to be carefully selected. The hope for future expansion following entries into new markets should be given priority in feasibility studies. However, caution should also be demonstrated in not relying heavily upon single, comparatively 'giant' enterprises. The Maltese economy probably would not be sufficiently resilient to absorb a fairly large number of workers once the development momentum declines, unless a coincidental rise in aggregate activity could temporarily assist in damping down the undesirable effects of sectoral unemployment. This point will be discussed further in a subsequent section.

Idle capacity, unless judged of a transitory character, would discourage scarce, quick-profit seeking foreign capital and the essential expertise that it carries with it. The problem facing economic planners could therefore be briefly stated as the constant search for the type of product (or products) that could not only compete on the world markets but that could also generate confidence in non-related enterprises and act as an 'emulating guide' to their managers.

Now, given the product prices, the costs of raw materials, capital equipment and transport, it follows that, within a unit, wages' and capital's shares are determined by the degree of capital intensity. Given this capital/labour (and capital/output) ratio an increase in non-labour's share implies a decline in that of wages; or stated differently, a rise in product prices not complemented by increments in costs, could be reaped entirely in the form of profit.

If: π = profits per unit (a residual)

P = price per unit

C_n = cost per unit other than labour's

C_w = wages and salaries

Then $\pi = P - (C_n + C_w)$

Given P and C_n, changes in C_w affects π; if π is to rise then C_w must be set at a level sufficiently low (thus establishing the static upper limit of wages) in order to obtain the desirable profit per unit. If production units do not allow flexibility between different capital/labour relations, and account is taken of the basic fact that non-labour costs and product prices are determined under international market dispositions, wages might have to be kept unexpectedly low to attract foreign private capital in Malta. This state of affairs could be socially acceptable for a few years, but it is bound to be reflected in the supply of labour offering its services, as will be discussed in the next sections, and could create labour unrest rendering a Shares Policy impracticable.

The tertiary or service sectors could perhaps be encouraged to a greater extent than at first would appear desirable. In these sectors, where adaptation would be relatively costly and uncertain, the notion of the Capital/labour relationship affecting shares tends to lose its lucidity. Fixed investment in tertiary units may bear no close relationship to the working capital necessary for the provision of a service; still the investment funds spent on construction would offer the sole scope for the ancillary developments that follow. For example, a dock or a first-class hotel. The heavy investment outlay expended in the carving up of a dock would be a resource waste unless the location is utilised for the specific purpose for which it was constructed; and, at the same time, those funds could hardly be included in estimating the Capital/labour ratio in the ship-building/repair industry. Even though it is felt that its inclusion is justified, it is only with hesitation that the result is compared with technological changes as normally understood, when comparisons between techniques in production are made.

Once it becomes difficult to allocate the relevant capital actually contributing to the production and sales of a service, it follows that it turns out harder still determining the share going to the said factor. Deliberate shifts in share movements could, consequently, be determined only within projected limits.

Foreign investment implies repatriation of profits; fund outflow depends partly upon reinvestment in expansionary projects and partly on tax schedules. Mr. Waldorf estimates a 'marginal propensity to repatriate profits' equal to .41; besides his equation indicates that the importance of profits due abroad relative to total profits tends to grow unless there are changes in assets ownership in the future.

The pursuit of the Incentive package programme in the form of grants, non-interest bearing loans, tax concessions or generous depreciation terms, allied to the growth of export market by the manufacturing industries would not only tend to increase the profit share in this sector but also represent a permanent benefit.[17] The package mix of financial aid and concessionary terms has to be drawn up in a way that would stimulate investment but not at a permanent 'cost' to labour. The policy of raising company tax rate and granting a tax-concession period for specified investments has the double effect of enabling the firm to recoup quicker the original capital, i.e. it shortens the payback period, assuming sales of goods occur, while permitting the Public Treasury to collect more revenue than otherwise if profits are realised after the tax holiday period elapses.

