The Role of Government in Economic Growth and Development: A Comparative Study of Malta and Iceland 1960-2000

By

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Abstract

This is a comparative study of the two small island states of Iceland and Malta in 1960-2000. It focuses on the role of the two governments as they enacted public policies, intervened in the functioning of their economies and foreign trade, invested in infrastructure, enhanced human capital and developed welfare states. The governments aspired to boost economic growth, improve quality of life, raise living standards, increase exports, combat recessions, create jobs, reduce trade and economic volatility, reap political gains and advance foreign relations.

The thesis compares economic and political developments and their interplay, advancing international relations and different routes to European cooperation. With their emerging public sectors, political systems, and political customs and conflicts, both island states tried to secure their rights, livelihoods and positions amongst other European nations.

Around 1960, Iceland´s economy was relatively advanced compared to Malta. Iceland was a financially self-standing republic, financing growth through exports, foreign loans, Marshall Aid and locally accumulated capital; and gifted with prolific fishing grounds and rich renewable energy resources. The national economy was vulnerable due to dependency on the volatile fishery and its export markets. However, Iceland could not yet control and manage the fishing grounds, as they were open for foreign deep-sea trawlers until the mid-1970s. Iceland maintained its focus on developing the fishery further during the last quarter of the twentieth century but with parallel government-driven developments in the power sector, while foreign investors built the associated power-intensive industries. A transferable quota system was introduced and shaped in the fisheries from 1984 to the 1990s. The new system increased efficiencies and labour productivity and reduced the over-capacity of fleet and plants. The 1970s and 1980s were marked by slack macroeconomic policies - hyperinflation, frequent devaluations of the ISK, rampant over-investments, subsidies in farming and uneconomical redistributive systems in fisheries. The economy became more liberal, diversified, and productive in the 1990s, helped by the European Economic Area Agreement, which became effective in 1994.

In contrast to Iceland, Malta pursued rather stable macroeconomic policies throughout the period considered. In the 1960s, Malta was at first preoccupied with the politics and administrative issues of independence, which was achieved in 1964, and then during the remainder of the decade with preparations for diversifying and strengthening the economy in

reaction to a massive down-scaling of the workforce in the dockyards and the British services. The 1960s saw a large-scale emigration. Based on local development plans and in line with advice from foreign consultants, manufacturing for exports was targeted, and foreign technology and investments were attracted to Malta. Industrial estates were built, and incentives offered to foreign investors. Manufacturing firms, e.g. in textiles, electronics and pharmaceuticals, set up plants in Malta. New hotels were built in the 1960s, initiating a growing tourism industry. Air Malta was founded, and Malta became a popular tourist destination. In the 1990s and the 2000s, financial services emerged as another successful economic initiative.

While Iceland restricted foreign investments and the shareholding of foreign firms in its strategic sectors, i.e., the fishery and renewable power production, Malta used foreign investments to its advantage. Iceland and Malta took steps in easing foreign trade restrictions. Iceland made its first move in liberalising domestic trade in 1960 and took a further step when it joined EFTA in 1970, involving a customs union with the EFTA countries. That same year, Malta signed an Association Agreement with the European Economic Community (EEC), creating a customs union based on free trade between Malta and the EEC.

Malta developed a rather centralised political system, while Iceland evolved a more decentralised system. Malta inherited its political system from Britain, and Iceland its system from Denmark. Both had self-government, preceding the republic in Iceland (1944) and independence in Malta (1964). The political system in Malta paved the way for two-party politics, with one party in power and the other in opposition. Meanwhile, the Icelandic system favoured multi-party politics, which needed coalitions of 2-4 parties at any time for a majority in the parliament. Two government levels made the political processes in Iceland more complicated than in Malta, as many policies and programs had to be negotiated between the state, the local authorities, the trade unions and business federations. One of the foremost differences between the two island states was the size of the landmass, topography, climate and location. It resulted in dissimilar political systems with a strong geographical dimension in Iceland. Their dissimilar location in the North Atlantic and the Mediterranean swayed their choices of foreign trading partners and political allies towards adjacent neighbourly countries.

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1 INTRODUCTION

1.1 The Research Theme and Research Questions

This is a comparative study of the two small island states of Iceland and Malta over the last four decades of the twentieth century. More specifically, the focus of the research is on the role of the two governments as they enacted macroeconomic, trade and industrial policies, structural reforms and all-embracing growth policies, intervened in the functioning of and supported principal economic activities, invested in infrastructure facilities and commercial enterprises, enhanced human capital and social policies and developed welfare states. The research will engender a broader context than a study of one national economy would do and stimulate reciprocal enquiries – different economic structures, industrial and labour market problems and challenges, dissimilar political realities and solutions and unique imperial histories and geographies. Perennial economic, industrial or political problems in one state may have been less pronounced or amicably solved in the other state.[1]

The study period captures the characteristics of an era that bridges the span between the immediate post-war economic reconstruction phase of Europe of the late 1940s and the 1950s, and the new political and economic paradigm of the twenty-first century. The new paradigm consists of an expanding Europe-wide economic cooperation, free movements of labour, capital, goods and services between 12 EU states from 1993 and 25 EU states from 2004, as well as three EFTA states from 1994, advancing globalisation, growing international tourism, expanding cross-border capital flows and global financial services.[2] The first two decades of the twenty-first century were a major growth period until hit by Covid in 2020, except for the short-lived financial crisis of 2008-2009. The post-war era has been ascertained by political and economic turbulences and transformations in Europe. A mismatch in the timing of turning points in the political and economic history of Iceland and Malta, and the availability of

[1] For an overview of the Maltese economy see: IBRD, 1963; IMF reports 1995; 1997; Lino Briguglio, 1988a; 1988b and 2011; Aaron G. Grech, 2015; Paul Caruana Galizia, 2017 and The Central Bank of Malta, 2018. For the Icelandic economy see: IMF reports, 1995;1997 and 1999. OECD, *Economic Surveys, Iceland*, 1961, 1963-66, 1968-77, 1979, 1980, 1982, 1984, 1985, 1987, 1989-1995, 1997-99, 2001 and 2003.

[2] The number of EU states in 2023 is 27. Three out of four EFTA states signed the European Economic Area (EEA) Agreement which consequently embraces 30 states.

internationally comparable data, made the choice of the timeline delicate; another study period might have required a different research strategy.[3]

The research will analyse and compare the economic growth and development of Iceland and Malta and the main growth factors – labour, capital, institutions and exports. The role of the two governments in economic growth and development will be compared through five different realms of policies, instruments and programmes:

1. Trade and foreign relations;
2. Macroeconomic, i.e. fiscal, monetary and foreign exchange policies;
3. Industrial, i.e. aiming to improve structurally the performance of business sectors;
4. Capital investments in infrastructure and commercial enterprises; and
5. Structural reforms.

The growth policies refer to a domain of policies that target several objectives and rely on different policies, instruments and programmes, including macroeconomic, foreign trade, industrial, structural reforms and capital investments. Capital investments will in this thesis be examined as distinct policy instruments and programmes while they overlap with fiscal policies. Structural reform policies do also overlap with industrial and trade policies.

The comparative method employed is based on a point-by-point organisational scheme. The study will alternate comparative points about Iceland and Malta, but not cover all themes on one state first and then switch to the other. The main principles behind the structure and content of the thesis call attention to particular concepts, scholarly works and policy objectives, instruments and institutions, elucidating the pivotal research theme. As suggested by the title, *The Role of Government in Economic Growth and Development: A Comparative Study of Iceland and Malta 1960-2000*, the research questions of the thesis are as follows:

1. How did the evolving political economies of Iceland and Malta compare in terms of political systems, party politics, forms of government, political ideologies and public policies and by what means did politics influence the economy, industries and trade?
2. In what way were economic growth and development engendered and influenced by burgeoning, but capricious export incomes, cross-border capital flows, trade policies and participation in the expanding European economic cooperation?

[3] Iceland gained independence in 1944 and Malta in 1964. Iceland joined European economic co-operation in two stages, EFTA in 1970 and EEA in 1994, while Malta signed the Association Agreement in 1970 with the EEC and joined the EU in 2004.

3. How did the two island states contrast and compare in their pursuance and effectiveness of macroeconomic policies, i.e., fiscal, monetary and foreign exchange?
4. What was the nature of and the political rationale for the growth policies, plans and programmes adopted by the two governments? What were the key similarities and differences in the policies and their enmeshed institutions and the main political changes in emphasis from the 1960s and 1970s to the 1980s and 1990s?

Figure 1.1: An Overview of the Thesis

Part I Introduction, Theory and Context
Chapter 1: Introduction
Chapter 2: Literature review
Chapter 3: Research strategy and methodology
Chapter 4: History, geography and politics

Part II Growth and Growth Factors
Chapter 5: Population and economic growth
Chapter 6: Labour and capital
Chapter 7: Foreign trade and cross-border activities

Part III Government Policies and Institutions
Chapter 8: Foreign relations and trade policies
Chapter 9: Macroeconomic policies
Chapter 10: Growth policies - 1960s and 1970s
Chapter 11: Growth policies - 1980s and 1990s

PART IV Epilogue
Chapter 12: The two post-independent island states compared

The thesis is divided into four main parts (figure 1.1). The introductory part, covering chapters 1-4, includes a literature review, an explication of the research methods and strategies and an overview of the history, geography and politics of the two small island states. Key growth factors, population and growth trends are analysed in Chapters 5-7, i.e., labour and capital, foreign trade and cross-border activities. Chapters 8-11 analyse and compare the two island states as regards policy domains, instruments, programmes and related institutions. In conclusion, the two post-independence states are compared in Chapter 12.

1.2 The Comparative Political Economy of Iceland and Malta

Iceland and Malta have in the long run been shaped by their geographies, natural resources, imperial histories, economic success, political developments and foreign relations. The two island states faced somewhat antithetical challenges of growth and development in the post-war period after full independence was achieved – Iceland in 1944 and Malta in 1964. Iceland had been a sovereign state in a union with Denmark from 1918 and financially independent for a long time, while Malta had endured British rule and administration and intermittent periods of self-government.

Centralised political power evolved in Malta while it was decentralised in Iceland. Parliamentary democracy and party politics have been played out dissimilarly which has influenced government choices of macroeconomic, industrial and trade policies. Two-party politics in Malta, with one-party majority governments all the time from 1966, has given rise to quite direct policy approaches and decisions and abrupt shifts in political direction between the two parties. Iceland in contrast, has had multi-party negotiated coalitions which have tended to adopt middle-of-the-road compromise policies.

Iceland and Malta showed significant, but somewhat fluctuating, long-term growth rates over the era 1960-2000, which continued into the twenty-first century. The main prospects and challenges facing the newly independent states were: low population levels and small domestic markets, open economies, high dependence on exports, imports and foreign relations, economic vulnerability, natural resource abundance (or lack of it), 'islandness' and external transport links based on shipping and aviation.[4]

In 1960, the Icelandic economy was already in a relatively advanced position compared to Malta, with its prosperous fisheries and rich renewable energy resources. The Icelandic economy benefitted from the Second World War and a post-war capital investment programme 1944-1946. Another such programme initiated in the early 1950s was the Marshall Aid. In comparison, Malta, despite achieving independence in 1964, was still locked in an economy

[4] Harvey W. Armstrong and Robert Read, 1998a; 1998b; 2002; 2003 and 2006; Lino Briguglio and Gordon Cordina, (eds.), 2004; Lino Briguglio, Gordon Cordina, and Ellawony J. Kisanga (eds.), 2006; Lino Briguglio, Gordon Cordina, Nadia Farrugia and Constance Vigilance, (eds.), 2008; Matthew L. Bishop, 2010; Lino Briguglio and Melchior Vella, 2018; Godfrey Baldacchino and Anders Wivel (eds.), 2020. Islandness transcends the particulars of local island culture.

overly dependent on the declining defence spending of its former imperial ruler, had no natural resources to speak of, and was in urgent need of economic diversification, which could only be achieved through the attraction of foreign investment.

While Iceland restricted foreign investments and the shareholding of foreign firms in strategic resource-based sectors, i.e., the fishery sector and power production, Malta invited foreign investments purposedly. States rich in natural resources and with the technology to utilise their natural resources have tended to restrict outside investors (Iceland and Norway) while states without natural resources have tended to develop an international outlook and attract foreign participation and investments (Malta and Denmark). Iceland restricted foreign exchange and imports in the 1950s but made the first step in liberalising foreign trade in 1960 and took a further step when it joined EFTA in 1970. That same year, Malta signed an Association Agreement with the European Economic Community (EEC), calling for the creation of a customs union, based on free trade between Malta and the EEC. These steps had a substantial economic impact on both islands, which was felt gradually over the next decade, as trade and customs barriers protecting local production were removed in steps. Imports were of vital importance to both islands as they needed to buy fuel, cars, capital goods and technology, building supplies, clothes and food from other countries.[5]

In the late 1980s and early 1990s, both governments desired to participate in the expanding European economic cooperation. Malta sought EU membership while Iceland signed the EEA Agreement. Their public policy choices were subsequently confined to a degree within EU guidelines and harmonisation. Malta had previously been at liberty to adopt its own policies and Iceland to a certain extent as well but had to adhere to the EFTA Agreement.

While Malta carried out its economic diversification strategy over the 1980s and 1990s, Iceland maintained its focus on developing the fishery further, but with a development urge in the power sector as well. In the 1970s, the focus was on extending the fishing limits and a quota system (total allowable catch, or TAC) for demersal species was introduced in 1984. By the early 1990s, the TAC system had evolved into an individual transferable quota (ITQ) system which over the years transformed the whole fishing industry into more efficient and profitable operations, but with social and political consequences.

[5] The Ph D thesis by Magnús Árni Magnússon, 2011, compares the routes taken by Iceland and Malta towards European integration 1989-2009. The MA thesis by Guðbjörg Oddný Jónasdóttir, 2011, asks whether Iceland can learn some lessons from Malta's experience of the EU accession. Roderick Pace, 1998; 2002; 2003; 2006; EC Commission, 1993; 1996; 2000; 2001; 2002; Alþingi, *Evrópustefnunefnd*, *Ísland og Evrópa I-VII*, 1990; Eiríkur Bergmann Einarsson, 2012; Einar Benediktsson, 2000; Baldur Thorhallsson, 2000; 2004; Baldur Thorhallsson and Anders Wivel, 2006; Jón Sigurðsson, 1970.

Economic upheavals of the 1970s gave rise in the mid-and late-1980s to a paradigm shift in the Western world away from state-controlled economies and established Keynesian policies towards free trade, structural reforms, monetarism and market mechanisms.

1.3 Economic Growth and Development

The key growth factors to be analysed in the thesis are labour, capital and exports. The latter half of the twentieth century saw major developments in the labour forces and labour markets of Iceland and Malta, i.e. in a context of growing employment, improved working conditions, higher wages, rising labour productivity, improved education and training and a growing number of women in the labour force. While the labour forces and labour market policies and customs shaped and nurtured economic growth and development, they evolved along dissimilar paths, reflecting different industrial structures, labour market trends and growth periods.[6]

While the labour forces expanded, capital accumulated concomitantly and was invested in economic activities that generated income, jobs and growth. Capital accumulation stemmed from different sources. One was corporate capital such as retained earnings, loan financing and equity and another was foreign investment. Government capital investments, funded by taxes, foreign aid and public borrowing, were also important. Other factors which intensified the accumulation of capital included entrepreneurship, technological innovation, enhanced human capital, exports and natural resources. Policies and institutions did overall make significant contributions to the economic development of both island states as is examined in chapters 8-11. Export income was vital in stimulating economic growth. Iceland developed first as a seafood exporter, and later of products from power-intensive industries, targeting global markets. Malta's export growth engendered more diversified trade partners and less exposure to foreign shocks and volatilities than Iceland's concentrated exports.

Economic growth is known to set in motion a wider economic, social, political and cultural progression, but the causal sequence of economic growth progressing into economic development is indeterminate.[7] Historical understanding remains our best method for comprehending economic development, including human and social progress, over the epoch of the study. People became healthier, lived longer and infant mortality rates subsided as health care, medicine and living conditions improved. Access to education, culture and sports was enhanced. Infrastructure, modern residential housing and commercial buildings developed at a rate not seen before.

[6] Andrea Bassanini and Danielle Venn, 2007, discuss the impact of labour market policies on economic growth.
[7] Daron Acemoglu, 2009; Daron Acemoglu and James A. Robinson, 2008; 2012. Richard Kneller et. al., 1999.

Salaries rose in real terms, the standard of living improved, workers' skills advanced and working conditions were upgraded. Welfare societies evolved and educational levels rose considerably. On the other hand, inequalities in income and wealth grew, especially from the 1990s onwards and economic progress was unevenly spread. Some economic sectors expanded while others stagnated or declined and several people were uprooted. The progression of economic development in the thesis is explored by means of data analysis, literature review, observations and deductive reasoning. No chapter is devoted to economic development alone, but they are embraced intermittently as befits the analysis.

1.4 Policy Instruments and Programmes

1.4.1 Macroeconomic policies

Macroeconomic policies are immersed in the operation of the economy. The main objectives are to provide an economic environment that is propitious to stimulating forceful and sustained economic growth, as well as maintaining full employment, price stability, the balance of payment equilibrium and exchange rate stability. The key instruments of macroeconomic policies to be examined in the thesis are fiscal, monetary and foreign exchange. They were more challenging for Iceland due to hyperinflation, frequent devaluations of the ISK (Icelandic Króna) and regular fiscal deficits.[8] Meanwhile, Malta enjoyed a rather stable currency[9] and comparatively low inflation. Both saw a rising public debt, i.e. largely a foreign debt in Iceland but a local debt in Malta through regular issues of government bonds.

Post-independence Malta faced the pivotal task of developing its own macroeconomic policies and currency, the Maltese Lira. The Central Bank was established in 1968. Malta managed to adopt discreet fiscal and monetary policies while maintaining the value of the currency. The experience of Iceland was different with unstable and less successful macroeconomic policies, especially over the 1970s and 1980s. Concentrated export incomes of a huge economic significance, based on a volatile natural resource, with over-investments in fleet and fish plants, were bound to pervade any prudent macroeconomic objectives. It was the saga of a political trade-off where circumspect macroeconomic goals succumbed to the political and economic needs of keeping the fishing industry afloat.

