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UNEMPLOYMENT:
INTERNAL AND EXTERNAL FACTORS

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The Causes of Unemployment: Two Views

Commentators on the state of the Maltese economy agree that the present number of those searching for work is potentially socially disruptive, economically harmful and politically unacceptable.[1] They differ, however, in the identification of the factors which could be supposed to have induced the present high level of job seekers.

Some analysts, including certain public policy makers, attribute the decline in export performance, output and gainful employment solely to foreign factors, to "worldwide recession".[2] Other observers acknowledge that the international economic environment might have been far from conducive to a high rate of growth for the Maltese economy; but they also consider certain policies, pursued by Maltese public authorities in the fiscal, monetary and general administrative

1. Persons registering on Part 1 of the Register numbered 10,721 in February 1983. The number of job seekers, however, is much higher. The labour supply in December 1982 was given at 121,000, representing 37.6% of the Maltese population. In 1980, the Labour Supply/Population ratio stood at 38.7%; it was envisaged to rise to 39.9% by 1985. On the realistic assumption that the Labour Supply/Population ratio in 1983 should lie between the values for 1980 and 1985, it is estimated that the ratio should be 39.3% in 1983. This ratio would yield a Labour Force of 126,900, that is 5,800 more than was actually recorded in December 1982. Adding the 5,800 to the registered unemployed of 10,000 and accounting for the 1,500 members of the temporary labour corps, we get 17,000 job seekers. In terms of the official labour supply for February 1983, the 17,000 unemployed and temporarily employed represent an unemployment rate of 14%; in terms of our estimate of the labour force, 127,000 (rounded), they represent an unemployment rate of 13.4%. Our estimates do not take account of the recent revision by the Central Office of Statistics of the population aged 18 years and over. Nor do they account for possible overestimation of sectoral gainful employment, particularly in Agriculture. Once these factors were to be taken into account, unemployment would be higher.
2. Refer, for example, to the speech by the Prime Minister at the general conference of the Young Socialists League. The Prime Minister was reported to have said: "...these problems (caused by unemployment) were not selfmade but were the result of worldwide crisis." **The Times**, Malta, March 19, 1983, p. 16.

areas, as having been equally detrimental to the generation of employment.[3]

It is generally accepted that there can be no effective treatment for a malady without a thorough and correct diagnosis; it is also agreed that it is the disease and not the symptom which has to be treated if a sick person is to be healed. By analogy, corrective economic policies can only be devised and successfully implemented if the true causes of an economic ill, such as a low rate of growth of output, are identified in the first place. If the present unemployment in the Maltese Islands (a symptom) is the direct outcome of the international recession (a cause), then there is very little positive action which can be immediately taken by local policy makers to treat the 'cause'. They may alleviate the inconveniences caused by the symptoms, but not cure the disease. The Maltese economy is too small to influence activity on the international commodity, capital and money markets. On the other hand, if the present domestic economic slowdown is partly the result of ineffective or misguided policies implemented by the Malta Government or its agencies, or of practices pursued by private producers operating in Malta, then remedial actions may be taken to neutralise the negative effects which arise directly from such factors.

In this paper we evaluate the hypothesis that the unemployment difficulties facing the Maltese economy are primarily demand oriented, that is, the effect of worldwide recession; they are therefore considered to be beyond the effective control of local policy makers. Using fairly simple techniques, we analyse the behaviour of exports, the employment structure, and the overall utilisation of available resources during the seventies and also consider the appropriateness of whatever economic strategies for the creation of new employment are spelled out in the present five year development programme.[4] Export performance will be judged primarily in terms of the behaviour of manufactured goods; the published data on exports by destination obtainable for manufactures are better suited for analysis than the aggregated data on invisible trade, tourism earnings included. However, reference will also be made to the British tourist market which represents Malta's main source of earnings from tourism.

Although our work is primarily exploratory, and, therefore needs to be followed up using, when possible, theoretical approaches and statistical techniques other than those used in this paper, yet the conclusions arrived at are sufficiently robust to assess the veracity of the hypothesis tested.

3. Federation of Industries, **Industry Trends Survey (First Half of 1983)**, Malta, FOI, pages 5 to 8.

4. **Malta: Guidelines for Progress — Development Plan 1981 - 1985** (Malta, Office of the Prime Minister, October 1981).