If foreign capital from private sources is not forthcoming private enterprise would have to represent the share of non-public ownership of productive units. This could be crucial to the determination of the scope and the role of productive factors predominantly in terms of the Person-State relationships. So long as corporate private enterprise prevails, one could talk of different ownerships and conjecture various social groups. If socialisation of the national product occurs, the problem of allocating the respective shares would remain, but within a modified State-Individual relationship the friction that would be expected to arise between the shares accruing to 'profits' and those going to wages, would either tend to be subdued completely or assume a greater dimension in the form of passive resistance. Social ownership would justify attitudes that under a different socio-political framework would be regarded intolerable. The withdrawal or outright exclusion of private capital

[17] It is sometimes held that the treatment of depreciation in the tax legislation only influences the distribution of income over time. Disregarding the effects of progressive taxation, a liberal policy is often claimed to mean a short-term gain for profits (net of taxes), but when the capital has been fully depreciated while it still generates income the punishment is inevitable. This may be correct under stationary conditions; assuming growth, however, the gain becomes permanent.

sources could create problems in terms of managerial skills. Management not only influences sectoral transformations, but also determines the long-term rate of economic growth, imposes the limit of sectoral maximum absolute output level and the composition of the GNP and, as a result, influences functional share allocation.

Economic theory seems to imply that there has to be a real, observed shift towards the share of non-labour factors, mainly in the form of profits from production and tourism. Pragmatism, however, has to rule decision making; dynamic projections based upon different hypothetically, changing socio-economic conditions, rather than short-run considerations, would provide the measure against which projects are assessed. The economy should be enabled to diversify its resources in such a way as to generate opportunities in the future for reinvestment parallel to the demands of technology and the markets served.

Assuming mixed-enterprises, decisions about industrial projects feasibility, incentive schemes, and, also wage structures, could be reached after evaluating the following factors:

(i) the economic feasibility of setting up an enterprise in Malta;

(ii) the structural balance between manufacturing and the other sectors (primary and tertiary) as the U.K. Defence Department is tapered out;

(iii) the wage ranges estimated acceptable and profit-yielding under changing market conditions;

(iv) the ability of the Malta Government to enter into joint ownership with private foreign companies; they supply expertise in production and marketing in addition to funds for investment;

(v) the success of the Malta Government to raise funds from foreign Government sources and invest them in industry on their own or on inter-Government joint-ventures; there would still arise the need for the managerial personnel to run business with success;

(vi) the behaviour of the labour unions vis-a-vis workers' cooperation and participation in a production unit. Labour movements in corporate sectors could participate from profits (as distinct from share ownership) by obtaining a percentage share of annual profits which funds would be allocated for the benefits of union members, say for the setting up of pension funds or social benefit schemes. (Note that the employees in the tourist industry are in a different situation from those in the manufacturing enterprises; schemes in these units do not reflect the pay packet of the workers. Wages, denoting the functional share of labour in the firm's books, are augmented by tips. To a certain extent the increment in the form of tips could be regarded as a function of the class of hotel or restaurant, the income bracket of the tourists, and of the activity level within a set period. There is implied, indirectly, a relationship between the original investment in fixed capital – the hotel or restaurant – and the tippage value.)

(vii) the social aspirations, the result of investment in human beings, that have to be met if the timely supply of specialised and general labour is to be forthcoming. This aspect is discussed in the following section.

The result of the several forces bearing upon a scheduled distribution sharing of the GNP could be that, despite its recently acquired political independence, Malta would still have to preserve, in an altered form, its traditional characteristic of a 'region' forming part of a vast complex. Past statistics for functional income shares indicate that factor capital was not adequately accounted for. The Maltese GNP was mainly based upon wages and salaries subsidized from imported funds not aiming to earn a profit. Such a situation could be partly extended, in the form of income from royalties from oil production just as at the moment it is assisted through the renting of defence facilities to Britain and its N.A.T.O. allies.

Labour Supply Elasticity and Functional Shares

This section considers a hypothesis that, the functional distribution of income is affected not only by the market structure but also by the elasticity of supply and demand for labour irrespective of the market form. E. Preiser[18] concludes that the greater the elasticity of the labour supply schedule, reflecting the preferences of the working force in terms of work and remuneration rates deriving support from capital ownership, the lower is the share going to non-labour factors.

The greater the supply elasticity of labour the lower would be the level of employment and the higher the wage rate, given the labour demand schedule (based upon technical properties, product prices and market structures, and costs). Employment is lower not

[18] Preiser E. 'Property and Power in the Theory of Distribution' (International Economic Papers – 2. 1952) Preiser implements a static two factor model: labour and land where the latter term stands for all the material factors of production, i.e. what in this paper is defined as 'capital'.