[8] Two significant devaluations of the ISK in 1967 and 1968 initiated a continuous and dramatic increase in inflation which reached extreme levels after 1973 and lasted until c 1990.

[9] Maltese currency was a local issue of sterling rather than a separate currency until Dec. 1971 and was thus maintained as equivalent to sterling. Thereafter the Malta Lira was allowed to float, anchored to a basket of reserve currencies.

Fiscal policies were generally more complex and challenging in Iceland than in Malta due to the deeply-rooted double-level government system, which encompassed forceful local government units with an independent tax base, in addition to extensive transfers and co-financing projects between the two levels. Pervasive industrial and social welfare policy transfers and agricultural subsidies convoluted further any tactful fiscal policies. Malta was less engaging in domestic redistribution and transfer payments than Iceland and had only one government level until 1993 when local councils were established and then with restricted finances and power. The tax policies of the two island states were gradually harmonised and brought in line with other European states late in the century. Both states saw a growing public debt.

By the 1980s, the combination of Keynesian macroeconomics and interventionist microeconomics, widely accepted in the 1960s and early-1970s, were in retreat in the Western world. New market-oriented ideas evolved, maintaining that sustained income growth could be achieved through improved incentives rather than increased demand, while adverse effects of high marginal tax rates and many government transfer programs were recognised. These influences were first felt in Iceland and Malta in the late-1980s.

Both island states relied on foreign trade in goods and services and encountered different experiences in international financial integration and foreign exchange policies. The foreign exchange policies were more action-packed, and at times overbearing in Iceland. While Malta experienced exchange rate stability with its Lira, Iceland saw huge devaluations of the ISK, as is reviewed in Chapter 9.

1.4.2 Industrial policies

Industrial policies do not focus on manufacturing alone as the word ‘industrial’ may suggest, but rather on a group of companies that operate within the same economic sector. They espouse policies, instruments and interventions that endeavour to improve structurally the performance of the respective sector. Over the course of the 1960s and 1970s, the economies of Iceland and Malta were influenced by various state-controlled and state-funded capital investments and development plans, many state-owned enterprises, ponderous government economic and industrial planning, pervasive financial incentives and centrally planned interventions and initiatives. Malta was at a less-advanced stage of development than Iceland, with centralised political power and problems and legacies inherited from, or related to, British rule in the past (e.g., dockyard and the first development plan).[10] Iceland's centrally planned efforts were

[10] Development Plan for the Maltese Islands 1959-64, Oct.1959; Review of Development Plan for the Maltese Islands 1959-64, July 1961; Development Plan for the Maltese Islands 1964-69, 1964; Development Plan for the Maltese Islands 1969-1974, 1970.

devoted to infrastructure investments, agricultural support and subsidies, fisheries capital investment programmes and extensive fisheries transfers and subsidies which were funded mainly by fish export levies and devaluation gains.[11]

The 1970s were tumultuous for many business sectors, but the 1980s and 1990s saw new initiatives and a growing resourcefulness in industrial policies. Government support of tourism in Malta and of the power sector and power-intensive industries in Iceland are examples of successful industrial policies. Rising neo-liberalism and the participation of Iceland and Malta in the advancing European economic co-operation in the 1990s and 2000s, albeit through different routes, instigated structural reforms, liberalisation of trade, growing market efficiencies and competition, as well as privatisation of publicly-owned assets. The 1990s were times of economic growth, job creation, low inflation, rising productivity, surging stock markets and globalisation. Global trade in goods, services and financial capital expanded.

1.4.3 Trade policies and foreign relations

Trade policies were during the third quarter of the twentieth century characterised by export and import controls, customs duties on imported goods, export levies, import-substitution policies, bilateral trade agreements and even barter. Economic cooperation (EEC) and free trade associations (EFTA) between groups of states were in their infant stages. Trade policies were generally liberalised in the 1990s and the 2000s, parallel to a political and economic transformation of Europe, which was no longer divided by an Iron Curtain between West and East and a new paradigm of growing economic and political cooperation and cross-border trade and transactions within Europe had emerged.

Iceland and Malta depended decidedly on expanding their export income. Iceland's membership of NATO from 1949 and the US base in Keflavík, generated various economic and trade benefits.[12] Iceland had skirmishes with Britain over fishing rights in Icelandic waters which were finally resolved in 1976. Malta was economically under the wing of the British government until the 1970s, after which a more independent attitude was pursued. Mintoff, Malta's prime minister 1971-1984, pursued quite eventful foreign relations while he governed,[13] stretching Malta's alliances to Libya, the rest of the Arab World, Eastern Europe and China. Libya subsidised oil exports to Malta for a while after the British forces left in 1979.

[11] OECD, *Economic Surveys, Iceland*, 1961, 1963-66, 1968-77, 1979, 1980. OECD, *Structural Policies and Growth: A Non-Technical Overview*, 1993; Ragnar Árnason, 1994; Sveinn Agnarsson and Ragnar Árnason, 2003; 2005.

[12] Marshall Aid, massive employment and service contracts at the US base, a valuable market for frozen seafood in the US and commercial aviation permits for Icelandair in the US.

[13] Mintoff was previously a prime minister of Malta's self government, 1955-1958.

The foreign relations of both states shifted to a new course in the late 1980s and the 1990s towards a greater focus on European economic cooperation and the structural reforms and adjustments required in relation to membership of the EU or the EEA.[14] Required changes, paving the way for a growing cross-border trade in Europe included shifts from import duties to VAT and from old-style price controls to legislation on competition.

1.4.4 Capital investments

Capital investment plans and programmes for the purpose of upgrading and extending the local infrastructure were widespread in post-war Europe. This thesis will show that it was a greater challenge for Iceland than Malta due to the relatively large size of the country and its huge sparsely populated areas. Infrastructure was fundamental and enabled post-war societies to advance and their economies to grow. Investments in roads, harbours, airports, power production, water, sewage, telecoms, schools and hospitals, were crucial. Cross-sectoral development plans were prevalent in Malta, beginning in 1959, while sector-based investment plans and programmes were more common in Iceland.

State investments in commercial enterprises by both states included a multitude of companies or shares, e.g. in banks, airlines, shipping, industrial estates, manufacturing plants and fisheries. Such investments were quite impetuous during the third quarter of the twentieth century, i.e. due to a lack of private capital and the need to generate employment and boost exports. Quite a few such enterprises were privatised in the 1990s and 2000s. Vigorous investments and business operations of the publicly-owned co-operatives in Iceland resembled somewhat the participation of the state and the local authorities in commercial enterprises. The co-operatives served the rural society at large. Co-operatives did not quite take off in Malta.

1.4.5 Structural reforms

Extensive structural reform policies gained momentum in Europe in the late 1980s and over the 1990s and 2000s. They involved reforms on the supply side of the economies and addressed existing obstacles to efficient and fair production and sales of goods and services. Their objectives were to increase productivity, investments and employment and improve the business environment. This was endeavoured through e.g. liberalised trade policies, enhanced competition and market efficiencies, deregulation, privatisation of state-held assets, and tax and

[14] Alþingi, *Evrópustefnunefnd, Ísland og Evrópa I-VII*, 1990; EC Commission, 1993; 1996; 2000; 2001; 2002; Gunnar Helgi Kristinsson, 1996; Roderick Pace, 1998; 2002; 2003; 2006; 2007; Einar Benediktsson, 2000; Baldur Thorhallsson, 2000; 2004; 2006; Baldur Thorhallsson and Anders Wivel, 2006; Godfrey Baldacchino, 2002; Guðmundur Hálfdánarson, 2004; Guðmundur Jónsson, 2008; 2010; Eiríkur Bergmann Einarsson, 2012; Magnús Árni Magnússon, 2011; Guðbjörg Oddný Jónasdóttir, 2011; Kåre Bryn and Guðmundur Einarsson (eds.), 2010; Eugene Buttigieg, 2004; Mark Harwood, 2014; Jean Micallef, Grimaud, 2018.

labour market reforms. Structural reforms became framed into the EU acquis and guidelines, which Malta had to adhere to during the EU application process and Iceland in relation to the EEA agreement. Several structural reform tasks were undertaken in Iceland and Malta during the 1990s and 2000s, some of which were politically controversial and faced public dissent, while others were pulled off harmoniously.

1.5 The Main Contributions of the Thesis

The main contributions that this thesis aspires to are the following:

1. Show that sovereignty was unequivocally conducive to economic growth and development in both island states.[15]
2. Show how Iceland and Malta overcame challenges identified for small island states and adopted a good mix of foreign relations, public policies and institutions, complemented with rich human capital and enterprising private sector.
3. Show that conventional economic growth theory needs to be adjusted for growth analysis of small island states. Exports should be added as a growth factor, in addition to labour, capital and institutions/policies.
4. Compare and contrast a resource-abundant and a resource-scarce small island state and demonstrate that the former was probably not at a great advantage over the latter in terms of economic growth effects and stability.[16]
5. Demonstrate how the two dissimilar political systems and party politics affected economic, industrial, trade and capital investment strategies dissimilarly.
6. Manifest that extensive state capital investments in infrastructure and commercial enterprises, accompanied by tenacious industrial policies, incited economic growth and development in Iceland and Malta during the 1950s, 1960s and 1970s. While Malta was more anxious than Iceland to create jobs through the growth of industries and services, Iceland required massive infrastructural developments.

[15] Sigfús Jónsson, 2022

[16] Iceland’s position in this comparison changed for the better in the 1990s after the introduction of the ITC system in the fisheries and a more prudent floating exchange rate policy.

2 LITERATURE REVIEW

2.1 Overview

A review of the scholarly literature related to the research theme of this thesis involves an amalgam of relevant theories, principles, concepts and methods guiding the research. The literature review offers an opportunity for a coherent analysis of previous research in the study area, where the strengths and limitations of ideas, facts and arguments in published books, academic papers, reports and university theses are identified and their suitability and eminence assessed.

The study theme - a comparative analysis of the role of government in economic growth and development, during the historic period 1960-2000 - requires an interdisciplinary approach, and thus a review of research and scholarly studies from different disciplinary fields. The chapter sets off by reviewing key written works on the political and economic history of Iceland and Malta, followed by a brief review of scholarly texts on small states, comparative political economy. The structure of the literature review is subsequently thematic and covers key research areas and economic policies in the following order:

- The political and economic history of Malta;
- The political and economic history of Iceland;
- Small states and political economic paradoxes;
- Comparative political economy;
- Economic growth and development (Chapters 5-7);
- Trade policies and foreign relations (Chapter 8);
- Macroeconomic policies (chapter 9);
- Industrial policies and structural reforms (Chapters 10 and 11).

The thesis investigates policies that fall within the scope of the study and are deemed worthy of analogy between the two island states. It will examine the appropriateness of relevant studies for the thesis in the rising field of small-state studies and especially small island states.[1]

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[1] Godfrey Baldacchino (ed.), 2023, examined the roles and strengths of 'small states' from a global perspective. Particularly relevant are Chapter 4 by Valur Ingimundarson, 'Interpreting Iceland's Victories in the 'Cod Wars' with the United Kingdom', and Chapter 5 by Godfrey A. Pirotta and Carmen Sammut, 'Neutralism as a Strategic Culture for a Small State: Malta's Showdown with NATO and Britain, 1971–72'.

2.2 The Political and Economic History of Malta

The post-war political and economic history of Malta may in this study be divided into four sub-periods. The post-war and pre-independence period, 1945-1964, the first years of independence governed by the Nationalist Party (Partit Nazzjonalista), 1964-1971, the period led by the Labour Party (Partit Laburista), 1971-1987, and finally, the epoch led by the Nationalist Party 1987-2013 (with a brief hiatus of 22 months: 1996-1998), leading up to EU membership in 2004 and Eurozone in 2008.

Malta struggled in the post-war years with low output, considerable unemployment, lack of export income and vast emigration of people. The British fortress economy was closing and the drydocks endured unrest and frequent strikes. The British government began examining the developmental prospects of the Maltese economy during the war, first under the Macleod Report in 1943, followed by the Schuster Interim Report in 1950 and the Schuster and Scott Report in 1957. These reports, and one by Balogh and Seers in 1955, provided background information on the post-war economy.[2] Six development plans prepared by the government, first in 1959 and the last in 1986, contained a wealth of material on contemporary economic thoughts and attitudes, public policies and proposed capital investment programs. They are edifying policy documents and should be assessed in historical analysis and not judged by academic standards.[3] Various revealing reports, books and studies were published on Malta's economy and politics during the era leading up to its independence.[4]

After independence in 1964, the new state realised the need to develop a modern, export-based, industrial and service economy. The 1967 Report of the Joint Mission for Malta (The Roben's Report) examined the economic situation, the development plans, the potential of Malta, the rundown of the British forces and suggested how the island's industrial base could be strengthened. Jones provided an overview of the economic transformation of Malta in the 1960s,

[2] Report by N. Macleod, Oct. 1943; George E. Schuster 1950; George E. Schuster and W.D. Scott, 1957. Thomas Balogh and Dudley Seers (1955).

[3] Development Plan for the Maltese Islands 1959-1964, Malta Department of Information, 1959; Review of Development Plan 1959-1964, Malta Department of Information, 1961; Development Plan for the Maltese Islands 1964-1969, Malta Department of Information, 1964; Development Plan for the Maltese Islands 1969-1974, Malta Department of Information, 1970; Outline of Development Plan for Malta, 1973-1980, Malta Central Office of Statistics, 1973; Development Plan for Malta 1973-1980, Malta Central Office of Statistics, 1974; Malta Guidelines for Progress, Development Plan 1981-85, Malta Office of the Prime Minister, 1981; Development Plan for Malta, 1986-88, Malta Ministry of Trade and Economic Planning, 1986.

[4] An Economic Mission from the UN, led by the renowned economist Wolfgang F. Stolper, was invited by the Malta self-government in 1962 to study the economic problems of the island and make suggestions for future policies. Stolper et. al. submitted a highly informative 260-page document in 1963 with proposals for Malta's development. IBRD and the IDA (the World Bank Group) published a report on the status of the Maltese economy in 1963..

with a focus on government policy and the development of manufacturing.[5] One of the exigencies of the Maltese government, reinforcing the development of the economy, was to take over British-owned and operated public services, utilities, businesses and institutions and bring them under Maltese control and ownership.

Malta in the Making 1962-1987 by Mizzi, published in 1995, contains an eye witness account of a top civil servant serving three Prime Ministers, i.e., Borg Oliver 1962-1971, Mintoff 1971-1984 and Mifsud Bonnici 1984-1987. The book is detailed and informative and provides an invaluable account of the politics and political history over the period 1962-1987. It gives an insight into Mintoff's impetuous and eventful foreign policies, a topic also covered in a few CIA reports on Malta (see Bibliography). A biography of Mintoff, written by Montebello, was published in 2021; it brings into context the political struggle for leadership and power in Malta during the years leading up to independence, the role of foreign economic advisors and Mintoff's governance as a prime minister, 1971-1984.

Grech wrote a thought-provoking PhD thesis on economic development in Malta and the island's role in the world economy.[6] King made some observations about Malta's rural and city dichotomy, which he claimed had economic and political implications.[7] Chircop edited two volumes, published in 2013 and 2015, containing essential papers on aspects of Malta's economic, social and political history during the twentieth century.[8] His analytic introductions to both volumes include a valuable review and analysis of the labour movement's history and colonialism in Malta.

The PhD thesis by Muscat,[9] - the Prime Minister of Malta from 2013 to 2020 -identifies the characteristics that made SME promotion policies in a peripheral economy like Malta, sustainable and effective. It highlights export-led industrialisation, fuelled by foreign investment and technology, as the most dynamic contributor to economic growth in Malta from the mid-1960s to the mid-1980s, with inward foreign investment peaking in the 1970s. The PhD thesis by Brincat[10] expounds on the export-led industrialisation driven by foreign direct investments and foreign technology, replacing jobs lost by the rundown of British military bases. He argued that export-led industrialisation reduced emigration and helped build up public education, health

[5] Huw Jones, 1971

[6] John C. Grech, 1978.

[7] Russell King, 1978 and 1979.

[8] John Chircop, 2013; 2015b.

[9] Joseph Muscat, 2007.

[10] Mario Brincat, 2008.

care and the welfare state; it furthermore, replaced jobs lost by the rundown of the military bases and the dockyards.[11] Brincat offered a critical view of the post-war economic history of Malta.[12]

External reliance is the nucleus of dependency theory, which casts light on the complicated ways which connect a local economy to the international system. External reliance can be linked to capital, trade or technology. Spiteri explored the relevance and applicability of dependency theory for Malta 1959-1988 in his 2004-PhD thesis.[13] He explored Malta's transformation from a naval and military based-colony, dependent on British military expenditures in the 1950s and 1960s, and evolving successfully into a self-reliant modern industrial and service economy. Malta's dependency relations with Britain, especially since the late nineteenth century, had become uniquely forceful. The stage had been reached when the island's dependency on British defence spending had become absolute. Consequently, the island's further internal development inevitably and unavoidably became a function of Britain's overall strategy in the Mediterranean. For this reason, unemployment on the island was practically non-existent in times of war. Still, it could culminate in times of peace, depending on the strength of the naval and garrison personnel on the island at the time.

In another PhD thesis, Oglethorpe analysed the relevance of dependency theory to Malta.[14] He concluded in 1983 that dependency themes could help evaluate Malta's development process. In the early 1980s, Malta faced a crisis of dependence, which was somewhat more severe than the dependence facing the island at independence in 1964, owing to excessive dependence on subsidiaries of multinational corporations (MNCs). The MNCs were seen as essential, due to the inability of the domestic economy to generate local industries. On the other hand, the dependent structures that ensued since independence (until 1983) proved unstable and unreliable. The author concluded that a compromise situation was desirable where government intervention would ensure that foreign industries were attracted to the island selectively.