Performance of Exports of Manufactures and of Tourist Arrivals from Britain

The performance of a country's exports may be evaluated in one of three ways: either, by analysing the trend in the worth of the goods sold valued in the currency of the exporting country; or, by examining the changes in the volume of goods sold as measured by a suitably constructed volume index; or, by estimating the rate of success of a country to sell abroad expressed by the share of a country's exports in the total imports of another country. We follow the second and third methods to assess the changes in the performance of Maltese exports in foreign markets.

The volume index for Maltese exports for the period 1975 – 1981, reproduced in Table 1, suggests that merchandise trade expanded very rapidly during 1976 and 1977 but then slowed down considerably until it declined in 1981. Exports have kept on rising in volume between 1975 and 1980; they fell in 1981. Clear signs of a heavy slump in the rate of growth of exports emerged in 1978.

TABLE I

Volume Index of Maltese Manufacturers (1975 = 100)

Year	Volume Index	Rate of Change (%)
1975	100	
1976	142.7	42.7
1977	178.9	25.4
1978	185.2	3.5
1979	200.2	8.1
1980	208.9	4.3
1981	185.2	−11.4

Source: **International Financial Statistics** (International Monetary Fund).

Between 1976 and 1981 the relative importance of the individual export outlets for local manufactured goods remained unaltered; a rank correlation test for those two years suggests that the two structures of trade flows are highly correlated.[5] The main outlets for Maltese goods over those years were West Germany, Britain, Italy, Belgium and Libya. The four EEC countries accounted for an average 60% of Maltese goods exported. Therefore, changes in the import flows of these four countries could be expected to influence the flow of exports from Malta. The volume indices for imports into Belgium, Italy, the United Kingdom and West Germany are submitted in Table II.

TABLE II

Volume Indices for Imports 1975 — 1981
(1975 = 100)

Year	Belgium	Italy	U.K.	W. Germany
1975	100	100	100	100
1976	113	117.6	106.4	114.4
1977	117	114.3	108.8	118.6
1978	121	124.3	116.7	127.6
1979	128	140.9	126.7	139.1
1980	130	143.7	121.3	142.2
1981	125	130.2	118.6	137.2

Source: **International Financial Statistics** (International Monetary Fund).

Imports post-1975 in Belgium, West Germany and Italy reached their highest level in 1980; in the United Kingdom they were highest in 1979. In 1981 imports fell in volume in the four countries: by 4% in Belgium and West Germany, by 2% in the United Kingdom, and by 9% in Italy, compared to the 1980 levels. Since the volume of Maltese exports also registered a decline in 1981, it would seem that there exists a direct, unlagged relationship between the two flows, that is, between the flow of Maltese goods exported and the flow of goods imported in the four countries.

5. The coefficient of rank correlation for trade flows in 1976 and 1981 is 0.9047. A rank correlation coefficient of unity would indicate perfect correlation between the trade flows distribution for any two years.

However, the interlinkages between any two markets are not as simple as such a superficial observation could imply. They are more complex and it becomes more instructive to observe the behaviour of the shares of Malta-made goods in the four markets being considered. The respective market shares are presented in Table III.

Market shares are estimated by the ratio of Maltese exports of merchandise to any one country, expressed in terms of United States dollars, and the total imports of goods bought by the same country, also expressed in terms of the U.S. dollar.

Thus: $$\text{Share of Market} = \frac{X_{m,j}}{M_j} \cdot 100$$

where $X_{m,j}$ = Maltese exports to country j, expressed in U.S. dollars

M_j = Imports of merchandise of country j, expressed in U.S. dollars

TABLE III

Percentage Shares of Malta-made goods in the Imports of Manufactures in Belgium, Italy, the United Kingdom and West Germany

Year	Belgium	Italy	U.K.	W. Germany
1974	0.0381	0.0241	0.0701	0.0188
1975	0.0280	0.0256	0.0694	0.0439
1976	0.0250	0.0281	0.0715	0.0634
1977	0.0323	0.0276	0.0857	0.0890
1978	0.0289	0.0202	0.0950	0.0928
1979	0.0313	0.0215	0.0790	0.0837
1980	0.0393	0.0295	0.0817	0.0791
1981	0.0512	0.0325	0.0883	0.0787

Maltese exports claimed a larger share of the Italian and Belgian markets in 1981 than in the preceding years, despite the fall of imports in those countries in 1981. The situation in the British and West German markets was, however, different: the biggest headway in these markets was made in 1978 when Maltese goods represented 0.09% of imports in the two countries. The gains made in the German market were partly lost after 1978, the market share in 1981 being 15% **lower** than that for 1978, although imports in Germany in 1981 were still 7% **higher** than they had been in 1978.