Government's power and initiative are, however, omitted from Preiser's analysis.

as a result of an artificially raised wage rate, i.e. of a wage rate that does not correctly represent the scarcity of labour. Rather the lower degree of employment corresponds to the essential facts of of the case, for supply is lower. It is, in a sense, voluntary unemployment. Labour refuses to offer its services at the rates prevailing or under the conditions offered. In any economy the quantities of labour and non-labour resources are available for their owners; but this means that they are not *awaiting* disposal, only that first they have to be placed at the disposal of production. Behind the elasticity of supply lies the power embodied in 'property'. Where labour is completely divorced from ownership of 'land' (or other forms of income yielding sources except man's mental or physical capacities) the supply of labour is rigid; wherever the worker owns a certain amount of 'land', the labour supply is elastic and the wage rate higher quite irrespective of the market form. Capital ownership is a foundation much more stable than, say, a collective monopoly of workers which could limit the supply of labour in a market economy only by artificial means, and, by its very nature only temporarily.

This idea could be applied to the Maltese labour supply, in general, and to local agricultural land, in particular. No attempts at quantitative testing are made: interest is set upon the qualitative content of the argument and its policy implications.

Labour supply elasticity in the Maltese economy could be expected to be influenced by a series of factors including the academic or technical training and the social esteem associated with a task; the close family relationships enabling a household to financially support a young man or woman – this could be a function of a family's size and wealth; the possibility of continuing family trade and turning oneself self-employed; the trends in female participation rates; and the prospects of emigration. Other factors would be social security benefit schemes; assistance under the National insurance plan; and temporary employment in para-statal bodies, such as the Pioneer Labour Corps.

These factors could operate simultaneously, or individually, for particular cases, but their net effect would determine the dated location and the shape of the aggregate labour supply schedule, although they would represent varying degrees of importance when applied to selected economic sectors.

In the immediate post-war period, employment in Malta centred upon primary industries (agriculture, fishing, stone quarrying); the U.K. Defence Establishment and the Public Service Departments; and a diversified complex of self-employed or very small units.

The mentality behind job acceptance was work stability and personal freedom in time allocation. This attitude persists; the Maltese worker, generally speaking, appears to be selective as regards job conditions, remuneration and timing of accepting or refusing employment.

Over the nineteensixties, opposing influences could be discerned in operation tending both to change the then-established labour-supply schedule and to affect its shape or elasticity by determining the response of labour to money income changes. Three factors, Female Activity Rates, Self-Employment and Emigration are selected from those enumerated above and their relative influence upon labour's supply elasticity analysed. The first factor tends to reduce elasticity; the other two tend to increase it. The final outcome per time period depends upon the relative strength of every factor. The three elements chosen could be considered to have a wider application in the Maltese economy than the rest which tend to influence decision making of a restricted number of labour units.

Table 4 classifies the productive sectors in the Gross Domestic Product (GDP) in terms of the mean periodic percentage composition going to Wages and Salaries and income accruing to self-employment.

Table 4

INCOME FROM SELF-EMPLOYMENT BY SECTORS IN THE GROSS DOMESTIC PRODUCT

(Period Averages: Percent)

SECTOR	1955-58	1959-63	1964-68	1968-73
Agriculture and Fishing	92.19	94.35	92.86	94.16
Wholesale and Retail	92.96	89.68	90.07	87.90
Insurance, Banking and Real Estate	66.67	79.15	78.02	69.79
Construction and Quarrying	12.15	15.18	18.23	19.88
Manufacturing	56.80	32.64	36.57	32.58
Private Services	56.49	51.14	43.05	35.51
Public Administration	NIL			
Military Services	NIL			

Source: Based on Table 11 'National Accounts of the Maltese Islands'.

The first category represents the traditional household businesses and self-employed units, where emphasis lies upon liquid funds rather than mechanisation (physical capital), namely agriculture, fishing and commerce. The incremental observation in construction and quarrying (though low percentagewise in self-activity) indicates the changes in this sector's employment status over the sixties. Private services and manufacturing registered a decline as the relatively large industrial and tourist units, demanding comparatively heavy investment and employing large numbers of workers, assumed a dominant role in this category. Self employment is nil in the fourth group.

The influence upon the elasticity of labour supply could be illustrated from Agriculture. It is observed that the number of whole-time farmers experienced a steady decline over the twenty-year period, 1950-1970. The work conditions and the financial compensations are not sufficiently rewarding to retain the rising generation born in agricultural families. Ideas about a fixed work-week and a regular wage-payment have been endorsed by this social group, depleting the agricultural population. Moreover, as educational opportunities were extended, young people became more selective in their choice of work. The result was that farmers-to-be emigrated or transferred their labour-services to the other sectors, those unskilled mainly into the construction and quarrying industries.