Maltese politics after 1987 were marked by a paradigm shift towards more liberal policies, competition, structural reforms and preparations for EU membership. Pace wrote a few illuminating papers and book chapters on Malta's EU accession from the perspective of Malta as a small European state, on Malta's domestic politics concerning the EU membership, security challenges in the Mediterranean and the effects of the EU on Maltese society, politics and

[11] Mario Brincat, 2009; 2015.
[12] Mario Brincat, 2008, 2009; 2015.
[13] Edward J. Spiteri, 2004.
[14] Miles K. Oglethorpe, 1983.

economy.[15] His writings reflected a significant influence on Maltese politics, government priorities, economic policies and society in the 1990s and continuing onwards, especially after EU membership in 2004 and participation in the Eurozone in 2008.

Grech studied the development of the Maltese economy over half a century, 1964-2000, published by the Central Bank.[16] His writings and data analysis on the Maltese economy have illuminated the study. Briguglio examined changes in the Maltese economy in 1960-1990 and how changes in the terms of trade were influenced by Malta's direction of trade rather than the composition of exports and imports. While Malta competed with developing countries in its exports, it purchased most of its imports from industrialised countries. His approach and emphasis have been on macroeconomic analysis for small island states, particularly Malta.[17]

2.3 Political and Economic History of Iceland

Iceland’s political and economic history, 1960-2000, may be suitably divided into three epochs for the study. The first one, up to 1967, was marked by booming fisheries, rapid growth and stability. The second phase, 1968-1983, was economically and politically eventful. It began with a recession in 1968-1969 and EFTA membership in 1970. The 1970s were characterised by the struggle to extend the fishing limits, the oil crisis, frequent devaluations, hyperinflation, lack of stability, over-investments, extensive transfers and rising public debt. The epoch 1984-2007 saw structural reforms in fisheries, increased competition and growing market efficiencies, privatisation, globalisation, membership of the European Economic Area in 1994 and improved macroeconomic stability over the 1990s.

A comprehensive and enlightening history of economic and industrial policies in Iceland is provided in the lengthy and detailed autobiography of Dr. Jóhannes Nordal, former Director of the Central Bank of Iceland, 1961-1993. During his era, he was one of the government´s principal economic advisors and played a lead role in public policy formulations within the economic and industrial spheres. In his autobiography, he narrates and explains the underlying politics and economic reasonings for key economic and industrial policies developed during his era. He explicated the benefits of EFTA membership and the development of power projects and power-intensive industries for the Icelandic economy. He was highly critical of unsuccessful macroeconomic policies from the late 1960s to the mid-1980s, especially of chronic

[15] Roderick Pace, 1998; 2001; 2002; 2003; 2006 and 2007.

[16] Aaron G. Grech, The Evolution of the Maltese Economy since Independence, the Central Bank of Malta, 2015. Online at https://mpra.ub.uni-muenchen.de/68392/

[17] Lino Briguglio, 1988a; 1988b; 1989; 1991; 1995 and 2011.

hyperinflation and colossal devaluations of the Icelandic króna. The governments and many members of parliament at the time were preoccupied with securing fish exports, the country´s primary source of foreign currency, and the vital employment provided by the fisheries in coastal communities all over Iceland. In Nordal´s opinion, the governments simultaneously lost sight of prudent macroeconomic objectives relating to the stability and value of the ISK.[18]

Macroeconomic and industrial policies were instrumental in generating and maintaining stability, growth, employment and diversity in the national economy. The policies were also reactive, responding to volatilities caused by trade, foreign markets, foreign exchange issues and fluctuating fisheries. Furthermore, extensive microeconomic transfers in fisheries and agriculture carried over dilemmas into macroeconomic and industrial policies and programmes. Such crucial policy issues were examined in various OECD reports on the Icelandic economy, published regularly since 1961.

Iceland's foreign exchange policies have not been extensively examined as an independent field of inquiry. They have instead been included as part of research on monetary policies. An expert commission, appointed by the government issued a rigorous report reviewing the monetary and foreign exchange policies from a historical perspective while also identifying policy options.[19]

Foreign trade, macroeconomic and growth policies analysed in chapters 8-11 were affected by the government's focused interventions in the economics of the towering fisheries and fish exports from the beginning of the study in 1960 until the 1990s. This relatively narrow policy emphasis threw monetary and foreign exchange policies off balance and caused crowding-out effects on other sectors, as described by Nordal in his autobiography.[20] Gylfason and Zoëga analysed the effects of natural resources on economic growth and economic policies in Iceland and elsewhere. They argued that rich natural resources might restrict growth potential, causing the labour force and a growing capital stock to run into diminishing returns. They maintained that substantial natural resource rents might create opportunities for adverse rent-seeking behaviour. Finally, they contended that natural resource booms and associated surges in raw material exports could drive up the real exchange rate of the local currency, thus possibly reducing manufacturing and services exports. Recurrent booms and busts tended to increase real

[18] Jóhannes Nordal, 2022.
[19] Ásgeir Jónsson, Ásdís Kristjánsdóttir and Illugi Gunnarsson, 2018.
[20] Jóhannes Nordal, 2022.

exchange rate volatility and reduce investments in the tradable sectors and exports and imports of goods and services.[21]

The fisheries management system was reformed in 1984 when a new quota system was introduced for seven demersal species, as advised by a task force with a broad industry and government representation. This move initiated a successive transformation of the fisheries management system from previously restrictive catch-effort measures to total allowable catch (TAC) and individual transferable quota (ITQ), allocated in 1984 to vessels based on historic catches over three years. Later, the ITQs could be traded freely. The transformation of the fisheries sector coincided in the 1990s and 2000s with growing liberal policies, emphasising greater competition, growing market efficiencies and less direct government control, as the previously extensive government intervention measures were more or less eliminated during the 1990s. OECD, Agnarsson, Árnason and Daníelsson have all analysed and reported on the implications of the transformation of the fisheries and the accompanying changes of economic and industrial policies for economic growth in the 1990s and 2000s – reduced overcapacity of fleet and plant, increased returns to labour and capital, greater profits to firms and individuals departing the industry, growing investment capacity of the industry and more stable monetary and foreign exchange policies.[22]

Gunnarsson wrote an eminent Ph D thesis at the University of London (LSE) on industrial policy in Iceland in 1944-1974, with a focus on political conflicts and sectoral interests.[23] He analysed the politics and industrial policies behind the major investment programme in the power sector and the first aluminium plant in the late 1960s.[24]

The Ministry of Foreign Affairs published a few documents relating to the EFTA Agreement in 1969 and the EEA Agreement in 1992, listed in the Bibliography. A Ph. D. thesis by Magnússon[25] compares the EU accession of Iceland and Malta, and another by Bergmann Einarsson[26] asks why Iceland chose to participate in European cooperation through the EEA and Schengen agreements but not with full membership in the EU. A paper by Hálfdánarson on Icelandic nationalism asks why the Icelandic political elite has been reluctant to participate in

[21] Thorvaldur Gylfason et. al., 1999; Thorvaldur Gylfason and Gylfi Zoëga, 2003; 2006.

[22] OECD, 2005; Ragnar Árnason, 1993, 1994, 2001, 2005, 2008; Sveinn Agnarsson and Ragnar Árnason, 2005; Ásgeir Daníelsson, 1997; 2001 and 2004.

[23] Gunnar Ágúst Gunnarsson, 1989.

[24] Gunnarsson, *ibid*. 251-301.

[25] Magnús Árni Magnússon, 2011.

[26] Eiríkur Bergmann Einarsson, 2012.

European integration.[27] He wrote a book on Icelandic nationalism and its impact on the evolution of politics in Iceland during the nineteenth and twentieth centuries.[28]

Detailed collective work on the history of foreign trade in Iceland from 1900 to 2010 was published in 2017 in five parts, with the fifth and last part examining the period 1914-2010. Sigurðsson examined the implications of the EFTA Agreement and Iceland's free trade agreement with the EEC for the economy, which was also confirmed in a paper by Gíslason in 1979. Extensive literature is available on Iceland’s participation in the European integration process, including an overview by Benediktsson on Iceland and Europe´s Integration 1950-2000.[29] After a parliamentary request from 2017-2018, the government appointed a task force to study the pros and cons of the EEA Agreement for Iceland, effective 1994, and its impact on the economy and society. The task force delivered a detailed report of c 300 pages in 2019.[30] The report is detailed and highly informative, with a positive undertone of the benefits of the EEA Agreement for the Icelandic economy and society, in line with the inquiry and foreign policy analysis in Chapter 8.

2.4 Small States and Political Economic Paradoxes[31]

Further lessons of growth and development can be learnt, and insights gained for the research, from a few small island states which showed impressive growth during the study period. Some were poverty-ridden colonies (or overseas territories) in the 1960s but had managed to become relatively prosperous by the year 2000. The success list includes the Caribbean islands of Aruba, Bahamas, Barbados, Curaçao, Grenada, St. Louis, Trinidad and Tobago, as well as Bermuda, Cyprus, Mauritius and the Seychelles. Common growth sectors for nearly all of them were tourism and financial services – most skipped industrialisation and developed straight from primary activities and subsistence level into service-based activities. Many of the islands have had mixed ethnic and racial groups living there in harmony. They are dominantly Christian, i.e., mixed protestants and Catholics.[32] Some are multi-cultural and even multi-lingual. Most are democratic and small in population and geographical size. Based on observation, the following

[27] Guðmundur Hálfdánarson, 2004.

[28] Guðmundur Hálfdánarson, 2001.

[29] Einar Benediktsson, 2000

[30] https://www.stjornarradid.is/lisalib/getfile.aspx?itemid=013b2f1a-e447-11e9-944d-005056bc4d74.

[31] See Barry R. Weingast and Donald Wittman (eds.), 2006; Allan Drazen, 2000; Torsten Persson and Guido Tabellini, 2000; and William K. Tabb, 1999); Godfrey Baldacchino and Anders Wivel (eds.), 2020. Two chapters in the book are particularly relevant for studies of the political economy of small states, i.e. an introductory chapter by the editors, pp. 2-19 and a chapter by G. Baldacchino, pp. 70-82.

[32] Mauritius is an exception where Hindus and Muslims are in the majority and Christians in the minority.

factors have characterised these islands: Plurality, democracy, smallness, islandness and high population density. Overall, they have shown a greater similarity with Malta than Iceland.

The research has benefitted from insights, enquiries and findings from studies of the post-war economic and political histories of Denmark, Norway, Ireland and Cyprus.[33] Interestingly, the post-war Danish economy and post-independent Maltese economy have a few analogous elements – lack of natural resources, favourable location, densely populated, abounding foreign investments, prevailing footloose industries and services, EU membership and reliance on liberal trade. Post-war Iceland and Norway share other similarities – rich in natural resources (fish and energy), prevailing maritime influence, huge coastal zones, sparsely populated, mountainous terrain, protectionist foreign trade, restricted inward foreign investments, marginal farming, resource-based economic growth, many state-owned enterprises in the past and EEA membership. The evolution of the Irish economy (from 1922) and the Cypriot economy (from 1960) are quite analogous to the Danish and Maltese economies, despite the Irish and Cypriot economies being affected by political, ethnic, cultural, religious and geographical divisions. Both Ireland and Cyprus showed impressive growth during the 1990s and 2000s, based e.g., on liberal trade, low corporate taxes, foreign investments and global financial services, but were hit by the financial crisis of 2008.

Katzenstein produced a ground-breaking work in 1985 where he examined the successes of the economically vulnerable small states of Western Europe in comparison with the US.[34] Why were small European states just as prosperous, and a few more affluent, than the US? He observed their rapid and flexible responses to market opportunities, centralised politics and complex bargains among politicians, interest groups and bureaucrats.

Turnovsky[35] studied capital accumulation and economic growth in small open economies. He surveyed models of long-term economic growth and examined the implications of the long-run effects of fiscal policies on small open economies. Dornbusch and Prachowny examined the need for a structural openness of small states and advocated the promotion of export-led rather than import-substituting growth policies.[36] The former policies have had a decisive impact on the competitiveness of small states.[37] Gains from trade for small states are

[33] Norwegian references: Einar Lie, 2012; Arne Melchior and Ulf Sverdrup (red.), 2015; Ola Svein Stugu, 2012 and Jon W. Moses, 2000. Irish references: Thomas Giblin, Kieran Kennedy and Deirdre McHugh, 1988; John O'Hagan and Francis O'Toole (eds.), 2017; Andy Bielenberg and Raymond Ryan, 2016. Danish references: Bjarne Hastrup, 2017; Anders Lundkvist, 2017; Henrik Christoffersen, 1999; Per Ulstrup Johansen and Mikael Trier, 2020. Cyprus: V. Karageorghis, and D. Michaelides, 1996; Stavros Panteli, 2000.

[34] Peter J. Katzenstein, 1985.

[35] Stephen J. Turnovsky, 2011.

[36] Rudiger Dornbusch, 1980 and Martin F. J. Prachowny, 1984.

[37] Harvey W. Armstrong et. al. 1998 and Harvey W. Armstrong and Robert Read, 1998.

significant due to the magnitude of the trade multiplier. Openness to trade enhances domestic competitiveness through imports.

Proximity to and interaction with, relatively prosperous and high-growth countries may induce growth, indicating that regional location rather than isolation per se may affect the growth performance of small states.[38] The Icelandic economy was affected by NATO and EFTA membership, Nordic cooperation and US relations. Parallel influences in Malta were the Association Agreement with the EEC in 1970, proximity to Italy and the long-term relationship with Britain and Malta's relationship with Libya under Gaddafi for forty years.

The greater social cohesion of small states has been suggested as an additional positive factor in supporting their economic growth. It has been argued that their small size has enabled them to be more responsive to external changes and more flexible in their policies, inducing growth.[39] Briguglio et. al.[40] endeavour to explain what needs to be done in order to allow inherently vulnerable small states to build up their economic resilience, enabling them to withstand economic shocks. The emphasis should be on policies that promote macroeconomic stability and micro-economic policies that enhance flexibility in market adjustments. Diversity, another policy objective, is a proven approach to reduce susceptibility, given the capacity of the small state to do so. Baldacchino and Bertram have challenged the argument that factors such as small population, islandness and remoteness from markets will lead to economic vulnerability.[41]

A review of the literature on the economic growth of small states has brought to light a few characteristics with implications for their economic structure, political economy and performance, all pertinent to the study.[42] These include observations of an economic sub-optimality due to their small size, small domestic markets, narrow resource base, high degree of openness to foreign trade, vulnerability to external factors and concentrated outputs, exports and export markets.[43] Isolation is an additional issue for some small island states, resulting in (among other things) high transport costs. The high level of concentration in domestic economic activity and trade, coupled with high exposure to external global shocks, implies that the growth path of small states can be volatile.[44] The disadvantages of small size, i.e., of economic sub-

[38] See Harvey W. Armstrong et al, 1998 and Harvey W. Armstrong and Robert Read, 1995, 1998 and 2002.

[39] Harvey. W. Armstrong and Robert Read 1998 and 2002.

[40] Lino Briguglio et. al. 2006.

[41] Godfrey Baldacchino and Geoffrey Bertram, 2009.

[42] Harvey W. Armstrong and Robert Read, 1994, 1995, 1998a, 1998b, 2000, 2003 and 2006 and by Lino Briguglio, 1988a, 1988b, 1995a and 1995b, the volume by Lino Briguglio, Gordon Cordina and Eliawony Kisanga (eds.), 2006 and Guðmundur Gunnarsson, 1990.

[43] See John Toye and Richard Toye, 2003, on the Prehisch-Singer thesis on diminishing terms of trade on export commodities.

[44] Harvey W. Armstrong and Robert Read, 2003, 104.

optimality and susceptibility to external shocks, may outweigh any potential advantages. Small states can be expected to experience greater challenges in creating and sustaining economic growth than larger states.[45]

2.5 Comparative Political Economy

Comparative political economy explores and analyses how politics and economics interrelate within modern nation-states; it also compares economic and industrial policies and their political implications. The literature on political economy argues that economics alone cannot fully explain variances in growth and policy choices.

Enlightening political economic analyses, relevant for the study era and broadly applicable to both Iceland and Malta, are provided in four books 1999-2002.[46] They all review the political economy of the late twentieth century, laden with contemporary arguments and examples. Tabb examined how diverse traditions of political economy conceptualise economic issues, events and theory. He offers insights into theories of growth, the historical relations between the state and the market and the significance of globalisation for modern societies. Drazen provided a systematic treatment and a well-organised review of political economy in the 1990s. He discusses conflict of interests over economic policies, the role of the constitution and law, the political systems, the rules and traditions in the formation of government, separation of powers, the impact of multi-party systems, interest groups and transaction cost politics. His book embodies a comprehensive coverage of relevant macroeconomic topics contemplated in political economy and is helpful as a reference book, or a comparison, to academic studies of the late twentieth century. Persson and Tabellini discussed the lack of consensus on the appropriate mode of political-economic analysis. They suggested a unified approach to the field by merging the theories of macroeconomic policy, public choice and rational choice in political science. Stilwell was one of the leading political economists in Australia in the 1980s and beyond. His influential book, first published in 2002, introduced and provided an overview of political economy. Its main contribution is a broad view of the economy from the outset and its connection with political and social concerns. Despite the broad pertinence of the above-mentioned books to the study, their focus was on states that are much larger than Iceland and Malta.

[45] William Easterly and Art Kraay, 2000.

[46] William K. Tabb, 1999; Allan Drazen, 2000; Torsten Persson and Guido Tabellini, 2000; Frank Stilwell, 2002.

2.6 Economic Growth and Development

Economic growth sets in motion a broader economic, social, political and cultural progression, and impacts population growth, but any causal link between economic growth and development for developed countries is indeterminate.[47]

Economic growth theory sees labour and capital as the main growth factors, along with a residual called total factor productivity (TFP). Differences in TFP across states have given rise to the question of why some states are more efficient in using labour and capital at their disposal than others. Jones has reviewed three possible sources of differences in efficiency, i.e., human capital, technology and institutions.[48] Acemoglu[49] argues that in addition to labour, capital and technological progress, there are other ‘deeper reasons’ or fundamental causes of economic growth: reasons that prevent many countries from investing sufficiently in technology, physical capital and human capital. He concludes that technology appears to be the main driver of long-term economic growth and a major cause of differences in economic performance across countries. It is not only the aggregate rate of technological change that matters but also the types of technologies that are developed.[50] The significance of human capital in economic growth is supported by a large body of literature and extensive work by renowned international experts on human capital issues.[51] It is an indistinct term, arduous to define and onerous to grasp; an understanding of the term is mutable and sometimes impetuous.