The situation in the British market was more encouraging; the loss in the market share registered in 1979 was partly reversed in 1980 and 1981. These movements in the share of Malta's exports in Britain's imports occurred throughout a period when the volume of imports in Britain was either rising or, if declining as in 1981, was nevertheless still higher than in 1978 (Table 2 above). Therefore, whatever the determinant of fluctuations in the share of the British market, it was **not** a deficiency of demand. This conclusion is equally valid for the other three countries considered.

The net effect on exports of the different experiences in the four countries, with gains in some and losses in others, may be assessed by comparing the actual exports to the four countries in 1979, 1980 and 1981 with the values which exports would have obtained had the 1978 market shares remained unchanged. We have selected the market shares for 1978 as weights because the largest shares of the market after 1978 for Germany and Britain, the foremost importers of Maltese goods, are recorded in that year. Had the 1978 share pattern persisted in the following three years for the four countries, exports would have been about Lm54 million higher than the total Lm850.4 million recorded for the period. The difference represents an increase of 6%.

A 6% increase over the three-year period would not have probably changed the employment situation in Malta significantly. Yet it is a clear pointer to one important factor, the potential of an expanding market which could have been exploited if handled professionally.

The cause for unemployment in Malta was not "world-wide recession", but rather it was much closer to home. It lay squarely with supply and all the factors related to the successful marketing of Malta-made goods and services and, more important, to the marketing of the Maltese Islands as an ideal location for the production of goods and the provision of services.

This conclusion is reinforced after consideration is given to the degree of success in attracting British holiday makers

to Malta. Table IV shows information on British tourists abroad, British visitors to Malta, and Malta's 'share' of the British tourist market, expressed by the number of British tourists visiting Malta as a proportion of the total number of British holidaymakers who go abroad.

TABLE IV

Malta's share of British Holiday Makers Abroad, 1975 – 1982

Year	(1) British Tourists Abroad (Millions)	(2) British Tourists to Malta	(2)/(1) %
1975	6.9	224967	3.26
1976	6.3	214075	3.40
1977	6.0	218318	3.64
1978	8.4	310584	3.70
1979	9.9	434694	4.40
1980	11.8	557620	4.73
1981	13.2	516484	3.91
1982	*	330903	

Note: * Data for 1982 for British holidaymakers abroad were not available at the time of writing. But it was observed in Economic Trends (U.K., COS), March 1983, that "the number of U.K. visitors travelling overseas (in 1982) increased by 7%" (p. 75). Most probably, therefore, the number of holidaymakers, who represent the largest category of U.K. visitors abroad, exceeded the 13.2 million recorded for 1981.

Table IV suggests two important indicators. First, the number of holidaymakers from Britain declined from 6.9 million in 1975 to 6 million in 1977, but since then has increased very fast, reaching 13 million in 1981. The flow of British tourists to Malta was generally directly related to the trends in the outward movement of British holidaymakers; a marked exception is, however, noticed in 1981 and 1982. Secondly, Malta's share of the British market for holidaymakers overseas kept rising after 1975, irrespective of the fluctuations registered in the absolute number of Britons going abroad or visiting Malta. In 1981, however, our share of the British market fell from 4.73% to 3.91%, a fact which is not highlighted by the data on British visitors to Malta. In 1982, this share fell even further, since the number of British tourists to Malta **declined** by 36% compared to 1981, while the number of British holidaymakers abroad **exceeded** the 13.2 million of 1981.

In this case, also, 'recession' clearly had nothing to do with the sharp decline in the number of British tourists to Malta. Whether it affected the 'quality' of tourists, as reflected in the amount spent by tourists on a holiday, is another matter. The source of the problems facing the Maltese economy does not lie with demand, but with supply of the service, i.e. our relative competitiveness in terms of product price and quality.

The main conclusion that follows directly from the above considerations is that up to 1981 the unemployment problem which Malta was facing originated from a structure of production of goods and services which lacked the momentum to generate a growing demand for labour services sufficient to absorb an expanding labour supply. This conclusion is further strengthened after one considers the structural changes in employment which evolved in the Maltese economy during the seventies.