However, once the economic sectors, in which new employment was found, underwent a decline in activity, it is observed that the labour movement out of the agricultural group is arrested and a slight increase even registered.[19] If this pattern repeats itself, with marginal changes in the numbers of farmers tending to move inversely with the level of activity in the rest of the economy, one could forward the hypothesis that unskilled or semi-skilled workers whose families work land and, therefore, could provide an immediate buffer activity yielding a return, feel they have the option to decide when to leave the trade, at what price and where to move. Wages need be above stipulated minimums, varying among individuals but still valid to apply in relevant quantities for the economy; working conditions must be attractive enough to make men leave the family's trade and become wage-earners. As the manpower directly engaged in agriculture declines and the remaining labour units are utilised better, the return per unit of labour could be expected to rise. Specific courses in agricultural technique improvement and a better organised marketing network, could raise further

[19] See Agricultural Census Reports for 1972, 1973.

this sector's average yield and act as a constraint upon the outflow of labour.

Emigration constitutes a more influential factor. Table 5 presents data for 1957-1973 period of migrants aged 15 to 16, i.e. those who form part of the labour force.[20] Emigrating individuals or households have to face, and overcome, two social barriers: language and a way-of-life based upon very restricted geographical dimensions. Young people, academically trained and/or guided by relatives and voluntary or State organisations, find emigration less discouraging. With inter-country mobility possible, and with changes in personal outlooks, labour supply elasticity could, in principle, reach any value. A worker's strength in bargaining, shown in the choice of the country of work and the related rate of payment within a sector, is increased; the possibility of an altemative employment increases supply elasticity.

Table 5

EMIGRATION DATA (EMIGRANTS AGED 15-60) AND THE UNEMPLOYMENT RATE 1957 – 1973

EMIGRATION				% OF LABOUR FORCE		UNEMPLOYMENT
YEAR	MALE	FEMALE	TOTAL	MALE	FEMALE	% OF LABOUR FORCE
1957	1584	857	2441	1.792	0.969	3.714
1958	1435	871	2306	1.554	0.943	3.719
1959	1516	828	2344	1.666	0.910	3.541
1960	1738	1033	2771	1.879	1.118	4.079
1961	1739	941	2680	1.858	1.006	4.667
1962	1647	1138	2885	1.768	0.869	6.823
1963	2737	1908	2643	2.927	2.039	7.501
1964	4208	2460	6668	4.468	4.170	8.117
1965	3389	2338	5727	3.531	3.867	8.189
1966	1802	1376	3178	1.851	1.414	8.072
1967	1674	1232	2906	1.696	1.277	5.463
1968	1369	959	2328	1.369	0.959	4.199
1969	1276	827	2103	1.223	0.793	3.659
1970	1290	826	2116	1.216	0.779	4.677
1971	1356	858	2214	1.21	0.76	5.44
1972	1466	1029	2495	1.34	2.28	5.96
1973	1889	1272	3161	1.75	1.18	4.54

[20]Note that the denominator representing the labour force has not been adjusted; ratios are based upon data for the end of December of every year. Still the statistics should enable us to formulate a general impression about the potential annual unemployment 'disguised' in migration outflow.

The unemployment equivalent of *female* emigrants should not be interpreted at the above rates. The statistics should be adjusted to allow for certain social factors, such as those married women who would probably have remained in the home and would not have sought outside work. Still, it is observed that the *male* emigration rate annually amounted to about one half of the total unemployed rate until 1966, the year that marked the first signs of the construction boom with its sectoral employment multiplier effects. Emigration, though socially and economically disruptive, could become a regulating force that establishes the level of wages acceptable in industry by male labour. The absolute wage level set by labour groups would determine, in turn, the feasible range of production techniques, given the other costs, and thereby influence the type of enterprises instituted.

Normally, the interpretation given to the association between emigration and wages is not the one suggested. Reasoning usually links insufficient employment outlets with the movement of individuals out of the island. This relation is a strong one, of course; but the element now emphasized in the decision of a man to emigrate is that since his aspirations of wage and work conditions can not be adequately fulfilled in a locality, it would be personally welfare increasing to move elsewhere once such possibility exists. Such decisions would influence the Maltese labour force, by reducing the number of those seeking work – thus depressing social anxiety preoccupied with providing short-run employment outlets – and, more important, influence production techniques by permitting the installation of relatively more capital intensive industries – given local borrowing costs, and so guarantee higher labour remuneration rates. In time, following a decline in the birth rate, thus reducing the rate of increase of the labour force, and following an expansion of domestic productive units, the outflow of migrants would be reduced.