The studies mentioned above focus on and draw examples and data from the growth experiences of much larger economies, where exports and foreign trade have only a trifling impact on growth. This is contrary to the experience of small open economies and resource-based economies like Iceland, where export incomes are significant and vital for growth. To enhance the economic growth analysis in the thesis, concepts and frameworks will be sought from the formative works of Armstrong and Read on the determinants of economic growth in small states, including the impact of trade,[52] as well as from the staple thesis, an economic interpreta-

[47] Richard Grabowski et. al. 2012 and Shiping Tang, 2022. The OECD https://www.oecd-ilibrary.org/ offers a number of more specialised reports on e.g. local economic development, the role of transport or agriculture in economic development, and on entrepreneurship and job creation. Joseph A. Schumpeter's classic work *The Theory of Economic Development*, was first published in German in 1911 and translated to English later. His thoughts and reasoning are inspirational for modern studies.

[48] Charles I. Jones, 2018, 90.

[49] Daron Acemoglu, *ibid*., 109-112.

[50] Daron Acemoglu, *ibid*., 861-862.

[51] Jess Benhabib and Mark Spiegel, 1994; María Jesús Freire-Serén, 2001; Elena Pelinescu, 2014.

[52] Harvey W. Armstrong and Robert Read, 1998a; 1998b; 2002; and 2003.

tion and analysis of Canadian economic history[53] and a classic paper on the export-base model by North, applicable for Iceland.[54]

2.7 Trade Policies and Foreign Relations

Small open economies tend to be less diversified and have high foreign trade risks. Global trade liberalisation which came to the fore in the late-1980s and 1990s has been challenging for small states, because of market structures, the demands of multilateral trade and increased competition.[55] Trade policies and foreign relations tended to be unique to each small state, due to factors like differences in political systems, relations with other states, location, natural resources, main industries and services, development policies and relations with previous mother countries. Changes in Europe in the 1990s, with many small states desiring to become members of the EU, or to participate in the European economic cooperation through other agreements, brought about an increased harmonisation of trade policies and foreign relations. It is well known that many small states have sought economic and political shelter from larger states and international organisations.[56] As previously mentioned, Iceland sought shelter from the US,[57] EFTA and the Nordic countries, while Malta did so from the UK and later from the EU. With a growing number of small states and success stories of their economies and social progress, the tone of the small state literature shifted in the 1990s from security matters to deliberations on their comparative economic and political successes.[58]

Some small advanced capitalist states have built institutions that enable them to adapt flexibly to the exposure they face in the growing global political economy.[59] Katzenstein maintained that, in advanced capitalist countries, the size of the state mattered in terms of its political and economic behaviour. He argued that smaller states were likely to have relatively few natural resources and depend on external markets. Furthermore, the small size would lead to

[53] Melwin H. Watkins, 1963, 141-58, extends and updates earlier works of Harold A. Innis. Watkins modernised Innis's staple thesis. Examples of the works of Harold A. Innis are: *The History of the Canadian Pacific Railway* (1923); *The Fur Trade in Canada: An Introduction to Canadian Economic History* (1930); *The Cod Fisheries: the History of an International Economy* (1940). See also Robin Neill, *A History of Canadian Economic Thought*, chapter 8 "The Staple Thesis 1920-40".

[54] Douglass C. North, 1955.

[55] Tony Heron, 2008; Harvey, W. Armstrong and Robert Read, 1998a; 1998b. The book by Baldur Thorhallsson (ed.), 2019, provides formidable insights into the foreign policy issues of small states in the international system; The book by Godfrey Baldacchino and Anders Wivel (eds.), 2020, identifies key characteristics, challenges and opportunities involved in the politics of small states. An enlightening Ph D thesis is by John Barry Bartmann, 1997. Other notable publications are by Godfrey Baldacchino and David Milne (eds.), 2000; Robert Keohane, 1969; Christos Kassimeris, 2009; Jeanne Hey (ed.), 2003.

[56] Shelter theory is covered extensively by Baldur Thorhallsson (ed.), 2019.

[57] See an article by Baldur Thorhallsson, Sverrir Steinsson and Thorsteinn Kristinsson, 2018.

[58] Although a return to security issues is now evident after the Russian invasion of Ukraine.

[59] Peter J. Katzenstein, 1985; Andrew F. Cooper and Timothy M. Shaw (eds.), 2009 and Tony Heron, 2008.

a tiny domestic market, exposing it to the susceptibility of international trade.[60] Some small states have become quite prosperous and influential in international politics.[61]

A ground-breaking work on micro-states in the international system is a Ph. D. thesis by Bartmann from 1997.[62] Bartmann examined the international relations of micro-states relating to issues of status and legitimacy, the conduct of diplomacy and the efforts of micro-states to achieve strategies of self-reliant economic development during the post-war period until the mid-1990s. His research confirmed the vulnerabilities of micro-states in all three areas but also revealed surprising opportunities for some micro-states to 'ameliorate their weaknesses and to achieve constructive engagements within the international system'.[63]

2.8 Macroeconomic Policies

Keynesian economics with fiscal emphasis dominated Western macroeconomic policy choices in the post-Second World War period until the 1970s. In 1936, Keynes provided an essential conceptual framework for analysing the influence of fiscal policy on aggregate demand.[64] The distinguished American economist and Nobel prize winner, Samuelson, expanded and articulated the Keynesian paradigm in the US.[65]

The ideas of Friedman on monetary policies, taxation, sale of government assets, privatisation and deregulation, influenced public policy choices in the Western world during the 1980s and 1990s.[66] The ideas of monetarism at that time focussed on the macroeconomic effects of the supply of money and central banking policies. It argued that excessive expansion of the supply of money was inherently inflationary and that monetary authorities like central banks should focus solely on maintaining price stability. In addition, the writings of the Austrian/British

[60] Peter J. Katzenstein, 1985.

[61] Works on small states and international relations include Godfrey Baldacchino and Robert Greenwood (eds.), 1998; Godfrey Baldacchino and David Milne (eds.), 2000; Andrew F. Cooper and Timothy M. Shaw (eds.), 2009; Tony Heron, 2008; Jeanne A.K. Hey (eds.), 2003; Christine Ingebritsen, Iver Neumann, Sieglinde Gstöhl and Jessica Beyer (eds.), 2006; Baldur Thorhallsson, 2000; Baldur Thorhallsson (eds.), 2004; Christos Kassimeris, 2009; and Baldur Thorhallsson, 2018.

[62] John Barry Bartmann, 1997. He identified 40 micro-states with a population of less than c 1 million.

[63] Bartmann *ibid*., 2.

[64] John Maynard Keynes, 1936.

[65] Samuelson's works in Keynesian economics are reviewed in chapter 11 of L.R. Klein, Paul Samuelson as a 'Keynesian' Economist, in *Samuelsonian Economics and the Twenty-First Century*, edited by Michael Szenberg, Lall Ramrattan, and Aron A. Gottesman. Published by Oxford Scholarship online in 2009.

[66] Friedman advised governments on economic policy and wrote influential books and articles during his career. They include *A Program for Monetary Stability*, 1960; *Capitalism and Freedom*, 1962; *A Monetary History of the United States, 1867–1960*, with Anna J. Schwartz, 1963; 'The Role of Monetary Policy', *American Economic Review*, Vol. 58, No. 1 (Mar. 1968), pp. 1–17; 'Inflation and Unemployment: Nobel Lecture', 1977, *Journal of Political Economy*, vol. 85, pp. 451–72.

economist and philosopher, von Hayek, influenced liberal government policies in the 1980s and 1990s.[67] Friedman did also promote freely floating exchange rates.

Friedman´s economic thoughts influenced economic policies in Iceland, especially in the 1990s. A national conciliation accord in 1990 between the government, business federations and labour unions brought inflation down to moderate levels.[68] Monetary, fiscal and foreign exchange policies had lacked effectiveness in Iceland during the 1970s and 1980s, with hyperinflation and massively devaluated currency, as explained in Chapter 9. This was caused mainly by the predominance of volatile fish exports and the lack of disciplined and coherent macroeconomic policies as well as extensive microeconomic transfers. Other influences were strong trade unions, inadequate competition and a lack of political power wielded by the coalition governments. Friedman's economic ideas influenced economic policies in Malta during the tenure of Fenech Adami as prime minister (1987-1996; 1998-2004).[69] Malta's monetary policies were more stable than those of Iceland‘s, as analysed by publications, e.g. IMF reports 1995, 1997, 1999, 2001 and 2003, and papers by Delia, 1986, Ellul, 1998 and Vassallo, 1994.[70]

Fiscal policies embrace public finance, including sources of revenue, expenditures, transfers, investments, budgets, accounts, loan portfolios, assets and liabilities. Governments use fiscal policies to adjust their spending levels and tax rates to plan and shape their national economies.[71] The joint objectives of fiscal and monetary policies are stable prices and wages, high levels of employment and sustainable economic growth.[72] Fiscal policies affect aggregate demand through government spending, taxation and transfer payments. Fiscal policies in Iceland coped with ballooning public expenditures and taxes in a growing economy, hyperinflation in the 1970s and 1980s, massive devaluations of the ISK, volatile export income, swelling public debt, sizable transfers, redistribution payments and various cost-sharing schemes between the state and the local authorities. The fiscal policies of Malta were quite unique in the 1960s and 1970s as a part of government and business income, as well as salaries for many Maltese

[67] F. A. Hayek, 1944.

[68] Már Guðmundsson et al., 2000.

[69] Eddi Fenech Adami, who was a leader of the Nationalist Party and prime minister 1987-1996 and 1998-2004, felt disposed to Friedman´s ideas. Fenech Adami´s autobiography *Eddie: My Journey* was published in 2014. See also a paper by Francis J. Vassallo, 1996 on the experience of the Central Bank of Malta and IMF reports on Malta 1995;1997; 1999, 2001; 2003.

[70] E. P. Delia, 1986; Emanuel Ellul, 1998; and Francis J. Vassallo, 1994.

[71] Gísli Blöndal, 1965; 1969; 1977; 1986; International Monetary Fund, 1986; Björn R. Guðmundsson, and Gylfi Zoëga, 2000.

[72] Gordon Cordina, 1992; Avinash Dixit and Luisa Lambertini. 2003; Torsten Persson and Guido Tabellini, 2000.

workers, came from the UK government. A self-reliant fiscal policy evolved in Malta in the 1980s and 1990s along similar lines as in other small European states.[73]

2.9 Industrial Policies and Structural Reforms

The literature on industrial policies complements writings on economic and trade policies. Industrial policies and programmes are often realised together with other policies. One of the oldest arguments for industrial policies is the need to protect infant industries from foreign competition. Another justification for such policy interventions in small states relates to the vital role of exports and the need to safeguard and protect export markets, e.g. by securing product quality. A paper by Saggi and Pack surveyed the scholarly literature on industrial policies and argued that such public intervention had played a limited role.[74] That certainly has not been the case in Iceland and Malta, as will be shown in the thesis. As small states, both have seen close links and mutual understanding between government and businesses and seen influential interest groups regularly voice their concerns. Both Malta[75] and Iceland[76] adopted various industrial policies during the study period, promoting key sectors like fisheries and power-intensive industries in Iceland and manufacturing, tourism and financial services in Malta. There were also policies protecting local production from foreign competition, some as ‘technical barriers’ to imports, others to promote ‘import-substitution industrialisation’.

The literature on industrial policies is diverse and reflective of the time of writing.[77] The literature from the 1960s is quite interventionist and dwells on ‘defending’ domestic economies from external ‘invasive’ economic activities. In the 1970s, the literature shifted emphasis to policy responses to the oil crisis, stagflation and economic upheavals, problems unknown in the 1960s while the interventionist attitude prevailed. Foreman-Peck reviewed industrial policies in Europe during the twentieth century, emphasising growth factors, instruments and impact across countries and period by drawing policy lessons, both successes and failures.[78] Grønlie edited a

[73] Aaron G. Grech, 2000; 2014; Gordon Cordina, 1992.

[74] Howard Pact and Kamal Saggi, 2006.

[75] E. P. Delia, 1996, and P. Beattie, 2004, reviewed industrial policies in Malta. Richard Pomfret, 1982, examined how Maltese industrial policies had changed over time. Huw Jones, 1971, reviewed the economic transformation of Malta in the 1960s.

[76] A Ph D thesis on industrial policy in Iceland by Gunnar Ágúst Gunnarsson, 1989, University of London (LSE).

[77] Adam A. Ambroziak (ed.), 2017. See a paper by Adam A. Ambroziak, pp. 3-38, “Review of the Literature on the Theory of Industrial Policy”. The Ph D thesis by Gunnar Ágúst Gunnarsson, *ibid*, reviews the literature on post-war industrial policies.

[78] James Foreman-Peck, 2006.

volume in Norwegian with diverse articles on post-war industrial policies in Norway up to the 1990s; it is revealing and inspiring for corresponding analysis of industrial policies in Iceland.[79]

Structural reforms are essential supply-side growth policy measures that aim to change the structure of an economy, particularly the institutional and regulatory framework. The main aim of reforms is to improve economic efficiency and flexibility and, hence to strengthen the adaptability of firms and markets. Structural reforms took centre stage in Europe during the 1980s and 1990s. They began in the 1980s as safeguarding strategies in response to the mounting economic turbulence of the 1970s which had caused economic mayhem in the Western world. A wave of structural reform policies and programmes were adopted in Iceland and Malta over the 1990s and the 2000s.

OECD has provided scholarly works on structural reform policies,[80] Høj et al.,[81] Farrugia on supply-side policies and economic restructuring in Malta,[82] Greenidge et al. on the effects of structural reforms on economic growth in Caribbean small states,[83] and Tompson and Dang, who summarised findings from a study of 20 structural reform episodes in ten OECD countries.[84] All these writings are broadly relevant and insightful for an enhanced understanding of the structural reform policies adopted by the governments of Iceland and Malta.

2.10 Conclusion

This chapter has provided an overview of various sources of the literature that offer insights into the role of government in economic growth and development during the eventful era under study, especially in disciplinary fields relevant to small-states and Iceland and Malta in particular. The review has manifested the abundance of literary texts on the political and economic changes and developments of both island states. International institutions, of which Iceland and Malta are members, and local institutions, have also published particularly relevant reports and statistics. The literature review has conveyed that the second half of the twentieth century was marked by significant public policy shifts and transitions and that a new more liberal policy paradigm emerged towards the end of the century.

[79] Tore Grønlie (ed.), 1999.
[80] OECD, 1994.
[81] Jens Høj et. al., 1995.
[82] Nadia Farrugia, 2004.
[83] Kevin Greenidge et.al., 2018.
[84] Jens Høj, 1995; Greeidge et. al., 2018; William Tompson and Thai-Thanh Dang, 2010.

3 RESEARCH STRATEGY AND METHODOLOGY

3.1 Prologue

The chapter will define the intent, scope and structure of the investigation and introduce the research strategy. It will endeavour to understand the underlying political and economic circumstances and fundamental factors of growth, economic and industrial strategies and policy instruments adopted, as well as emerging institutional structures, through a comparative inquiry. Other research contexts identified, evolve from analogous studies of small states, selected for the particular purpose of the study.

3.2 Economic Data Bases

In a comparative study of two small island states, the statistical data should be eminently comparable, i.e., collected and compiled through internationally approved analogous methods, based on the same definitions, arrangements and parallel categorisations. The period 1960-2000 was marked by an advancement in government statistics. In the 1960s, statistics were generally collected in a conventional manner by using 'paper and pencil', surveys and censuses. By the end of the century, high-quality economic and social data, of internationally comparable standards, were readily available in electronic databases for most countries.

The quantitative data analysis of the study will be emphatically divided into ensembles. One is internationally analogous data, chiefly provided by the World Bank.[1] The other is domestic data collected and processed by the statistical authorities and the Central Banks, intended primarily for socio-economic time series analysis of each island state. These are:

The Central Bank of Malta[2]
The Central Bank of Iceland[3]
Iceland Statistics[4]
National Statistics Office - Malta[5]

[1] https://data.worldbank.org/indicator/
[2] https://www.centralbankmalta.org/
[3] https://www.sedlabanki.is/
[4] https://hagstofa.is
[5] https://nso.gov.mt

The statistical sources from the authorities listed above can be positively used for time-series analysis of each country in 1960-2000, but the statistical methods, criteria and definitions were revised regularly and the time series do hence need to be interpreted with due regard. Not all the comparative statistical analyses worked out for the thesis are available for the entire study period. Some for the 1970s onwards, but others during the period c 1980-2000. Many data reports published during the study period are suitable for analysing developments within each state by means of time series. Statistical data from Eurostat[6] are mainly available after the study period and are hence of limited use. Data from OECD[7] are quite valuable for Iceland but are not provided for Malta as a non-member state. Iceland and Malta are also featured in various economic reports by the International Monetary Fund (part of the World Bank Group).

GDP per capita is the conventional method of calculating and comparing indices for economic growth, both between countries and as time series. For international comparison, it is quite common to convert local currency units into USD, either as current USD or at constant prices. The deflator employed is not without problems. The GDP deflator captures the prices of goods and services produced. Hence it includes prices of exports but not imports. The consumer price index (CPI) captures the prices of imports and not exports. Changes in the terms of trade will drive a wedge between the GDP deflator and the CPI.[8]

The World Bank has for a long time observed the weakness of a worldwide comparison of national economies by means of GDP calculated at exchange rates into constant USD. Instead, it has made available since 1990, data based on purchasing power parity (PPP), i.e. GDP converted into international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar in the US.