Employment, Investment, and Potential Economic Growth during the Seventies

A close examination of the structure of employment, of the share of domestic output allocated to investment, and of the degree of utilisation of available resources during the seventies would suggest that the employment difficulties have emanated from the supply side, that is, from the inability of the Maltese economy to widen its production and services base sufficiently to absorb a growing labour force. A comparison of key variable projections laid down in the 1973-80 Development Plan with the actual turnout would sharply identify the shortcomings in the economy and also in the policies which should have been introduced in an attempt to correct these weaknesses.

Manpower projection and achievements: 1973 — 1980

The 1973-1980 Development Plan was structured on the

critical assumption that net emigration between 1974 and 1980 would be 19,500.[6] The economic planners tacitly assumed that the Maltese government exercised fairly absolute control over the migration movement and that, through its policy on emigration, it could entice the desired number of Maltese to settle abroad. The regulatory properties of migration on population control and the labour supply had paid dividends in the past; although emigration had slowed down during the sixties, the targets set in the Seven-Year programme appeared attainable.

Such a confident attitude towards migration was the result of past successes and unwisely omitted from consideration an important feature of international migration. In international migration, the country sending emigrants has to rely almost exclusively on the goodwill and the cooperation of the governments of the receiving countries. This dependance is inevitable, unless, of course, a country embarks on a policy, tacit or expressed, of encouraging its people to emigrate illegally — as seems to be the case of Mexican workers to the United States —, or to force its citizens to flee from the country, like the Vietnam boat-people, and in turn, compels other countries to receive them on humanitarian grounds.

As a result of the stringent entry conditions stipulated by the immigration authorities in Australia and Britain after 1974, the number of recorded Maltese emigrants amounted to 12,411, yielding a net **return** migration of 5,188 for the years 1975 to 1980.[7]

One direct result of the unforeseen shift in the migration movement was that the supply of labour in 1980, originally projected to be 116,000, turned out to be 123,000. This increase in the number of job seekers distorted the employment

6. **Development Plan for Malta 1973 - 1980** (Malta, Office of the Prime Minister, October 1974) page 96.
7. On the interpretation of migration statistics for the Maltese Islands see,
E.P. Delia, 'Return Migration to the Maltese Islands in the Postwar years', **Hyphen** (Malta, The New Lyceum), Vol. III, No. 1, 1981, pages 1 to 8.
E.P. Delia, 'Modern Emigration from Malta: A Liability?', **Hyphen**, Vol. III, No. 4, 1982, especially p. 163.

structure over the second half of the seventies. This distortion can be observed from the following comparisons:

(i) a higher number of registered unemployed in 1980, 4,000 as against the projected 2,500. A stricter code for eligibility to registration for employment was introduced; return migrants were not eligible for registration for work, on Part I of the register, although they were not prohibited from setting up a business or from finding work on their own;

(ii) a labour corp of 1,570 men, when such corps were planned to have been disbanded by 1980;

(iii) a government (administrative) sector employing 24,000, when it was repeatedly emphasised by policy makers that general administration should not absorb more than 21,000 persons;

(iv) a heavier dependence on the Textiles, Footwear, and Wearing Apparel Sectors: 7,101 (1973) and 12,042 workers (1980) who represented 9.9% and 13.1%, respectively of total employees in the non-government sector. These three sectors had been identified in the **Supplement to the 1973-80 Development Plan,** published in 1977, as being in urgent need of rationalisation in anticipation of changes in the capital-labour intensities to compensate for higher labour costs, and higher non-production expenses, such as freight and insurance.

(v) an increase in the number of employees in the banking sector from 1,031 in 1973 to 1,866 in 1980, which increase was not complemented by any visible gains to the banks' customers.

Although the gainfully occupied population was 5,000 higher than projected in 1980 — 118,800 instead of 113,990 — the additional employment was provided by the expansion of the government sector and the setting up of a labour corp, items (ii) and (iii) above, apart from the extension of employment in public corporations, mainly as a means of absorbing labour. Indeed, in the manufacturing sector, there were 5,000 jobs fewer than scheduled. This redirection of employment meant a lower rate of value added per worker, created a false sense of security of employment, and burdened the public sector with a recurrent expense which could have been

better spent on extending social capital facilities or in improving the quality of public services provided.