A rising female activity rate, on the other hand, tends to reduce labour force supply elasticity. The working horizon of the Maltese female outside the home has been generally short. The young woman plans to get herself employed for a few years before marriage; what has mattered for the young woman has been the need to save money in order to reduce the financial burden on her family when she takes up the married status. (The desire to be free from parental control would constitute another strong motive; but this urge is not considered here.) Her planned 'employment span' would depend upon her educational training, her social class, and the financial assistance she expects to obtain from her family. If the employment opportunities available are not as remunerating as she hopes for, and even if they offer no promotion outlets, she would not opt for emigration but would probably undertake to benefit from them. Whereas the young man would be reluctant to accept a job upon a permanent basis unless wage exceeds a minimum or unless he could count upon the possibility of future promotion or upon the opportunity of taking up an additional job outside work, the young woman planning her work career on a shorter time horizon, would accept the job. Female participation rate has maintained an upward trend – 17.9% in 1959 and 29.5% in 1973 (planned to rise to 35.5% by 1979).

The availability of labour determines the wages offered, given demand. To the extent, therefore, that supply is relatively elastic for male workers but inelastic for female workers, wages in those sectors operated by male labour would register higher wages than otherwise. Higher wages could reduce employment in a unit (though it need not do so if the profit margin in time is wide enough to act as a buffer against reasonable increase in the wage bill.) But they could act as an incentive to an efficient running of a firm; disguised unemployment is reduced to a minimum if not entirely eliminated. Those sectors employing exclusively female operators could offer lower wages than economically warranted and still recruit personnel; wages in such sectors could be raised through the activity of labour organisations. In those sectors in which the worker's sex is unimportant, wages are set at a level initially indicated by management, probably at a lower level than economically feasible; intervention through industrial action or Wages Council would raise the rates paid. If the assumption of an initial under-valued payment is correct, wage increases, up to a level differing among industries and intra-industry plants, would not damage the competitiveness of an enterprise; workers would be being paid what, in a private enterprise system, would be computed their contribution to the production of a commodity. The introduction of a national minimum wage in 1974, and equality of pay for work, irrespective of sex, by 1976, help establish the minimum wages that could be paid in industry and tourism, but not, of course, an upper limit.

The above application of Preiser's idea may directly affect functional shares in part because emigration does not entitle a labour unit to a share in the Maltese GNP. But self-employment would: a man becomes a wage-earner (imputed) and an owner of property. In addition, Preiser's conclusion could be forwarded as an argument for labour participation in management and profits. The important issue becomes the achievement of a degree of equity without stifling growth. It could be that the optimal solution would be to offer a group of workers a share not in their product but in the product of others; workers would participate in the management of the enterprise in which they are employed while they would be given the opportunity, as individuals or as corporate entities, to own shares in other business units.

It should be emphasized that the ownership of capital, apart from influencing the personal income distribution, could affect the functional shares by turning workers into units partly independent from their labour source of earnings thus enabling them to resist the terms offered and raise their wages and/or better their work conditions. This is bound to produce an impact upon the internal distribution of a firm's product, given the price of final output as is the case confronting the Maltese firm.

Given the market conditions and the profit considerations evaluated in the previous section, trade unions could demand participation in profits through a firm's annual contributions reflecting productivity and sales; this, as suggested already, could take the form of an agreed percentage of disposable profits which would go to benefit an insurance or investment fund for the workers. If the weekly pay-packet is sufficient to retain the workers cooperative, the future benefits could be interpreted as investment (savings) for the employees. The value of the appropriated profits could be included in the workers' share similar to the social insurance contributions by employers. The measured effect upon functional distribution would depend upon the interpretation given to these funds by the firm: whether they are regarded as costs prior to estimating net profit, or, what seems logical, to consider them as profit's shares. Functional distribution could remain unaltered; but personal distribution, more important from a social angle, would be modified in favour of the workers.

The interrelationship between the elasticity of factor supply and relative shares could be also applied to the utilisation of arable land. Land is leased to individuals, normally at a low nominal fee, especially in those areas not considered suitable for dwellings construction and development. Though the payments are regularly paid by the tenants – full-time or part-time farmers or game hunters – yet areas left uncultivated, season after season, are fairly common. The low rental is not burden-some upon an individual; the tenant has no incentive to terminate the lease. Effort is not produced although land is available. The gradual efficient organisation of the agricultural sector, demanding investment in irrigation systems and tenancy consolidation, would raise the yield on agricultural investment and increase the opportunity costs of leaving cultivable land idle. An increase in output would induce extensive as well as intensive cultivation of land. The *observed* shares accruing to factor labour – hired and imputed in the case of self-employed – and to factor capital – profits and rentals – would depend upon the price of products and upon the accounting technique adopted. Reorganisation within this sector should activate idle land, thus eliciting work effort leading to increased output and higher absolute returns to both labour and non-labour factors.