The essence, qualities and specifications of GDP have changed over time. Due to structural changes associated with economic progress, the GDP calculated in 1960 constituted a different statistical measure than GDP worked out in the year 2000. Over this period, modern and qualitatively improved products emerged, novel technology and new services. Hence, the criteria for measuring GDP changed at regular intervals. These and other weaknesses are explored by de Jong and Palma.[9]

[6] ec.europa.eu/eurostat/data/database

[7] https://data.oecd.org/

[8] See an explanation by Leslie Lipschitz and Susan Schadler, 2019, 60.

[9] Herman J. de Jong and Nuno Palma, ‘Historical National Accounting’, in *The Economist’s Guide to Economic History*, Matthias Blum and Christopher L. Colvin, (Palgrave Macmillan, London 2018), 395-403

3.3 Economic Growth Analysis

Conventional economic growth theory, represented by the Solow model,[10] has an aggregate production function, which can be written in the general form:

$Y_t = F(K_t, L_t, A_t)$.

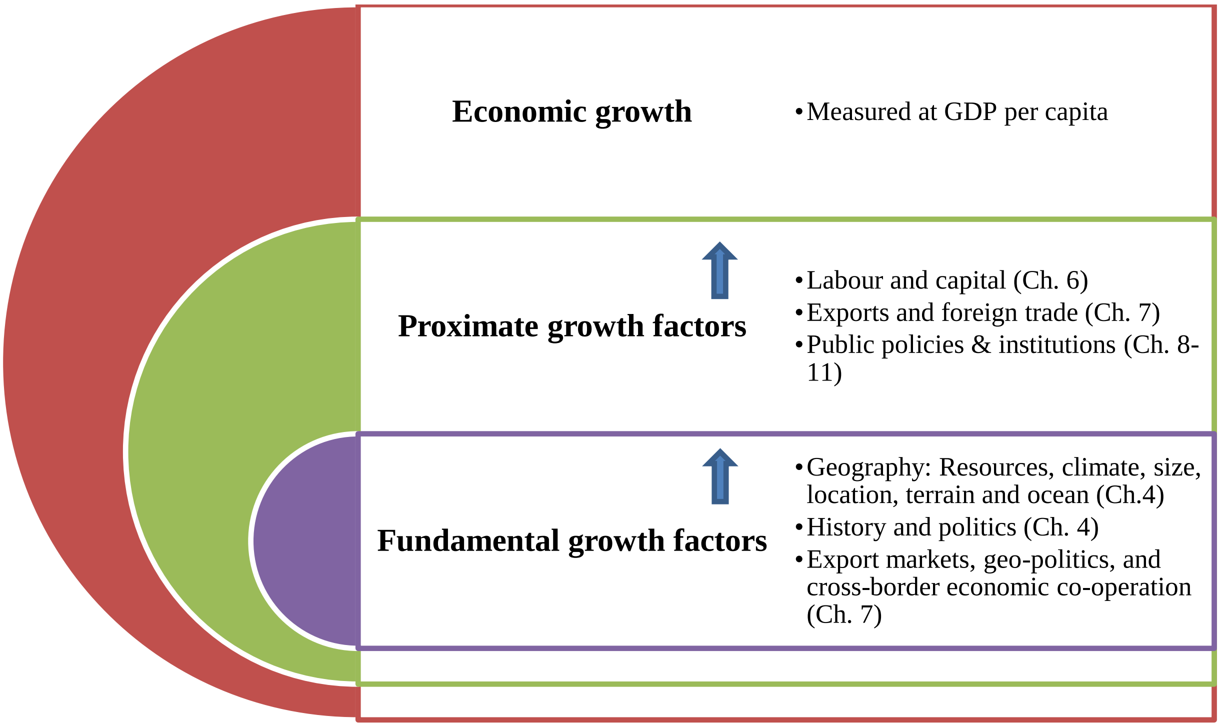
Y_t is the total output at time t, K_t is the capital stock, L_t is total employment and A is the residual, or total factor productivity (TFP), which measures how productive a country is in using its factor inputs of K and L to produce outputs. A_t is considered to represent factors such as institutions, policies, technology and human capital. The share of labour, capital and TFP was calculated for Iceland 1973-2000 and for Malta 1970-2000 (Chapter 5.4). It is argued, based on regression analysis and other findings in the thesis, which demonstrate the importance of exports in the two small open economies, that exports should be added as an independent growth factor to labour, capital and TFP. A calculation in Appendix I, shows a close correlation between real export income as an explanatory variable and real GDP per capita as a dependent variable.

The economic growth analysis in the thesis will consider four independent growth factors: 1) Labour, 2) capital, 3) exports and 4) institutions and policies as key elements of TFP. The first three growth factors are analysed statistically in Appendix I and the growth trends in Chapter 5. Public policies and institutions will feature prominently (chapters 8-11).

The framework for analysing the growth factors is presented in figure 3.1. The fundamental factors underlie and affect the proximate growth factors through an unspecified link. History, geography, culture, the legacy of foreign rulers, the parliamentary democracy and political systems that evolved, were influential factors in shaping and moulding the economic growth and development paths, both before and during the period of study.

[10] Robert M. Solow, 1956;1957; Trevor M. Swan, 1956.

Figure 3.1; Economic Growth Factors – Causal Relationships



3.4 Growth Factors

3.4.1 Labour and capital

Labour and capital are analysed as explanatory factors of growth in Chapter 6. Labour is a more unified and suitably demarcated growth factor to analyse than the multi-faceted capital, which evolved in the late twentieth century into a rather boundless, sophisticated and omnipresent field of study. The period 1960-2000 saw major developments in the labour forces and markets of Iceland and Malta, i.e., in the context of growing employment, advancing employment structure, rising labour productivity, improved education and training, a growing number of women in paid employment and evolving labour market policies and institutions. While the labour forces and labour market policies and customs, influenced the economic growth and development of both island states, they evolved along dissimilar paths, reflecting different industrial structures, external influences and different labour market trends.[11]

While the labour force expanded and became more skilful, educated and productive, capital accumulated concomitantly and was generally invested in economic activities that generated income, jobs and growth. Capital accumulation stemmed from different sources, driven by

[11] Andrea Bassanini and Danielle Venn, 2007, discuss the impact of labour market policies on economic growth.

numerous contributing factors. One source was corporate capital such as retained earnings, loan financing and equity and another was foreign investment. Government capital investments, funded by taxes, foreign aid or public borrowing (local or foreign), were also important. The capital intensity and the nature and allocation of capital investments affected growth and development, i.e. investments in production facilities, land, infrastructure and commercial enterprises.

3.4.2 Exports and foreign trade

The thesis will investigate how rising cross-border economic activities, including exports, imports and capital-flows, were the driving force behind growth and development in Iceland and Malta. It will examine to what extent the main trends and attributes of their cross-border activities and trade correlated. It will explore how the political-economic effects of exports from resource-abundant Iceland deviated from the effects of exports in resource-scant Malta. The thesis will furthermore contemplate global economic and political influences and to what extent the respective locations in the Mediterranean and the North Atlantic, including security concerns, affected choices of trading allies and cross-border endeavours. Cross-border capital flows will be analysed, including total assets, liabilities and investments. The structure of the investigation and chronicle of events on foreign trade trends and related activities will be examined in Chapter 7, while the foreign relations and trade policies are narrated in Chapter 8 and foreign exchange policies in Chapter 9.

Malta's export growth engendered more diversified trading partners and less exposure to foreign shocks and volatilities than Iceland. Icelanders restricted inward foreign direct investments (FDIs), but were modest investors abroad, despite foreign exchange restrictions. The Maltese tended to refrain from risky ventures, both at home and abroad, and sought actively foreign investors for their capital-intensive projects. Economic structures, politics, export markets, foreign relations, and indeed the political economy of foreign trade and cross-border activities were dissimilar.[12]

3.5 Public Policies, Instruments and Programmes

The public policy research, the results of which are presented in chapters 8-11, aims to understand, explain and compare the role of the two governments in supporting, managing and driving economic growth and development by virtue of five types of public policies, their policy instruments, institutions and programmes, presented in figure 3.2.

[12] Harvey W. Armstrong and Robert Read, 1998a; 1998b; 2002; Aaron G. Grech, 2015; Helgi Skúli Kjartansson et. al. 2017.

Figure 3.2: Growth Policies, Plans, Programmes and Interventions

Foreign Policies	Macroeconomic Policies	Industrial Policies	Capital Investments	Structural Reforms
• Foreign relations and international economic collaboration. • Foreign trade, i.e. exports, imports and other cross-border economic activities.	• Fiscal • Monetary • Foreign exchange	• Policies that improve structurally the performance of industries and businesses • Industrial incentives • Transfer of technology • R&D	• Development plans • Infrastructure facilities • State-owned commercial enterprises • Grants and incentives for capital investments	• Deregulation • Privatisation • Tax reforms • Competitive markets • Labour market reforms

The analysis of the public policies is based on theory, pure logic and deduction. The direct effects or repercussions of economic and industrial policies on growth are indeterminate and hard to define or enumerate. The choice of policies for the analysis is based on their appropriateness for comparability between the two island states; their analogy and juxtapositions over the study period are compelling. Meanwhile, a few policy sets or interventions which lack comparability or compelling contrasts are not included in the comparison, e.g. micro-economic policies, government transfers, regional policies and agricultural policies.

This historical research will examine how political and economic changes in both island states impacted public policy choices and formulations, policy instruments, institutional evolution and state interventions. The foreign policies (Chapter 8) and the macroeconomic policies (Chapter 9) will, due to their distinct characteristics and influences be examined separately. The three remaining policy regimes – industrial, capital investments and structural reforms – will be examined mutually in chronological order. Chapter 10 will explore policies in the 1960s and 1970s as Chapter 11 will investigate the same policies during the 1980s and 1990s, but while not observing a strict dividing timeline between the chapters. Neither is there a strict borderline between the chosen policy contents. Capital investments may be considered as part of fiscal policies and may also, along with structural reforms, be seen as a component of industrial policies.

The literature shows that public policies intended to support and drive economic growth have tended to focus either on efforts to augment aggregate demand (demand side policies) or enhance aggregate supply or productivity (supply side policies). Demand-side policies are fiscal and monetary, while supply-side policies entail both interventionist programs (infrastructure investments, human capital and institutions), free market supply policies (privatisation, deregulation, tax cuts, labour market etc.) and industrial policies.

Several underlying factors impacted and framed the evolution of public policies and policy instruments in Iceland and Malta during the study period:

1. Both were small open economies which required resilient and purposeful foreign relations and trade policies, securing their access to thriving export markets.
2. Both developed resolute industrial policies, promoting and supporting imperative business sectors, albeit for dissimilar reasons and emphasising different sectors.
3. State-controlled economies, trade restrictions and Cold War influence affected public policies in the 1950s, 1960s and 1970s. Economic upheavals of the 1970s gave rise in the 1980s and 1990s to a paradigm shift away from established Keynesian policies and towards free trade, structural reforms, monetarism and competitive markets.
4. Resource-bountiful Iceland was overly focused on marine resource exploitation and vital export staples. It was known for its 'one-industry' political view on the growth of fisheries, crowding out other sectors and even compromising sound fiscal, monetary and foreign exchange policies, leading to hyperinflation and huge devaluations of the currency and destabilising effects on the national economy.[13] Meanwhile, resource-scarce Malta adopted more general economic, industrial and foreign trade policies, promoted diversification, sought inward foreign investments, emphasised monetary stability and maintained to a great degree the value of the currency.
5. Disparate party politics, political systems, parliamentary democracy and government formations impacted the policy-making process. One-party majority government in Malta could implement its own political manifesto, shift policies, reform institutions and change direction in foreign relations at will. Meanwhile, multi-party majority coalitions in Iceland, had little choice but to adopt compromising moderate policies, negotiated between the collaborating parties, to consult with NGOs and local councils and debate policy reforms in the parliament.[14]
6. Iceland faced the mounting task of developing modern infrastructure, particularly power, utilities, roads, airports and harbours, in a country of c 103,000 sq. km. Malta, meanwhile, took over an established, but somewhat patchy, infrastructure from the British at independence in 1964.

[13] Different coalition governments ignored the sound judgment and prudent monetary policy advice from the Central Bank, to keep the fishing industry afloat, discussed in the autobiography of Nordal, 2022.

[14] It is well known that the 2-3 coalition parties tend to compromise on the sets of policies that each party stands for and hence cancel out each other's key policy agendas. Coalitions are also known to break up mid-term with a new one formed subsequently, almost like shuffling cards – one party in another party out.

7. Both island states opted to invest profoundly in commercial enterprises of national importance during the 3-4 decades following the Second World War, as is explored in chapter 10.6.

3.5.1 Foreign policies

The study will elaborate how trade policies evolved over time, i.e., from more restrictive policies, characterised by trade controls and embargos, licences, custom- and excise duties, barter trade and import-substitution policies, during early parts of the study period, towards more open trade policies from the 1990s onwards, along with a growing globalisation of trade and other economic activities. Both governments made regular use of their foreign political relations to enhance trade relations, negotiate foreign loans and attract foreign investments. They built up their own particular network of foreign relations, e.g., Iceland with the US, Britain and the Nordic countries and Malta with Britain, Italy and Libya.

The research will include in Chapter 8 a discourse of trade agreements, international disputes or conflicts involving Iceland and Malta and a deliberation of how their approaches towards European economic co-operation evolved, especially towards the end of the century. The policy analysis will build on the narration of foreign trade and cross-border activities in Chapter 7, which will explore how rising cross-border economic activities, including exports, imports and capital-flows, were a significant driving force behind growth and development in Iceland and Malta.

3.5.2 Macroeconomic policies

Macroeconomic policies are concerned with the operation of national economies. Such policies, discretely adopted, generate stable economic conditions conducive to sustainable economic growth. The main realms of macroeconomic policies in Iceland and Malta were fiscal, monetary and foreign exchange policies. The study will address and explore how these policies were formulated, identify the main policy instruments and institutions and elaborate by what means they were implemented and how they evolved over time (Chapter 9).

Fiscal policy embraces public finance in its entirety, including sources of revenue, expenditures, transfers, investments, budgets, accounts, loan portfolios, assets and liabilities. It is the means by which governments may adjust their spending levels and tax rates to plan and shape their national economies.[15] The purpose of monetary policy is to manage and control the money supply and interest rates, usually aimed at achieving macroeconomic stability, including keeping inflation at bay and full employment. The monetary instruments include modification of

[15] Gísli Blöndal, 1965; 1986; International Monetary Fund, 1986; Björn R. Guðmundsson, and Gylfi Zoëga, 2000.

interest rates, buying or selling government bonds, regulating foreign exchange rates and changing the amount of money banks are required to maintain as reserves.[16]

The comparative empirical analysis will disclose changing values of the foreign exchange rates of the Lira and the ISK, as well as inflation and interest rates. Post-independence Malta endured in general quite discreet and stable fiscal, monetary and foreign exchange policies in comparison with deviant Iceland. For Iceland, explanations will be sought in the economic predominance of the volatile fish exports and the public policies supporting the fishing industry. Malta's local currency, meanwhile, was serving a more diversified and stable service- and manufacturing-based economy with hardly any pressure for distorting discreet monetary targets in the interest of a specific industry.

3.5.3 Industrial, capital investment and structural reform policies

Owing to the extent and principal role of industrial, capital investment policies and structural reform policies in economic growth, the investigation of this broad policy domain will be carried out analogously as part of a wider analysis in Chapters 10 and 11. The analytical framework is rooted in comparative political-economic studies, focusing on political institutions, policy instruments, their economic impact and the external context within which they evolved. It involves coverage of the changing economic role of the state and of dissimilar political developments, governance, institutions, the role of natural resources and divergent routes taken in their participation in the European economic cooperation. The research approach will be to describe trends, tendencies, incentives, transfers, changes in the political context, economic situations and objectives.

Industrial policies refer to interventions, regulations, transfers and incentives aimed at improving structurally the performance of business sectors as well as of new business projects and developments. They are multivarious in content and objectives, adapt to political and economic changes over time, and respond to evolving circumstances, political context and economic situations. They may overlap macroeconomic and foreign trade policies, capital investment programmes or structural reforms, or include such components.

Capital investment plans and programmes were prevalent during the second half of the twentieth century, particularly in infrastructure, state-held commercial enterprises and investment grants and incentives for industrial and commercial facilities. Investments in roads, harbours, airports, power production, water, sewage, telecoms, hospitals and schools, were the *sine qua non* for growth and essential for the national economies.

[16] Agnès Bénassy-Quéré, et. al., 2019.

Investments in commercial enterprises by the public sector (the state, local authorities and other public sector entities), rose markedly in post-war Iceland until the 1980s and in Malta from the 1960s to the 1980s. Examples included banks, airlines, energy production, telecoms, shipyards, industrial estates and fisheries. Some were owned wholly by the state and others had the state as a part-owner or a shareholder. Both states offered various but dissimilar, incentives, grants and soft loans to private companies investing in capital assets.

Structural reform policies gained momentum in Iceland and Malta during the 1990s and 2000s. They involved liberal trade policies, extended competition, enhanced market efficiencies, deregulation, privatisation and tax reforms. Such reforms became framed into EU and EEA guidelines, which Malta had to adhere to during the EU application process and Iceland as part of EEA. Structural reforms were generally more unwieldy in Iceland than in Malta due to a more complex political structure (state and local authorities), compromising coalition state governments and strong regional repercussions of some policies. Structural reform policies will be examined in Chapter 11.2, but partly in other chapters as well.

3.6 Conclusion

The research strategy exposed in the chapter will direct the purpose and support the conduct of the study. The enquiry of the thesis will enlighten key attributes and factors of economic growth and development of the two island states, undertake comparative political economic analysis and examine public policies and state interventions affecting economic outcomes. The chapter has reviewed economic databases, discussed frameworks of economic growth analysis, highlighted key growth factors and presented the analytical groundwork for the comparative policy analysis carried out in Chapters 8-11.

4 HISTORY, GEOGRAPHY AND POLITICS

4.1 Outline

The chapter will review the economic and political history of Iceland and Malta concisely before 1960, recapitulate the main political developments and events and discuss key factors which were associated with their economic progress during the second half of the twentieth century. It will, furthermore, compare the main geographical characteristics of the two islands, relevant for the study. The chapter serves as a background for the study's economic growth and policy analysis.