One explanation for the undesirable employment structure which materialised during the seventies is the comparatively low rate of capital formation which was not only lower than projected in the 1973-1980 Plan, but, worse, which became even more inadequate once the manpower projections turned out to be underestimates of the true situation. Instead of actively following a policy of increasing the share of investment in total domestic resources, public policy makers in Malta allowed the investment/gross domestic product ratio to decline.

The 1973-1980 Plan expressed in clear terms the planners' belief that in order to achieve the Plan targets for employment and output, investment had to amount to 25% of Gross Domestic Product in real terms.[8] The actual Investment/GDP ratio fell short of that projected; the trend in the rate of capital accumulation may be observed from Table V.

TABLE V

Investment, Gross Domestic Product at constant 1973 prices

Year	GFCF Lm Mill.	GDP Lm Mill.	(GFCF/ GDP)%	(IC/ GDP)%	(IM/ GDP)%
1975	27.4	152.2	18.0	8.2	9.8
1976	34.1	178.1	19.2	8.6	10.6
1977	36.4	199.8	18.2	9.3	8.9
1978	35.2	222.1	15.8	9.2	6.6
1979	39.2	245.4	16.0	8.2	7.8
1980	39.5	262.7	15.0	7.2	7.8
1981	46.3	271.4	17.1	8.6	8.5

Note: GFCF = Gross Fixed Capital Formation
IC = Investment in Construction
IM = Investment in Machinery

Source: Data for GFCF, GDF are taken from **National Accounts of the Maltese Islands,** Table B.

The Investment/GDP ratio, in real terms, fell to a low of 15% in 1980. Indeed, Table 5 demonstrates that the projected investment target of 25% of GDP was never attained

8. **Development Plan for Malta 1973-1980,** p. 126.

over the Plan period. The rate of capital accumulation had been smaller than that which the economy needed to achieve full employment; therefore, it may be concluded that the policies implemented to induce the desired investment rate did not yield the required results.

Table V also points to another factor closely related to employment, namely, the shift between the two main components of total investment, with more emphasis being laid on construction rather than on capital equipment. This observed shift in the composition of capital formation simply records the boom in construction which complemented the upsurge of mass, 'package', tourism during the second half of the seventies. Investment in construction generates activity and employment in the short run and it is a prerequisite for the services sector in the long run; but to ensure a high degree of utilisation it requires a host of supporting measures — ranging from public amenities in certain areas, to the orderly control of price movements and exchange rate policies.

However, the observed shift also reflects a slow process, in fact far slower than desired, in the transfer of production to a higher technology and vacillation in the implementation of plans to complete the large scale investment undertaken in ship building and in the transhipment and the 'free zone' area. Once these projects had been identified as economically viable for the Maltese Islands, their completion should have been accelerated, especially once it became apparent to policy makers that aggregate productive employment was falling far below anticipations.

Persumably, the fear of Balance of Payments difficulties that could have been expected to appear after the termination of the 1972 Rent Agreement with Britain made Maltese policy makers oversensitive on the need to save foreign currency reserves. The strain on international payments did not materialise in 1980 primarily because of the high rate of growth in the number of tourists who visited the Islands; tourist arrivals increased from 477,741 in 1978 to 728,732 in 1980, while gross earnings from tourism were officially estimated to have risen from Lm49.8 million to Lm111.9 million over the triennium. This sharp expansion in foreign exchange earnings more than compensated for the estimated loss of Lm28 million which the

Maltese economy used to earn annually from the use by Britain of defence facilities on the Islands.

But whatever might have been the reason, the policies on investment, particularly private investment in manufacturing and in a wide, diversified array of service industries, did not produce the hoped-for structural changes. Maintaining reserves in liquid form when interest rates are high may appear a sound, short-term policy, especially if the possibility exists of making additional capital gains on the international exchange market. But, over the long run, such a policy would merely serve to make the necessary diversification of the capital stock in the home economy more difficult to attain. High interest rates generally reflect high inflation rates, rather than high yields on capital invested. Consequently, the construction costs of those projects which have relatively long gestation periods would also bear the effects of high inflation rates, with the result that the gains made in the form of interest earned on liquid capital would be eventually dissipated on higher expenditure on construction and equipment. Witness the cost of construction of the Marsa shipyard which was estimated to cost about Lm20 million in 1975, but which seems destined to end up costing between Lm50 — Lm60 million.[9]

In order to enable the economy to accumulate reserves, the rate of economic expansion had to be slowed down. A measure of the rate of economic slowdown, or of the unutilised capacity, of the Maltese economy during the seventies may be derived by comparing the Balance of Payments equilibrium growth rate, Ger, with the rate of growth of the Gross National Product in real terms, y.[10]