Capital/Labour Intensities and Dynamic Planning

Maltese Public Authorities have propagated the idea among foreign investors that local factor labour is abundant and relatively intra-sectorally immobile, in an attempt to accelerate nascent productive investment and ease the social pressure of unemployment. Time and emigration constituted a pressing element for the Government though not necessarily for the outward-looking individual or household. The incentive scheme assistance during the sixties was positively correlated to the amount of labour units employed by a firm, unwarrantedly creating the temptation for investors to inflate the projected manpower required to assist in production output. Inflated labour projections meant a higher financial grant, a reduction in own-capital outlay and an automatic rise in the effective rate of return.[21] Preferential treatment was given to those pro-

[21] The effective rate of return can be illustrated by a simple hypothetical example which stressed the importance of distinguishing between 'private' and 'social' rates of return.

Factory Construction cost + land	=	£M 40
Cost of machinery & equipment	=	100
		£M140

Assume the firm is given £M30 in grants.

So: Firm's Investment from own sources: £M70 (£M100 – 30)
Government's investment 70 (40 + 30)

Suppose that the end of the first year profit amount to £M28. This figure gives a yield equal to 20% on Total Investment (i.e. £M140). and 40% on the firm's investment (£M70).

So while the nominal rate is 20%, the effective rate for the firm (private rate of return) is double that value. If profits persist at that rate and are withdrawn the payback period would be reduced to 2½ years as against 5 years if total investment – machinery plus factor construction – were considered. Projects may be profitable from the short-term firm's point of view but could possibly be rejected if evaluated from a social, long-term angle.

jects which utilised a lower capital/labour (K/L) ratio for given output.

As noted already, an economy in transition must innovate. Entrepreneurs are faced with a series of innovations of which they are assumed to select the optimal, given the actual (present) and the expected (future) economic conditions, and apply it to a particular industry. Innovations generally fall into two classes: product-innovations and process-innovations. The terms are self-explanatory. Though distinction is fairly easy in principle, yet it is difficult to hold in the real world for the introduction of a cost-reducing process is sometimes accompanied by a change in the product mix.[22]

In setting up a production process, firms follow experience. The competitive firm cannot rationally decide upon a particular level of production without some estimate of future product and factor prices. It is not sufficient to have 'primary information' about technical production possibilities, consumers' preferences and current input prices. To determine the profitability of investment, firms must also be acquainted with 'secondary information' which enables them to form expectations of future sales and prices realistically, i.e. facilitates the dynamic projection of future costs and revenues. This type of information takes the form of known restraints on rival behaviour which makes it possible to estimate the range of competing supply at a future date. To survive the innovator must adapt production processes to relative factor scarcities, and *should be prepared to adjust,* so far as indivisibilities of capital allow, production to changes in factor scarcities.

When real investment is cheap relative to labour, standards of obsolescence could be assumed to be stringent and the spread bet-

[22]Economic theory classifies innovations as 'labour saving' and 'capital saving' on the assumption of two production factors. Following the Hicks-Robinson definition a 'labour saving' innovation is one which raises the marginal productivity of capital relative to that of labour at a given capital-labour ratio employed in producing a given output; and conversely for a 'capital saving' innovation. Note that neo-classical distribution models interpret changes in relative factor shares following growth or innovations in terms of the elasticity of substitution with the value of unity (in non-vintage growth models) as the condition for constant relative shares. Kaldor N. introduced the concept of a 'technical progress function' as a substitute for the aggregate production function and for the concepts of 'capital (Labour) saving'.

See: Blaug M: 'A Survey of the Theory of Process Innovation' (Economica – February 1963).

Kregel J.: op. cit Ch.9

ween the best and the average technique is narrow. A fall in interest rate or in equipment prices lowers the capital costs of adopting the best-practice technique, while a rise in the wage rate increases the operating costs of averaged priced techniques; both tend to induce the scrapping of old machines. On the other hand when real investment is dear relative to labour, the capital structure of an industry would consist largely of outmoded equipment.