History, geography, politics and culture bestow jointly a frame that surrounds and provides bases for an appropriate interpretation of political developments and economic progress in Iceland and Malta and the underlying growth factors through:

- The political and economic history of the two islands up to c 1960, including their relations with their previous rulers of Britain and Denmark;
- The geographical characteristics, natural resources and location of the two islands;
- Their evolving post-independent politics and political institutions; and
- Cultural and social influences.

A basic understanding of the historical context of the two islands is an imperative part of the research, including economic, social, political and cultural conditions, trends and tendencies.[1] An inquiry into the historical context will enhance the interpretation and analysis of past works, reports and data, give a deeper understanding and an appreciation for the narrative and avoid judging the past by contemporary standards. The legacy of history has left its mark on the two islands and affected their post-war economic progress, society, politics and government policies.

Politics affect economic growth, development, and public policies through the political system, party politics, the Parliament, the composition of governments, and evolving political and economic institutions. Non-governmental organisations or groups affecting the political process, including policy choices, design and implementation, albeit in a dissimilar way on each island, included the Catholic church, trade unions, local councils, co-operatives, business

[1] Notable works on the fundamental elements of economic progress from a historical perspective include Douglass C. North and Robert P. Thomas, 1973; Douglass C. North, 1981; 1994 and 2005; and Daron Acemoglu, 2009.

associations and the media. Politics advanced along dissimilar paths in the two islands as will be explored in the chapter. Social and cultural factors affected economic progress, but the nature of such influences was indistinct.

4.2 Geographical Factors

4.2.1 Malta

The Maltese islands cover an area of c 316 km^2, located on a shallow shelf which forms part of a submarine ridge extending from Sicily southwards to the North African coast of Tunisia and Libya. The largest island is Malta (246 km^2), next is Gozo (Għawdex) (67 km^2) and then Comino (3 km^2). There are, in addition, some uninhabited islets and rocks, completing the archipelago.[2] Malta has no mountains, streams or lakes but some minor springs. The southwest coast has steep sea cliffs, and the land tilts gently towards the southeast and east, where the main settlements and natural harbours are.[3]

The primary resources and qualities of the natural environment conducive to commercial enterprises and supporting the livelihood of the islanders are intermittent tracts of arable land for farming, limestone quarries for building materials, salt on the coast, fish resources from the sea, favourable conditions for sea-based aquaculture, solar and wind energy and warm climate encouraging tourism. Most of Malta's farming has been on small, privately owned fields. Some fields are devoted to livestock, i.e., for haymaking, clover or grain to feed cattle and horses. The same fields are cultivated either through a system of rotation or crop cultivation.[4] The island has not been self-sufficient in food production.

In the 1990s, land in Malta was owned c 2/3 by the state and c 1/3 was privately held, but farmers owned a much lower percentage of agricultural land. From 1956 to 1991, productive agricultural land area declined by 41%, and land fragmentation was common. Both the state and private landowners tended to hold onto their land. Farmers hesitated to invest, except on their private property, due to the risk of the continuing land tenure. While the Agricultural Leases (re-letting) Act of 1967 regulated land tenure in Malta to protect farmers from eviction, there were

[2] Sara Biolchi, Stefano Furlani, Stefano Devoto, Ritienne Gauci, Doriano Castaldini and Mauro Soldati, 'Geomorphological identification, classification and spatial distribution of coastal landforms of Malta (Mediterranean Sea)', *Journal of Maps,* 2016, 12:1, 87-99.

[3] See, e.g. a book by three British geography professors which contains a survey of the economic structure, land use and geography of Malta c 1960 as a background study for development, i.e., Howard Bowen-Jones, John D. Dewdney and William B. Fisher, 1961. See also the CIA World Factbook (https://www.cia.gov/library/publications/resources/the-world-factbook/geos/mt.html).

[4] Proceedings, APS Seminar 2006, *Future Products for the Agriculture and Fisheries Sectors in Malta,* APS Bank Publication, 2006; Another relevant paper is B.S. Young, 1963.

various means of circumventing the law, e.g., based on an objection to an increase in rent, if the land had been left idle for more than 12 months or was covered by a building permit.[5]

Figure 4.1: **Map of Malta**

Agriculture has for a long time been important as a means of livelihood in Malta, although low-scoring in economic statistics, whether of income, employment,[6] exports or as a contributor to GDP.[7] Farming of livestock and crops has been partly commercial and partly subsistence and a supplementary form of income for many.[8] Part of the production, especially fruit and vegetables, has been sold on the streets by hawkers. Due to the small size of the island, different suitability of the land for farming, seasonality of production, issues of land ownership and a growing number of tourists, agricultural imports have gradually grown in importance, i.e., meat dairy, wines, fruit and vegetables. The government did in the past provide small-scale

[5] Anthony Meli, 'Overview of agricultural land use in Malta', Busuttil S., Lerin F. and Mizzi L. (eds.). Malta: Food, agriculture, fisheries and the environment. Montpellier: CIHEAM, 1993, 71-75, (Options Méditerranéennes: Série B. Etudes et Recherches; n. 7)

[6] The statistics on employment treat agriculture and fisheries as one category. In 1974 6.7% of workers were employed in agriculture and fisheries. In the year 2000, this figure was down to 2.3%

[7] Agriculture's value-added share of GDP accounted for 4.3% in 1987. See Paul Caruana Galizia, 2017, p. 339.

[8] Paul Caruana Galizia, 2017, 339.

financial support to the local farmers and adopted a hands-off policy concerning the production, marketing and price control of agricultural produce, which altered after Malta joined the EU in 2004 and became part of the EU's Common Agricultural Policy.

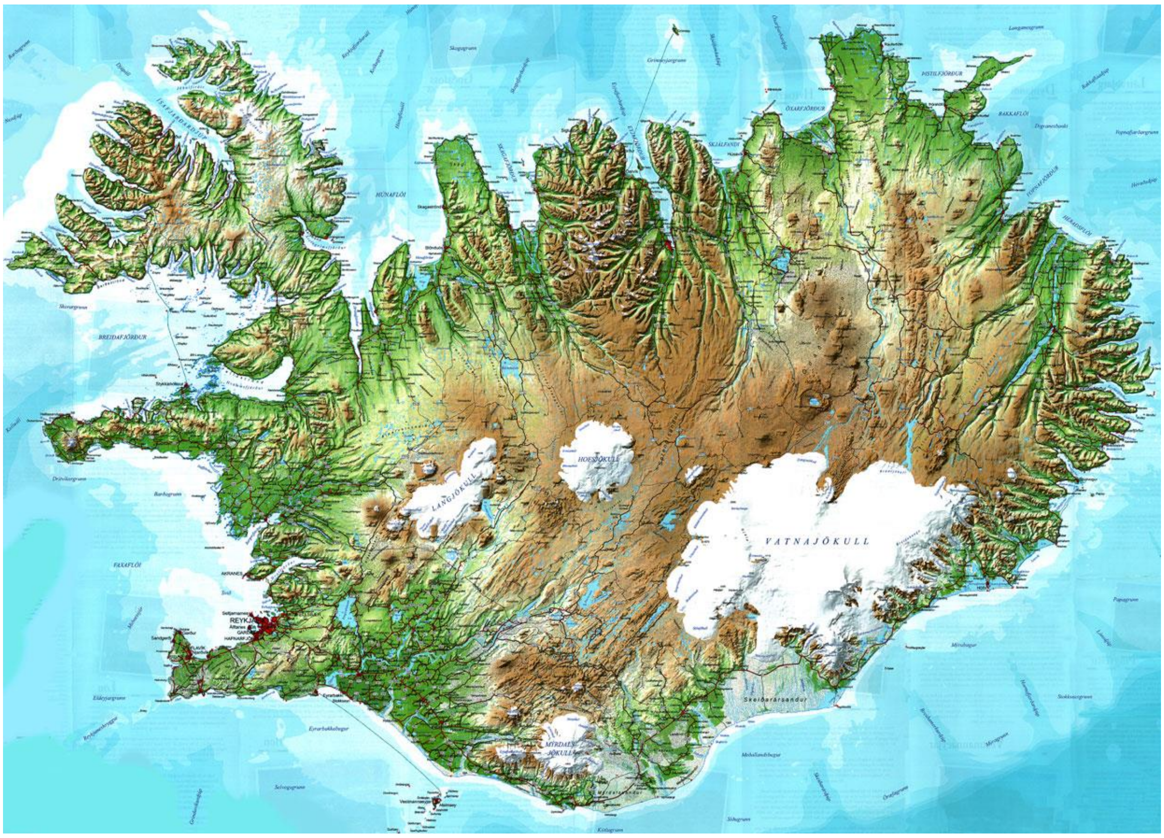
4.2.2 Iceland

Iceland is c 103.000 km^2 in size, one of the youngest landmasses on the planet and home to some of the world’s most active volcanoes. It is one of the most sparsely populated countries in Europe. Only 24% of the land is below 200 m above sea level and 38% of the land mass is over 600m. About 75-80% of the country is uninhabitable, and much of its terrain consists of plateaux, mountain peaks, and fertile lowlands. There are many long, deep fjords and glaciers, waterfalls, geysers, volcanoes, black sand beaches and lava fields. Iceland was first settled during the Viking Age. For the next thousand years, or until the mid-nineteenth century, the domestic population rarely exceeded 50,000. The primary livelihood was subsistence farming, supplemented by fish and other food from the sea. Cold and variable climates, natural disasters, plagues, diseases and poor housing inhibited further population growth.

Iceland has an oceanic climate with cool summers and cool, but not cold, winters. The island is affected by the relatively warm North Atlantic current curving along the south and west coasts of the island, as well as the East Greenland polar current coiling around the north and east coasts of Iceland. The weather can be unpredictable, erratic, harsh and disruptive for fisheries, farming, transport and travel.[9] Snow avalanches, earthquakes and volcanic eruptions do cause havoc. Iceland is surrounded by some of the richest and most prolific fishing grounds in the North Atlantic, and fisheries have been the mainstay of the domestic economy for over a century. The first half of the study period was marked by two cod wars where Icelanders fought for extensions of the extension of the fishing limits. By 1975, the country's exclusive economic zone reached 200 nautical miles and is c 758 thousand km^2 in size. Most fishing has taken place on the continental shelf in waters less than 200 m deep.

[9] There is a good overview chapter on the geography of Iceland, written by Sigurdur Thorarinsson, in Axel Sømme (ed.) *Geography of Norden*, Oslo, 1960. In 1972, Hubertus Preusser submitted a Ph D thesis at the University of Saarland, Germany on a typological and regional classification, describing the various landscape types and regions which make up Iceland. It was published as a book in English in 1976 under the title *The Landscapes of Iceland: Types and Regions*. Another enlightening and explanatory book about the physical geography of Iceland is by Werner Schutzbach, *Island, Feurinsel am Polarkreis*, published by Bildungsverlag Eins, 3. revised edition in 1999.

Figure 4.2: **Map of Iceland**



100 km

The study period saw extensive development of hydroelectric and geothermal power projects for both residential and industrial use. Farming in Iceland has been quite diverse. Sheep, dairy farming and horses represent the traditional mainstay farming in Iceland. Pig and poultry farming emerged during the second half of the twentieth century, especially in the southwest, close to the market in Reykjavik. Iceland has long been self-sufficient with its domestic fish, meat and vegetable production.[10]

The settlement pattern in Iceland was very different in 2000 than in 1960. The country saw steady population growth. As the study period progressed, the national population became much more concentrated in the Reykjavik area, while many rural areas were depopulated. The large size of the country and the sparsely populated regions made it very costly to provide modern infrastructure and public services compared with Malta. This high cost was balanced by revenues from rich natural resources, especially fisheries and hydro- and geothermal power. Agricultural production grew significantly during the post-war years, new land was drained and

[10] *Farming in Iceland*, Ministry of Agriculture and the Farmers organisations, Reykjavik, 1984.

cultivated, farmers invested in new machinery and the production of meat and dairy products had by the 1970s reached a level of over-production.

4.3 The Immediate Post-War Years – Iceland and Malta Compared

In the 1950s, the British began to scale down their activities in Malta with the consequent loss of jobs.[11] Unlike Iceland, Malta did not benefit from Marshall Aid, since it was not a sovereign state. Many Maltese workers had no other means to respond to losses of jobs but to emigrate, which resulted in population decline until the early 1970s. The British still controlled the island, and local capital was insufficient or unavailable for any commercial initiatives aimed at exports. Furthermore, the 1950s and 1960s were an era of trade restrictions and barters in Europe, restricting the growth potential of export industries overall.

It was clear to both the British and the Maltese that the naval dockyards had far too large a workforce for peace-time work after the war and had to be converted into commercial use. The British initiated investigations into the Maltese economy, as is elaborated in Chapter 10.[12] The reports showed a unique situation where the local economy was largely dependent on employment paid for by the UK and on expenditures of the British armed forces. Exports were only a small portion of imports, mainly paid for by Great Britain. Malta depended on imported food. Mass emigration had been costly and people with skills had left the island. One report stated that the 'civilian economy was, in fact, an economic fossil'.[13]

Malta began in the late 1950s and early 1960s to develop export-led industrialisation driven by foreign investments and technology.[14] Malta offered a reserve army of skilful labour due to the run-down of the British military facilities and financial incentives from 1959. It was a unique industrial development, driven by the government and not the private sector, which was anaemic in Malta at the time.[15]

Self-government was introduced again in the 1947 constitution but was suspended in 1958, after a political crisis in Malta, stemming from the failure of a plan to integrate with Britain. In essence, however, the unrest was caused by the decision of the British government to run down the military bases and transfer the dockyards to a private firm without guaranteeing existing jobs. Self-government was introduced again in 1962.

[11] British Government, (1957), *Defence White Paper*, Command 124, London: HMSO. See also British Government, (1963), *The Next Five Years-Statement on Defence*, Command 1639, London: HMSO.

[12] Report by Mr. N. Macleod, October 1943 (Macleod Report) and Report on the Finances of the Government of Malta, September 1945, by Sir Wilfred Woods (the Woods Report).

[13] Balogh and Seers, 1955, 8.

[14] See Ph D thesis by Joseph Muscat, 2007 and by Mario Brincat, 2008.

[15] See Mario Brincat, 2015, 413.

Malta had been a Crown Colony of the UK from 1814 until 1964 when it was granted independence and joined the British Commonwealth. The events of the 1950s, preceding independence, were at times vivid and evocative. In a 1956 referendum, 77% of casted votes, but with 59% turn-out, approved for Malta to become integrated with the UK, a public approval which was not implemented. The Catholic Church and the opposition parties had called for people to boycott the referendum. The opposition party went to the High Court in London attempting to stop the referendum. After the referendum, talks between Mintoff, the Maltese Prime Minister, and the UK broke down over his financial demands. Malta was no longer of the strategic military importance for the UK it had once been, and the UK was not prepared to maintain the level of previous activities at the naval dockyards. Mintoff and the Colonial Secretary, Alan Lennox-Boyd, exchanged insults, but finally, at the end of 1957, the Legislative Assembly of Malta passed its ‘Break with Britain’ resolution, calling for independence. Mintoff resigned as a prime minister in April 1958 over issues relating to the down-scaling of the British naval dockyards. Malta was placed under direct colonial administration from London again. An Interim Constitution provided for an Executive Council under British rule. In 1961, the Blood Commission (Sir Hilary Blood) provided for a new constitution allowing for self-government. The 1961 Constitution was the backbone of the Independence Constitution in 1964. Giorgio Borg Olivier became a Prime Minister when self-government was restored in 1962 and remained in office after independence until June 1971.

Emigration continued in the 1960s. The most significant exodus was to Australia and Canada. Financial assistance was provided to the emigrants by the government and with a contribution from the Australian government.[16] The Malta experience of its colonial relations with the UK ‘stands out as a distinct and peculiar narrative’.[17] In the run-up to the independence, instability in Cyprus and North Africa provided Malta with renewed strategic significance for Britain.

Reykjavik boomed as the capital and entrepôt city and the construction industry and various trades and services proliferated. Despite the significant capital accumulation during the war, the post-war years were an economic mayhem. The government began in 1944 preparing a massive capital investment programme. The hands of the private sector were tied as most investments and procurements were channelled through government agencies. The government allocated loans to both private and publicly-owned fishing companies. It is the author's opinion,

[16] A Passage Assistance Agreement, effective from the beginning of 1949, was signed between Malta and Australia. See Howard Bowen-Jones, John D. Dewdney and William B. Fisher, 1961, 159.

[17] Dominic Fenech, 2014, 21.

based on his previous research in this area and other studies, that the investment program was hurriedly prepared, the investment strategy unbefitting, politically motivated and resulted in both over-investments and some unsuitable investment decisions.[18] Entrepreneurial insights for the appropriate investments were, in essence, ignored. New trawlers and fishing boats were bought in bulk, i.e., 'one size fits all', without regard to the location or size of the fishing town, and whether they had suitable port facilities or fish processing plants. The government did also invest in physical infrastructure like, roads, harbours, airports and power projects, as well as funding agricultural improvements.[19]

The government's reluctance after the war to devaluate the ISK affected the economy adversely. The consumer price index rose in 1939-1945 by c 180% while the exchange rate stood still, causing a mismatch between export and import prices. Cheap imports flooded the country while the export sector struggled.[20] After the investment spree was over in 1947, the Marshall Aid kicked in 1948-1953, enabling Iceland to continue investing in infrastructure and production facilities.[21] By that time, Reykjavik had grown into a city of over 50,000 The government intervened profoundly in the economy and public ownership of the production facilities grew extensively. Export taxes, import duties and import quotas rose to levels not known before, and the government began to manipulate the foreign exchange rate to suit the demands of the fishing industry. The government introduced new redistributive policies, which included financial incentives, subsidies, soft loans and transfers, especially in agriculture and fisheries. Consumer goods were rationed and prices were controlled by a government agency.[22]

The recession that hit Iceland in 1949-1952 began as a downturn in the US in 1949, spreading to other countries. The Korean War began in 1950 and caused a rise in the prices of consumer and industrial goods. Export markets for Icelandic fish in Europe were adversely affected by the immense post-war growth of European trawlers fishing in the North Atlantic for

[18] See Jens B. Baldursson, 1977; Gunnar Ágúst Gunnarsson, 1982, 1989 and 1996; Sigfús Jónsson, 1984; Þorleifur Óskarsson 1987 and 1988; Lárus Ari Knútsson, 2001; Helgi Skúli Kjartansson, 2002 and Hrefna Björk Jónsdóttir, 2014.