The Ger is that rate of economic growth which will maintain a Balance of Payments equilibrium, and, therefore, avoid

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9. The implicit deflator for GFCF stood at 228 in 1981, with 1973 = 100. The respective deflators for Machinery and Construction were 280 and 177.
10. See A.P. Thirlwall, 'The Balance of Payments Constraint as an explanation of International Growth Rate Differentials', **Quarterly Review**, Banca Nazionale del Lavoro, March 1979, pages 45 to 54. J.S.L. McCombie, 'Are International Growth Rates Constrained by the Balance of Payments? A Comment on Professor Thirlwall', **Quarterly Review**, Banca Nazionale del Lavoro, December 1981, pages 455 to 458.
A.P. Thirlwall, 'A Reply to Mr. McCombie', **Ibid.** pages 458 and 459.

problems related to foreign borrowing and repayment of loans raised from foreign creditors. If the Balance of Payments equilibrium must be maintained, a country's long run growth rate will be determined by the ratio of its rate of growth of exports to its income elasticity of demand for imports.

So: $$Ger = \frac{(dx/dt\ /\ x)}{\delta M/\ \ \delta Y}$$

where $\frac{dx/dt}{x}$ = exponential growth rate of exports over a time period

$\frac{\delta M}{\delta Y}$ = income elasticity of demand for imports

A country cannot grow faster than its Balance of Payments equilibrium growth rate for very long, unless it can finance an ever growing deficit. However, an economy can grow at a slower rate and accumulate surpluses. This may happen when a country may not have the physical capacity to grow at the Balance of Payments equilibrium rate, either because Ger is very high, as is the case of some oil producing states, or because the policies followed by government deliberately, or unwittingly, restrain the rate of growth of total output.

We estimate that the Ger for the Maltese economy, for the period 1971 to 1980, was 17.32%, while y, the growth rate of real output, was 14.65%.[11] These statistics suggest that the total gross output increased over the seventies at 84% of its potential maximum rate. Hence the resultant accumulation of reserves, obtained through successive surpluses, about which one hears so much in Malta. For comparative purposes, it may be pointed out that during the years 1962

11. Ger = 20.77/1.1991 = 17.32
The coefficient of the Income Elasticity of Demand for Imports is derived from the equation:

$$\ln M = -12.7854 + 1.1991 \ln Y$$
$$(9.859) \qquad (53.53)$$
$$R^2 = 0.9916 \quad F = 2864 \quad D.W. = 1.507 \quad n = 24 (1957\text{-}1980)$$

where lnM = Imports of goods and services, transformed to log e
lnY = Gross National Product, transformed to log e.

to 1970, the estimates for Ger and y work ay 6.27% and 5.84%, and yield a y/Ger ratio of 93%. This means that surpluses were being accumulated also during the sixties, since y is smaller than Ger, but the Maltese economy was being guided to grow at a rate which was closer to its maximum potential, a policy which, as observed, seems to have been discontinued during the seventies.

In sum, careful inspection of the data suggests an inadequate expansion of the supply base during the seventies. This conclusion is derived directly from the fact that employment had to rely more heavily on the public sector and related corporations rather than on export-oriented enterprises; the share of investment in total domestic resources was far below the projected target of 25%; the comparative widening of the gap between the growth potential of the economy and its actual rate of expansion during the seventies, relative to the sixties. These shortcomings, in turn, imply that the policies followed by the Public Authorities during the seventies to invigorate the economy and prepare it brace itself for the competitive environment which characterises international trade were inadequate to fulfill the task they were set to accomplish.

The Eighties

The economic planners who wrote the 1980-1985 Development Plan, published late in 1981, were fully aware of the "international recession"; yet they did not seem worried at all. Indeed, they drew up an economic programme which envisaged healthy growth rates in all sectors, sufficiently high to make history! The Maltese economy was expected to turn a negative resource gap, with total imports exceeding total exports, into a positive one, exports exceeding imports, by 1983. From a deficit of goods and services valued at Lm13.5 million in 1980, the Plan propjected a surplus of Lm16.3 million in 1985, at 1980 prices.