The absorption of innovatory techniques relies upon the degree of technical dynamism of an economy, i.e. on the flow of new ideas and the readiness of the system to integrate them. Producers in Malta, at this stage of development, have to import ideas and know-how. Originality in commodity presentation could be easier to create in the sector of tourism; but this industry pertains to a genre of its own. To the extent that products manufactured in Malta are 'unique', favourably planned, produced and directed to specific markets, ideas could originate in the island. These, however, require the appearance of a new generation of Maltese producers reared up in a 'manufacturing and marketing' environment and conversant with the investor's and the saleman's language, style and approach. On the other hand, to the extent that exports retain the characteristics of a high elastic demand, and are geared to meet commodity-supply gaps in foreign markets, conditions of productions are dictated abroad and have to be scrupulously followed. The following observations are directed towards this second type of products, to Tourism and to ship repairing facilities.

The incentive scheme operated to encourage investment was purposely heavily biased towards grants and tax-exemption. This meant that the original corporate private investment, but not total outlay – could be recovered in a shorter time span, i.e. the payback period for the invested funds is reduced in inverse proportion to the ratio of grants, plus the cost of factory construction not incurred, to the total initial outlay. The higher this ratio the shorter the payback period, given annual revenue. The profitability of an investment in Malta would be higher and unrealistically promising if the yield is estimated upon the funds invested by the firm rather than calculated upon the aggregate commitment. In an attempt to recoup quickly its original share, a firm might withdraw funds in excess of what would be desirable to allow for reinvestment purposes, if any reinvestment plans exist in the first place.

The investment incentive schemes operated were inherently inconsistent. The lowering of capital costs through grants and interest-free loan should lead to the application of a labour saving technique, i.e. to a production method that raises the productivity of capital in terms of a hypothetical K/L ratio in the instance of a newly established local unit. However, financial assistance was correlated to the number of jobs provided by the enterprise. It follows that techniques considered optimal in the absence of 'labour clauses' would be substituted by a process of a less technically advanced nature. The advantages that could have been gained from the reduction of capital costs would, as a consequence, fail to materialize. Labour employment would turn out to be in excess of the optimal process requirements when dynamic considerations are accounted for. Work stability would be threatened from the beginning and labour's share within a unit would perhaps be lower than it otherwise could have been. For, in order to anticipate future wage increases, the rates initially offered would be purposely set at an economically-unwarranted low level; such level would simultaneously guarantee a very short payback period of own-invested funds.

If this argument is valid, the investment-incentive scheme could be considered a means of creating and sustaining temporarily disguised unemployment. A fixed technical relationship would be modified on purpose by the projected engagement of superfluous labour when a firm applies for assistance; the promised target, if implemented, would undermine the stability of the enterprise. Given the labour supply elasticity conditions described above, a rise in wages in those industries employing male labour could lead to the streamlining of production, reduce employment (or the rate of increase of labour intake following firm's expansion) but raise labour's share to what it should have been in the first place. Labour's share in those units operated by female workers could be affected under supply rigidity, only if the supply curve shifts inwards, denoting lower employment, (or a lower growth rate of female employment in terms of demand) at higher wage rates.

In the absence of a capital-goods sector in the Maltese economy, analysis is restricted solely to the consumption-goods producing units. Intersectoral factor mobility and changes in factor prices do not behave as two-sector economic models postulate. The variable element that could be controlled with some success is the cost of labour dynamically estimated, i.e. growing at a rate per time period. The cost of physical capital goods is determined outside the Maltese economic system; this would also be true for local savings (liquid assets) in the absence of exchange restrictions. With exchange controls, the cost of local borrowing could also be regulated at a cost to the financial institution and depositors, and at a gain to foreign investors.

It is agreed, then, that industries established should reflect the factor supply conditions based upon current and future cost and revenue estimates. Prices, however, may not reflect the true factor market conditions for the price system may be inoperative. It has been repeatedly stated that labour-oriented industry should represent the optimal units for Malta. Labour-intensity cannot, however, be evaluated without including the financial outlay on fixed capital: thus we may get two 'equally' labour intensive industries in terms of running costs with completely different fixed asset structure, for example, ship repair and textiles. Surely one cannot compare the initial costs of building a dock and workshops in a naval yard with the costs of setting up a textile factory even though the wage and salary content in the operation of both firms may be considered labour intensive.

Still, the Maltese labour supply cannot be dynamically described as abundant; emigration and a decline in birth rate would regulate the natural growth of the labour force. It is true that over the sixties and seventies the labour supply for private industry has been augmented by the rise in female participation rate and the closure of the Defence Establishment, i.e. through structural unemployment superimposed on a post-war 'baby boom' and an altered conception of the social role of the woman. But such phenomena are intrinsically of a temporary nature.