[19] Government reports indicate that the investment program, prepared and initiated late in 1944, was worth c USD 50 m. Applying a USD deflator is worth c USD 600 m in real 2020 USD. The population of Iceland was 126 thousand in 1944.

[20] Ólafur Björnsson, 1984, 106-107.

[21] Benn Steil, *The Marshall Plan*, 2018, Appendix C, p. 450, provides a table of authorised Marshall plan procurement by country. The figure for Iceland is USD 29.2 m, which is by applying a USD deflator, equivalent to c USD 250m in 2020. See also Þórhallur Ásgeirsson, 1955; Valur Ingimundarson, 1996; a Ph D thesis by Gunnar Á Gunnarsson in 1989 and a paper by the same author in Saga, 1996.

[22] A paper in 2002 by Bjarni Bragi Jónsson, contains an extensive and highly informative overview of diverse intervention programs, including incentives, transfers, subsidies, price controls, rationing and injunctions adopted in Iceland 1930-1960.

their domestic markets. Terms of trade declined, unemployment rose, and the national economy shrank by 7-8% over the four years in 1949-1952.

Iceland joined NATO in 1949 and signed a security and defence agreement with the US in 1951. US armed forces built a military airport at Keflavik during the Second World War. In 1951 they began expanding the airport and built a large military base. This development provided jobs for many Icelanders and laid the foundation for international commercial flights to Europe and America. Another milestone was the extension of the fishing limits, i.e., to 4 nautical miles in 1952 and 12 nautical miles in 1958, both from a baseline drawn at the mouth of fjords and bays.[23]

4.4 Politics of Independent Malta 1964 – 2000

Malta faced uninviting economic prospects and uncertainties in the immediate post-independence years of the mid-and late-1960s. British forces remained in Malta as part of the defence treaty accompanying the grant of independence. Revenues from Britain through the Armed Services and the Naval Dockyards were still economically significant. About half the working population in Malta worked for the government, the British Services and in the naval dockyards.

The Maltese public administration faced a significant challenge after independence to administer the transformation from a fortress economy to a social market economy. An overhaul of the government structure and work processes were required, and new ministries and government agencies were created.[24] New economic growth strategies and diversification characterised the first three to four decades of post-independence Malta. In the 1970s, the government launched social reforms in health, education, housing and welfare benefits in its endeavour to develop a welfare state. The 1990s were marked by the application for EU membership, accomplished in 2004.[25]

Malta endured two-party politics, which could result in ideological shifts and significant political swings. At stake were jobs in the public services and in state-owned companies and the awarding of government contracts and public procurement undertakings. Parliament was at times marked by strained relations between the two parties, verbal skirmishes and acts of resistance from the minority party.

Prime Minister Giorgio Borg Oliver and his Nationalist government held office from 1962 to 1971. They concluded the independence agreement with Britain, approved a new

[23] See Jón Th. Thor, 1997 and a Ph D thesis by Guðni Th. Jóhannesson, 2003, from Queen Mary College, London.
[24] See an article by Edward Warrington, 2008.
[25] Frank Bezzina, Emanuel Camilleri and Vincent Marmarà, 2021, 42.

constitution in 1964 and implemented two development plans,[26] which emphasised the growth of manufacturing and tourism to counteract declining employment in the dockyards and with the British services. Industrial estates were built, the dockyards were put into the hands of private operators, not successfully though,[27] and the EEC Association Agreement was signed in 1970 after 3 years of negotiations.[28] The first part of the agreement revolved around mutual concessions of tariffs. For the second stage of the agreement, the EEC was to eliminate all tariffs on industrial exports from Malta.

The Labour Party, led by Dom Mintoff, won a narrow victory in the 1971 election. There was an immediate change of political direction after the election, especially in foreign relations. In March 1972, an Agreement was signed with the government of the United Kingdom concerning the continued use of military facilities in Malta.[29] The agreement remained in force until 31 March 1979 when the British Armed Forces left Malta. Pursuant to Article 7, the UK government was to pay the Maltese government c £100m over the continuance of the Agreement.

The first years after independence were economically difficult for Malta. While most of Western Europe was enjoying economic growth and prosperity never seen before, Malta was struggling; the British fortress economy was closing. Malta experienced depopulation, unemployment and low salaries. There was unrest at the drydocks and frequent strikes. Once the Christian Workers Party fell by the wayside after the 1966 election, the Labour Party became united again and signed in 1969 a declaration of peace with the Catholic Church, following a protracted politico-religious war that went back to the 1950s.[30] The Labour Party governed from 1971 to 1987, with its charismatic leader Dom Mintoff as the Prime Minister, from 1971 to 1984.[31]

Mintoff changed Malta's foreign policies from a Western alliance to a more balanced or neutral position. He developed relationships with China, North Korea and some Warsaw Pact states and gave support to the cause of Palestine. Malta built up a strong relationship with Libya

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[26] Development Plan for the Maltese Islands 1964-69, Malta Department of Information, 1964; Development Plan for the Maltese Islands 1969-1974, Malta Department of Information, 1970;

[27] Michael Cassar, *Malta Drydocks 1963-2010*, Malta, 2013. An informative account of the intricate history of the drydocks and its many operators until privatisation in 2010.

[28] *EEC-Malta Association Agreement* (signed on 5.12.1970; entered into force on 1.4.1971) (OJ L 61, 14.3.1971)

[29] Agreement between the Government of Malta and the Government of the United Kingdom of Great Britain and Northern Ireland with Respect to the Use of Military Facilities in Malta. Presented to the House of Representatives by the Minister of Commonwealth and Foreign Affairs, 27. March, 1972.

[30] Eddie Fenech Adami, 2014; John Dowdall, 1972a and 1972b. Peter Mayo, 2013, 130-139; Edgar Mizzi, *ibid.*; Michael Briguglio, 2010, 213-226; Henry Frendo, 1991.

[31] See the diligent and extensive biography of Dom Mintoff, which explicates his entire political career, spanning over half a century, written by Mark Montebello, 2021.Was though not approved by his family.

and received financial support from Gaddafi. Relationships with the US and NATO remained tepid. On 13 Dec. 1974, following amendments to the Constitution, Malta became a republic, with the function of head of state vested in a president appointed by Parliament, replacing Her Majesty, Queen Elizabeth. In March 1976, a financial protocol was signed between the EEC and Malta providing for financial support, including loans and grants from the European Investment Bank. The Malta government approached EEC member countries directly for financial and economic co-operation.[32]

In the 1976 election, the number of members was increased to 65 and 13 electoral districts introduced, each with 5 members. The political system has remained unchanged since but boundaries regularly revised due to population changes. In 1976 the voting age was lowered from 21 to 18 years. Labour won the election in 1976 with 34 seats against 31 of the Nationalist Party. The 1981 election was eventful. The Nationalist Party with a new leader,[33] Fenech Adami, challenged Labour led by Mintoff. It received an absolute majority of votes but got only 31 parliamentary seats to the Labour Party's 34. The result provoked a constitutional crisis and 5 years of political strife, with the PN boycotting parliament. Much political division and antagonism evolved, and violence ensued.[34]

In 1987, the Nationalists came back to power under the leadership of Fenech Adami and the party remained in power until 2013, except for 1996-1998 when Labour formed a short-lived government.[35] Fenech Adami stayed as prime minister 1987-1996 and again 1998-2004. His government introduced liberal trade policies, deregulation and privatisation and oversaw new infrastructure projects. It concluded Malta's agreement with the EU, with membership effective from 1 Jan. 2004.[36] Chapter 8 reviews the main events and turning points in Malta's EU accession, beginning in 1970.

[32] See Edgar Mizzi, *Malta in the making 1962-1987*, 185-186.

[33] Eddie Fenech Adami became the PN leader in 1977.

[34] Eddi Fenech Adami, 2012, chapters 13 and 15 gives a vivid description of events from his side as the PN leader. Mathew Xuereb, the assistant editor of the *Times of Malta*, wrote an informative review article on the 40th anniversary of the 1981 election https://timesofmalta.com/articles/view/40-years-from-the-election-that-sparked-chaos-1981-revisited.920878

[35] The results of the elections 1987, 1992, 1996 and 1998 have been reviewed by Dominic Fenech in papers published in the *West European Politics* 1988, 1992, 1997 and 1999.

[36] His autobiography was published in 2014, *Eddie. My Journey*, Allied Publishers, Malta. He speaks openly about the problems of corruption and violence he faced while in office and an attempt was made to kill his closest advisor.

4.5 Politics of Independent Iceland 1960-2000

In 1959, the electoral system was reformed in response to demands for changes in the balance between rural and urban votes and a more equal distribution of seats between parties.[37] Eight multi-member electoral districts were introduced with 60 MPs in total. Iceland had at least four parties in the Parliament at any time during the study period, sometimes more, and coalition governments of 2-4 parties. The main parties during the 1960-2000 era were the Independence Party, the Progressive Party, the Social Democrats and the Socialist Party, while the Women's Alliance was represented in the Parliament 1983-1999 and a few smaller groups or alliances for 1-2 electoral terms. The Independence Party was the largest party and was involved in coalitions for over 30 years over the 1960-2000 era.

The 1970s and 1980s saw regular changes in coalition governments. The 1970s were politically challenging. In Jan. 1973, the volcanic eruption in the Vestmanna Islands caused massive damage with huge reconstruction costs over the next 2-3 years. Like many other nations, the oil crisis hit Iceland in Oct. 1973 with severe economic consequences. In addition, the government initiated in the early 1970s, expensive capital investment programmes to be spread over nearly 10 years, funded mainly by foreign loans. These programs funded c 100 new deep-sea trawlers, the rebuilding of many freezing plants, an extension of harbours, the reconstruction of the Vestmanna Islands and new geothermal district heating systems, due to escalating costs of heating houses with oil. The consequences were substantial foreign debt, uncontrollable inflation and devaluation of the ISK. However, the massive investment schemes resulted in an over-heated labour market and prosperity for the working population.

Further rise of oil prices in 1979 and 1980 resulted in an economic recession in Western Europe and North America, Iceland included. Iceland faced mounting foreign debts, as well as over-capacity, overfishing and diminishing returns in the fishing industry. In 1983, the coalition government launched a new fisheries management system of total allowable demersal catches (TAC) to each vessel, replacing the more general limited entry system, enforced on 1 Jan. 1984.[38] Rules on the transferability of the TAC and other regulatory advances evolved over the next few years and individual transferable quotas were set (ITC). In the 1990s, trade in fish quotas intensified and the over-sized fishing fleet was step-by-step consolidated into a smaller and more efficient fleet size. The economic returns from the fishery improved in the 1990s and

[37] The electoral system was reformed before the 2003 national election, based on constitutional changes in 1999.

[38] TAC had been introduced for pelagic species and shellfish a few years earlier, but on 1 Jan. 1984 for the demersal species (e.g., cod, haddock, redfish and saithe). The limited entry system was phased out gradually over the next few years.

some who left the industry used part of the proceeds from the sale of their quota to invest in other types of businesses and property.

In 1991, the Independence Party led a coalition with the Social Democrats which negotiated the European Economic Area (EEA) Agreement, effective from 1 Jan. 1994. After the election in 1995, the Independence Party switched a coalition partner to the Progressive Party and they remained in power for 12 years, or until the election in 2007; they were re-elected in 1999 and 2003. Trade was liberalised further in the 1990s and certain government assets privatised, including banks. Inflation diminished in the early 1990s, the economy recovered and Iceland enjoyed sustained growth from c 1995 until the financial crisis in 2008.

Another feature of the political landscape was the growing role of local government during the second half of the twentieth century and consequently, emerging political power bases in the main towns. The Independence Party controlled the City Council of Reykjavík for decades until 1994, except for one term 1978-1982. A left-wing alliance controlled it after 1994. The Independence Party was during their reign prior to 1994 in a position to make decisions as the governor of the city but confined within the legislation on local government and on public services assigning specific roles to local authorities. The state governments had to cope with a multifaceted power structure, i.e., c 200 local councils,[39] the influential co-operative movement, the formidable federations of trade unions, the federations of businesses and the growing influence of the media. All four major political parties had at any time a controlling interest somewhere in the many-sided structure. Major political moves were negotiated between the parties and the main power groups. It was common for the government to participate in the collective bargaining process between the trade unions and the business federations, both as a mediator and by funding additional welfare benefits for workers, e.g., pension, unemployment benefits, extended maternity leave, subsidised housing programmes etc. The government faced growing regional inequalities due to outmigration from the rural areas to Reykjavik. The Reykjavik capital region had c 90,000 inhabitants in 1960, or 52% of the population and c 175,000 in the year 2000, or 63% of the population.[40]

Nationalism was strong as the final separation from Denmark and the foundation of the Republic of Iceland was approved almost unanimously in a national referendum in 1944. The nation stood united in the Cod Wars against the UK and behind the law on prohibiting foreign inward investments in fisheries. Membership of NATO was debated and the presence of the US base at Keflavik divided the nation. The gradual expansion of the welfare state, i.e., national

[39] Their number declined significantly in the 1990s due to widespread mergers.

[40] The Reykjavík Capital Region consisted of 9 local authorities, of which Reykjavík itself was by far the largest.

social security, welfare and publicly-funded education and health care systems, had solid political and public support. Issues relating to the environment, gender balance and ethnic mix, as well as identity politics, entered the political scene emphatically after the study period.

4.6 Post-independence Politics Compared

Malta developed a highly centralised political system while a more decentralised system with a profound geographical dimension evolved in Iceland. The political system in Malta resulted in two-party politics, despite being designed for multi-party politics. Malta has had one party in power from the 1966-election to the present, alternating between the Labour Party and the Nationalist Party, and generally greater political stability than in Iceland during the 1970s and 1980s.. In comparison with the Icelandic coalitions, the Maltese one-party majority governments could make more direct and vehement political decisions. The Icelandic coalitions were epitomised by 'middle of the road' moderate and compromised political decisions frequent changes of governments and divided power between the state and the local authorities. Parliamentary democracy and party politics were conducted differently - one-party majority governments in Malta engendered a different political culture and conduct, with more direct policy approaches and decisions, than the Icelandic coalitions.

Various public goods and services delivered by the state in Malta were provided by either the state or local government in Iceland. Issues fought over in national elections in Malta may have been debated in local government elections in Iceland. The years 1960-2000 saw important changes in local-central government relations in Iceland. Local government was generally weak around 1960 but had become more powerful and financially stronger by the end of the century, reflecting a significant rural-urban transition in the settlement pattern and amalgamation of local authorities into larger units. Local-central relations were a delicate political issue, involving debates on funding and responsibilities of local government, as enacted by parliament, and in some cases shared responsibilities, e.g., in health, education and social services. The local authorities set up in Malta in the 1990s were assigned very limited tasks and have been financially constrained.

Political cleavages reflected in different positions of the main political parties on core issues were not always observed along the conventional left-right political spectrum, neither in Iceland nor Malta. Rural-urban political divisions and conflicts were observed in Icelandic policies during most of the twentieth century, justified by policies of social equality.[41] The

[41] Ólafur Ásgeirsson, 1988, on political cleavages and conflicts as regards economic and industrial development, 1900-1940.

individual transferable quota system in fisheries has been hotly debated since the mid-1980s. Another type of political cleavage in Iceland was the different positions of the political parties towards the membership of NATO and the US base at Keflavík. The Nationalists did not support Mintoff's adventurous and eventful foreign policies of the 1970s, reaching into Eastern Europe, China and the Arab world. The Labour Party opposed the steps taken by the Nationalists into Europe in the 1990s and until 2004, while the Independence Party opposed Iceland’s application to join the EU in 2009, approved by the coalition of the left-wing parties (2009-2013).

5 POPULATION, ECONOMIC GROWTH AND DEVELOPMENT

5.1 Introduction

The chapter will outline and collate changes in the population of the two island states, compare and contrast statistically their economic output, growth rates, growth factors and TFP, and contemplate their economic development over the last four decades of the twentieth century. It will finish with concluding remarks.

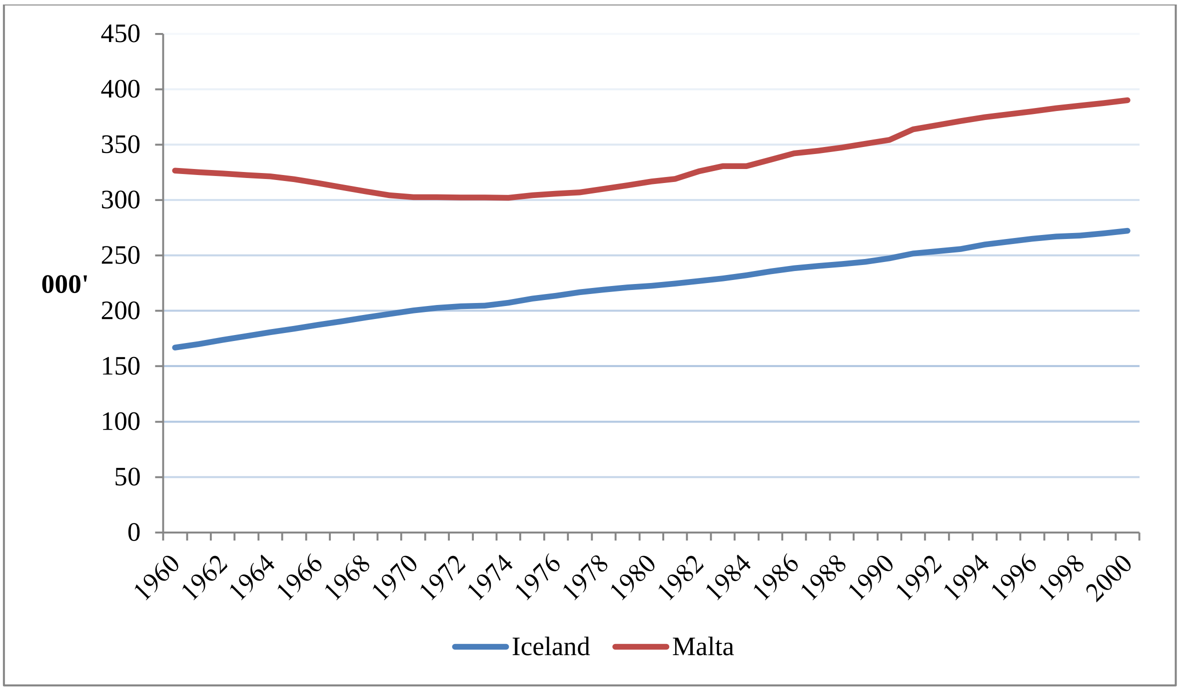
5.2 Population

In 1960, about 327,000 people lived in Malta and 174,000 in Iceland. In the year 2000, the population of Malta had grown to 390,000 and Iceland to 279,000. Over the entire 40-year period, the population of Malta grew by 19% and of Iceland by 60%, which had implications for calculations of the growth rate of GDP per capita; the denominator grew by 1.2% per annum in Iceland but only by 0.44% per annum in Malta.