It is true that the planners did point out that they anticipated variations in the annual growth rate of the components that make up the Gross National Product, namely, Consumption, Investment, Exports, Imports, and the Government Sector. But, if one were to judge from the way in which they envisaged that the international recessionary effects would work themselves on the economy, one did not need fear disaster. Growth was projected **throughout** the five year period. The possibility of economic stagnation was ruled out and the worse that could happen was to register a low rate of expansion in 1981 and 1982. The Plan explains:

> "Indeed, it is expected that during 1981 and 1982 the Maltese economy **may grow at a slower rate** than the average forecast for the five years of the Plan as a result of the dispute with Libya and of the effects of recession in Europe on **some** Maltese firms. In order to make up for this slowdown, a higher rate of growth will have to be recorded during the last three years of the Plan." (p. 86. Bold Type Wording added).

The Plan also observed that

> "guided by the extent of the departure from projected growth trends, corrective action will be launched in the course of Plan implementation to reconcile achievement with the medium term perspective and to re-establish the development exercise on the set course". (p. 86).

Unfortunately, the projections in the **published** Development Plan are based on a simple, annual exponential growth rate throughout the quinquennium. Unless, therefore, there exists **another** plan, available to the planners and the policy makers, which traces the correct, anticipated path the economy is supposed to follow — with low rates of growth in 1981 and 1982 and high compensatory growth rates in 1983, 1984 and 1985 — it is meaningless to refer to 'appropriate corrective actions'. Any corrective measure can be truly effective and redirect the economy on its projected course, if, in the first instance, the projected course is reasonably clearly identified and feasible within the prevailing economic conditions. Only then, may the actual growth path be compared with the projected, and measures implemented to rectify the growth process. So, independently of the fact that the Planners fail to explain what countervailing measures they intend to introduce, apart from the now-customary labour corps, it is impossible to see how the data in the 1980-1985 Development Plan can be used as a policy guide, especially

now that the economy has registered a decline in sectoral outputs and employment.

To complicate the issue, the 1981-1985 Development Plan is ambivalent with regard to the role of investment in the economy. First of all, it assumes a more active intervention by the State in directly productive investment while at the same time it distributes the share of investment between the private and the public sector on the same ratio as had been set by previous development plans, namely, 60% private and 40% public. Such an allocation is unrealistic because it implies that private entrepreneurs, both local and foreign, are insensitive to government intervention in a small economy. Investment undertaken within the constraints imposed by the possibility of bureaucratic harassment in the future can only take the form of the quick-return type of undertaking. Such investment, if forthcoming, would create future instabilities in the labour market and, therefore, may only be considered as second-best. It becomes imperative to rethink on this matter and to enunciate in clear terms government's intentions regarding private investment.[12]

Secondly, the Plan fails to quantify the amount of investment needed to generate the steady output and export growth envisaged. While, at one point, the Plan lays down that "as a general guideline, it is reckoned that for the attainment of Plan targets, gross investment during the period should amount to between 25% and 30% of Gross Domestic Product,[13] the data given for investment and the Gross Domestic Product yield an I/GDP ratio of 23.5%.[14]

This latter statistic suggests that the capital requirement for the Plan period is already implied by the Planners to fall short of that desired by 1.5% to 6.5%, depending on the I/GDP ratio selected. This puzzle has to be solved simultaneously with another tougher problem, that of raising the

12. Statements by public officials referring to the need for and to the encouragement given to, private foreign investors, followed by other statements that Malta is bent on building a socialist economy are somewhat conflicting. Elaboration on those issues would surely clear any misunderstandings which may arise out of such equivocal statements.
13. **Development Plan 1981 - 1985,** page 98.
14. **Ibid.**, page 99.

share of resources allocated to investment above the 23% mark when, as we pointed out in the previous section, investment in real terms during the seventies had been as low as 15% of the GDP.

All issues related to investment should be of paramount concern. Future output depends on today's investment. It seems that on this matter the experience of the seventies is about to repeat itself with the difference that in the eighties the environment within which attractions to foreign investment have to function is bound to be more competitive both for capital and for the final product.

Unfortunately, the Plan is practically void of concrete suggestions for attracting investment or encouraging exports. On this decisive count, the Plan fails. Once it is realised that the difficulties which have to be overcome emanate from the supply side — cost structure, product quality, and a wider range of goods and services — and they are subject to local policy control, then decisions would have to be explicitly and unequivocally outlined, evaluated and implemented. One may be tempted to conclude that the Maltese economy has entered the world of the eighties unprepared and unaware of what lay in store for it. Worse still, the Plan, which was meant to act as a guideline for progress, turned out to be a document empty of ideas for remedial action and removed from the world of reality.