Neither could labour in Malta be classified as 'cheap' once due consideration is given to the duality in profit-motivation existing in the local economy and the relative importance of the sectors in which workers are freed from worries of competition in output and fluctuations in demand for their services. The latter's earnings are bound to structure the wage demands and the expectations of labour in industry. The K/L ratio deemed feasible in another developing economy becomes socially unacceptable when critically studied in the Malta context. Production processes involving a higher K/L ratio than those artificially made to prevail under static conditions and probably improving labour's rate and share appear desireable even at the socially unwanted cost of a higher trade-off in terms of emigration, or unemployment, or the creation of parastatal corps to absorb the unemployed and reduce the emigration flow.

The introduction of equal pay for equal work and the establishing of a national minimum wage, coupled to the less attractive incentive programme (for the adventurous entrepreneur) introduced since 1971 should encourage reorganisation in the industrial units already established and instigate improved production techniques in those projects still at the planning stage. Such modifications would affect both the functional shares and help improve the personal incomes of industrial labour.

Conclusion

The real objective of public policy should be man's welfare; therefore, the *personal* distribution of income should be the main end of government activities. However, transitional policies must be concerned, as a first step, with the *functional* distribution of income. Such policies, thought of macroeconomically, would indicate the allocation plans of a market system within a socio-political framework; public policies are meant to depart from a value based factor shares allocation and proceed to achieve the personal income-wealth-welfare distribution desirable. Such a task cannot be simple; it is inherently complex and dynamic. And, although income or wealth distributions may be tuned to the planned patterns, there always remains the difficulty of correctly evaluating personal and social welfare.

This paper introduced certain elements that can only be ignored at a cost. A factor share policy whether in nominal or in real terms could be omitted from the explicit considerations of public planners; but it is inevitably implied as the net outcome of several forces that, in the absence of deliberate thinking about the subject, could be cancelling out the positive contribution every one of them has to make.

A functional share policy for Malta should take into account the following considerations:

(i) the realisation of the demand for novel initiative undertakings arising out of the production profit motive, and the time and the means required to enable a native entrepreneurial community to mature in terms of export-oriented competitive markets.

(ii) the social implications in terms of asset-ownership arising out of the theoretical economic conclusion that growth favours a shift of resources towards factor capital. The adaptation and the implementation of an Aids to Industries Scheme together with the role of Government's direct participation in commodity producing would be regulated within the value judgements implied by different asset-ownership distribution criteria.

(iii) the effects arising out of power in personal decision making vis-a-vis work, its reward and conditions following the ability of the Maltese worker to move between industries and between countries. Having an alternative at hand strengthens an individual's bargaining position; self-employment and emigration possibilities enable a man to resist offers for financial and non-financial rewards in work. Conversely, the limitation of self-employment outlets and control over migration outflow reduces the bargaining strength of labour enabling a shift towards factor capital and, possibly, reinvestment and economic growth. This idea should be judged in connection with the previous observation about asset ownership.

(iv) the capital-labour intensities in the secondary and tertiary sectors envisaged dynamically, i.e. in terms of expected changes in wages and other costs, and the rate of change in product prices. An investment decision, once taken, would control activity for a relatively long time; the small size of the Maltese economy does not allow enough scope for radical changes in production techniques. The structure of enterprises' set-up are bound to determine sectoral activity and, through it, the fulfilment, or otherwise, of labour employed. Social stability and order demand that labour's aspirations, the desires of the majority, are adequately met.

The problem is not as simple or as of secondary importance as it might casually appear to be. In a rapidly changing world short-term policies, taken ad hoc, are essential: but an overall medium run view must never be lost out of sight. Economics is at its best when long run considerations are made; however, short-run policies are essential as everyday experience shows and it is within the short-run frame that an interdisciplinary approach to a socio-economic problem becomes a necessity. Economics on its own would fail to achieve what it could attain with the assistance of other disciplines. So, politicians should not be relegated to a minor role for they are the men responsible for short-run adjustments; but neither can economic considerations be completely omitted, for scarce-resource-allocation and its effects would certainly make themselves felt over the long run.

Co-operation and mutual comprehension between active economic groups and public policy-makers are crucial for the organisation of a social economy in transition: an often repeated statement but unfortunately one whose real implications are hardly ever critically assessed. Failure to do so would make *all* the difference between socio-economic stability and socio-economic unrest.