A serious evaluation of the current state of the economy and of the effects, in the short and in the long run, of different combinations of policy is called for. There are several key issues that need to be considered. These include the balance between the State and the Private market; the role of an incomes policy, and the type of industries which can profitably operate within the local wage and non-wage cost constraints, in the present and over a decade. Data deficiencies often hinder research on cost and output; therefore an attempt should be made to compile data that could permit a deep and critical evaluation of the various sectors in the economy, now totally oriented, and susceptible to, market forces. Past data reflect the behaviour of transactors within a different economic set-up, in which non-market, non-profit, forces prevailed to different degrees as a result of Malta's dependence on military income spent by Britain and its allies.

The extent of the problem, in terms of productive employment, that lies ahead may be gauged from considering the projected target for the gainfully occupied population set in the 1980-1985 Development Plan. Totally disregarding the need to restructure the composition of employment which was distorted during the seventies, the Plan projected a gainfully occupied population (GOP) of 129,000 in 1985, with unemployment targeted for 4,000. At the end of 1982, the GOP amounted to circa 111,000 with 1,500 men engaged in the temporary labour corps, Id-Dejma. In order to provide employment for all those expected to be searching for work in 1985, 23,500 jobs have to be created within two years. The Plan envisaged that it could generate work over five years for 15,000 persons. It follows, that, even if the plan target of 15,000 jobs by 1985 were to be met, a feat which no one will consider seriously, unemployment would still be in excess of 8,000 in 1985.

High levels of unemployment seem destined to prevail during the eighties, unless, of course, massive labour corps recruitment becomes the rule. Such a policy would guarantee that the **symptom** would be made less inconvenient, but the cause, the source of the problem, namely, an inadequate supply base, would remain unassailed. But the aim of policy should primarily be not only to soften the impact of a blow; rather, it should be to eliminate the source of the problem which is weakening the economy. Parrying a blow, through labour corps, is a short-term policy objective; eliminating the cause that produces blows, by encouraging a more diversified supply base through a properly constructed price-wage-profit structure is a longer-term target. It is in this area, of the longer term effects of policies undertaken, that rethinking of the strategies followed for a decade has to be done. It is within this context that a clear perception of the causes of the present unemployment assumes a paramount importance. And the better it is understood, the more realistic will the policies adopted become.

Summary

In this paper, we assessed the hypothesis that the cause for Malta's unemployment ills are primarily demand-oriented, the effect of world-wide recession. We argued that this was

not the case. Imports in four EEC countries, which consume 60% of Malta's exports of manufactures, remained high and increasing after 1975. Exports to these four markets could have been Lm54 million higher after 1978 had the 1978 market shares in the German and British markets been maintained. A similar situation emerged in the market for British holiday makers abroad.

A high demand existed all the time. And yet, the increase in exports was inadequate to provide productive, export-oriented employment to about 7,000 persons during the second half of the seventies. We, therefore, concluded that the basic difficulties for generating employment were primarily supply-oriented; they emanated from the lack of success in attracting investment in the volume and the kind desired.

In fact, we demonstrated that the share of investment in total domestic product kept **falling** during the seventies, when it should have been rising to accomodate a larger work-force: the GFCF/GDP ratio fell to a low 15% in 1980, compared to an 'optimal' level of 25% as laid down in the 1973-1980 Development Plan. The latter level was never reached. Furthermore, we showed that the degree of utilisation of local resources declined in relative terms during the seventies when compared to the sixties: real output growth represented 84% of the Balance of Payments constraint growth rate while it had been 93% during the sixties.

Finally, we observed that the current Development Plan is uncertain when it refers to investment: it refers to an Investment/GDP ratio of between 25% and 30% and then proceeds to plan on an I/GDP ratio of 23.5%. Moreover, it ambitiously aims at turning a historically adverse resource gap into a positive one by 1985 despite the more competitive international trade background, and pespite the ambivalent role it accords to private sector investment over the period. The policies aimed at widening and diversifying the supply base, generating demand for labour, and increasing the potential for foreign exchange earnings demand reconsideration. Temporary measures, such as the creation of labour corps, are intrinsically short-term palliatives which do nothing to solve the real problem. Therefore, strategies should primarily be geared to achieve the longer-term goal of increasing supply.

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