The population of Iceland grew in the 1960s by 15.4%, while Malta experienced out-migration and a population decline of 6.9%. Malta got back to modest population growth in the mid-1970s. Both countries saw similar population growth in the 1980s and 1990s, or nearly 1% per year. New factors emerged over the 1980s and 1990s – growing immigration, declining birth rates and a slowly ageing population. Figures 5.1 and 5.2 show population changes within the period. The difference in population growth between the two islands in 1960-2000 was mainly due to population decline in Malta during the 1960s and a slow growth in the 1970s while a steady growth rate endured in Iceland. Many Maltese out-migrants were people of child-bearing age, affecting Malta's birth rates in the 1960s and 1970s.

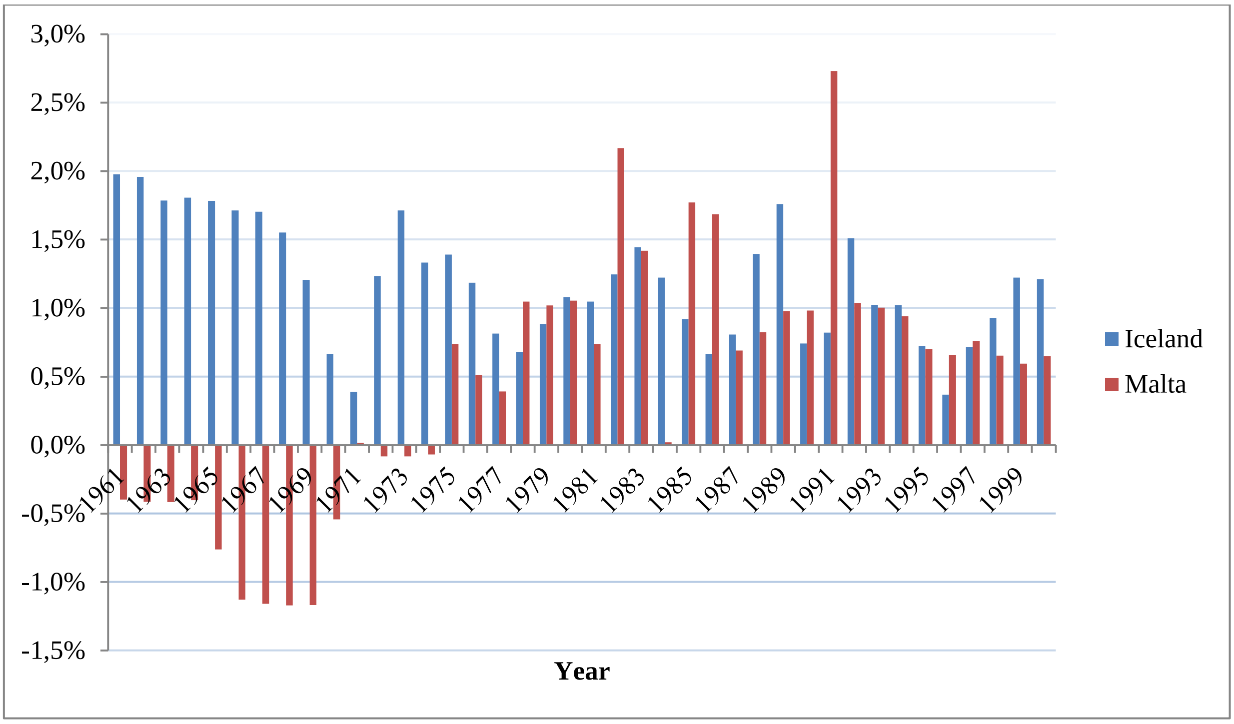
In 1960, 38.4% of the Maltese population were 0-14 years of age, and 53.6% were 15-64 years. By 2000, the 0-14 years-old ratio had declined to 19.9% and risen to 67.7% of 15-64 years-old – reflecting considerably larger working-age cohorts at the end of the century. Iceland also enjoyed a positive demographic change, but more modest than Malta – the ratio of people 15-64 years old grew from 57.2% in 1960 to 65.1% in the year 2000.

Figure 5.1: **Population of Iceland and Malta 1960-2000**



Source: National Statistics Office - Iceland and Malta Statistics

Figure 5.2: **Annual Population Changes – Iceland and Malta 1961 – 2000**



Source: National Statistics Office - Iceland and Malta Statistics

5.3 Economic Growth

5.3.1 Overview

In the post-war era, Iceland had developed a technologically-advanced fishing industry and a long-established export trade of seafood and other fish products as the preponderant economic activity and a key growth contributor. The industry had been primarily funded by foreign loans and local capital and had engendered a high national economic output comparable to other northern European states. The economy was, however, vulnerable due to high dependency on the volatile fisheries and fluctuating exports while still in a position to control and manage the fishing grounds, which were open for foreign trawlers until the mid-1970s. Power production and power-intensive industries emerged as a novel sector of economic significance in the 1960s and 1970s and developed rapidly. The fisheries-based economy began to diversify slowly but steadily in the 1970s. Growth in Iceland from the 1960s to the early 1990s was subjugated by tenacious government intervention, widespread public ownership of banks, fishing and power companies, and the preeminent business consortium of publicly-owned co-operatives. Public enterprises[1] and the co-operatives made way in the 1990s and 2000s for a growing private sector involvement, as is deliberated in Chapter 11. Economic and industrial policies changed in the 1990s as they became gradually more proactive, encompassing structural reforms in fisheries, partly in the public sector and agriculture, and by privatising publicly-owned enterprises. The 1990s saw growing macroeconomic stability and trade liberalisation. Until the 1990s, the policies tended to be more reactive than proactive, responding to urgent needs, predicaments and political demands.

Both island states had a sizeable informal economy in the 1960s, e.g. based on barter and unregistered incomes of tradesmen, farmers and small-boat fishermen. Smugling of goods was rife. Houses were built without any registered labour costs. Tax collection was imperfect compared to later times. By the 1990s tax collection methods had improved, but new problems emerged such as drugs and money laundering. Unregistered income was still sizeable. The impact of the informal economy on economic growth was considerable but can not be enumerated.

Malta chose a different growth model than Iceland. In the 1960s, Malta was at first preoccupied with the politics and administrative issues of independence, achieved in 1964, and then during the remainder of the 1960s with discussions and preparations for growing the economy by developing new export sectors and diversifying its economic base. Based on local

[1] Owned either by the state or a local authority.

development plans and in line with advice from foreign consultants, manufacturing for exports was targeted and foreign technology and investments were attracted to Malta. Industrial estates were built and incentives were offered to foreign investors. As is examined in Chapter 10, this was quite a successful strategy, resulting in several manufacturing firms setting up plants in Malta, e.g., companies producing textiles, electronics and pharmaceuticals. Tourism expanded further from the 1970s onward, partly influenced by government strategy, as many hotels were built and Malta became a significant tourist destination. In the late 1980s, and more so in the 1990s, financial services emerged as a fortuitous economic initiative and they have grown immensely since the turn of the century. Construction, property development and real estate businesses have emerged as a forceful economic activity from the 1990s, through spin-offs from the principal export sectors – manufacturing, tourism and financial services - and domestic economic growth in general. These sectors and activities have continued to be highly significant as Malta has evolved into a modern diversified service economy in the twenty-first century.

5.3.2 Statistical comparison

When the growth of the two island economies is compared, the inference is affected by the sources and types of data available. There are three types of data measuring economic growth in Iceland and Malta during the late twentieth century:

- World Bank Statistics are based on constant local currency and conversion to a fixed USD. Data is available for Iceland from 1960 and Malta from 1970.
- World Bank statistics measuring GDP (PPP) from 1991 onwards, using the same conversion from local currency to a fixed USD.
- Domestic data from Statistics Iceland and Malta Statistics in constant local currency, available throughout the study period.

Iceland experienced vast and volatile inflation rates and massive devaluations of the Icelandic króna (ISK), especially during the 1970s and 1980s, which affected the conversion of the ISK to USD. The Malta pound (Lm) exchange rates were more stable and the inflation rate was modest compared to Iceland.[2] Hence, any GDP calculations in local currency units converted into constant USD, as calculated by the World Bank and set up as time series for Malta from 1970 and Iceland from 1960, must be interpreted with due care.

Figure 5.3 compares the level of GDP per capita in Iceland and Malta until 2010, measured in natural logarithm (ln). Nations with relatively low or modest GDP, which succeed in instigating steady economic progress are known to show greater economic growth per annum

[2]The GBP was the currency of Malta until 1972 and the Malta Liri was pegged to the GBP until the late 1970s.

measured in percentages, while they catch up and reach a similar level as the high-income states, or at least reduce the gap – the principle of transition dynamics.[3] By stretching the analysis beyond the study period, or to 2010 in figure 5.3, the growth rate in both islands based on the long-term trend line slowed down a bit. It was 2.48% per annum in Iceland (1960-2010) and 4.18% in Malta (1971-2010).[4] Growth rates based on the same figures are shown in figure 5.4.

Subject to the accuracy of both the original and the transposed World Bank data, growth was experienced in Iceland during the 1960s, while comparable data for Malta was unavailable.[5] During the three decades 1970-2000 the mean growth rate in Malta (4.92%) was more than twice the mean growth rate of Iceland (2.16%). By extrapolating backwards, the Malta trendline in fig. 5.3 to 1960 (ln=8.0655), it can be estimated that GDP per capita in Malta was c 23% of the same GDP per capita level in Iceland (ln=9.5242) in 1960.

Measured through purchasing power parity, i.e. GDP (PPP) per capita, the Maltese economy grew by 2.91% per annum 1990-2010 and the Icelandic economy by 2.39% (figure 5.5). Iceland went through a down-swing in the early 1990s and did not show any growth at all 1990-1996. The 2008-2009 financial crisis affected Iceland harder than Malta in 2009 and 2010 (figure 5.5). In 2010, the GDP (PPP) per capita level in Malta was c 73% of Iceland's.

When the growth of real GDP per capita is compared by using data from the Maltese and Icelandic statistical authorities in real local currencies, for the entire study period 1960-2000, the result shows an average growth rate of real GDP per capita per year 1961-2000 as 5.56% in Malta and 2.92% in Iceland. The standard deviation of the growth rates was measured at 4.84% in Malta and 3.91% in Iceland, indicating fluctuations in both cases. Interestingly there was no symmetry in the timing of the business cycles of Iceland and Malta as the main factors affecting the cycles were probably dissimilar (figure 5.4).[6]

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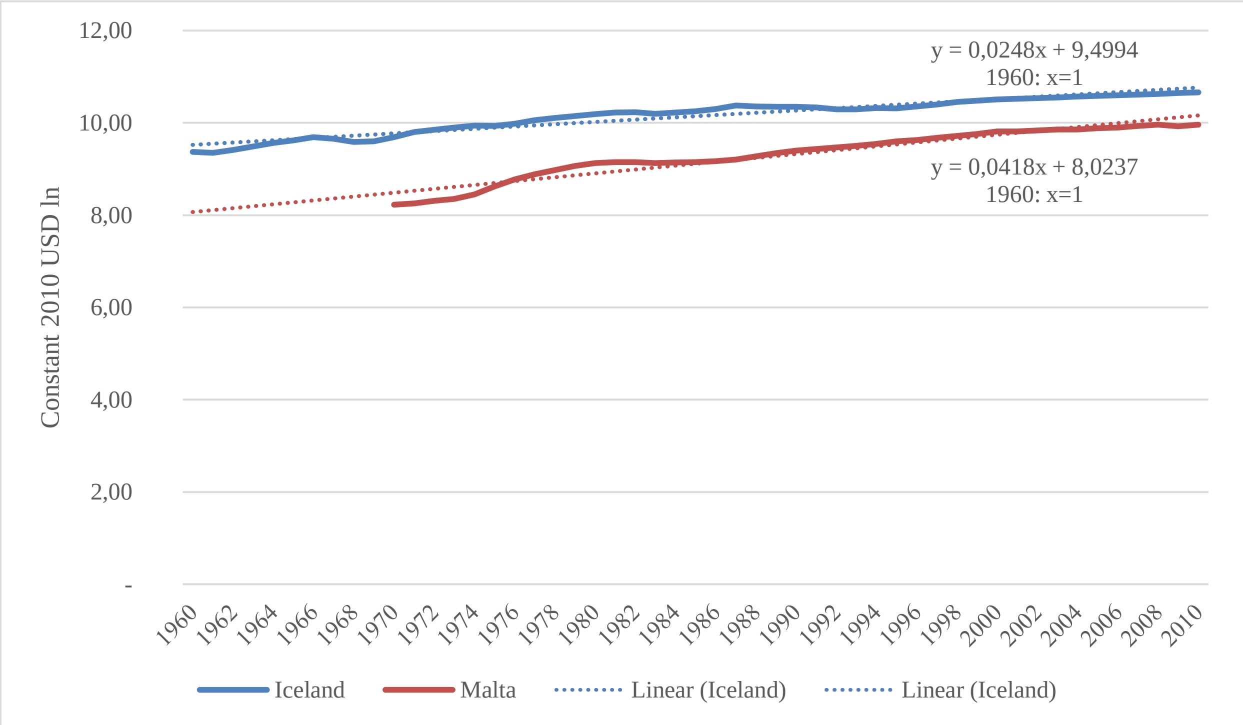
[3] Charles I. Jones, 2018, 123-126. The farther below the economy's steady state (in percentage terms), the faster the economy will grow. Similarly, the farther above its steady state, the slower it will grow.

[4] The growth rates fluctuated considerably in Iceland and business cycles were more pronounced there than in Malta. See a dissertation by Lárus Welding, 2013, and a working paper by Bjarni G. Einarsson et. al, 2013 on volatilities in Iceland.

[5] Data on GDP from the Statistical authorities of the two island states show a higher average growth rate in Malta (4.92%) 1960-1969 than in Iceland (2.16%). However, the main explanation for the difference was population growth in Iceland and population decline in Malta. Unchanged output in times of a shrinking population shows a GDP per capita growth.

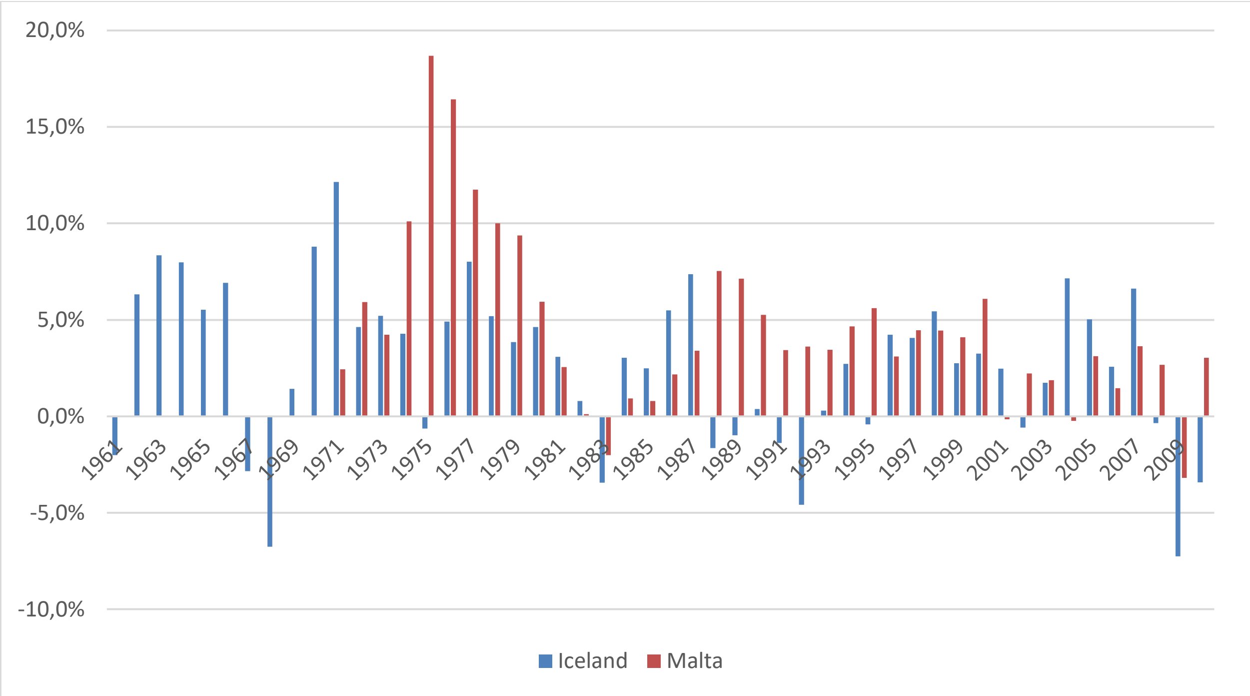
[6] Bjarni G. Einarsson et. al., 2013, especially pp. 3-5 and Aaron C. Grech, 2015 on the Maltese economy.

Figure 5.3: **GDP per Capita at Exchange Rate 1960-2010**



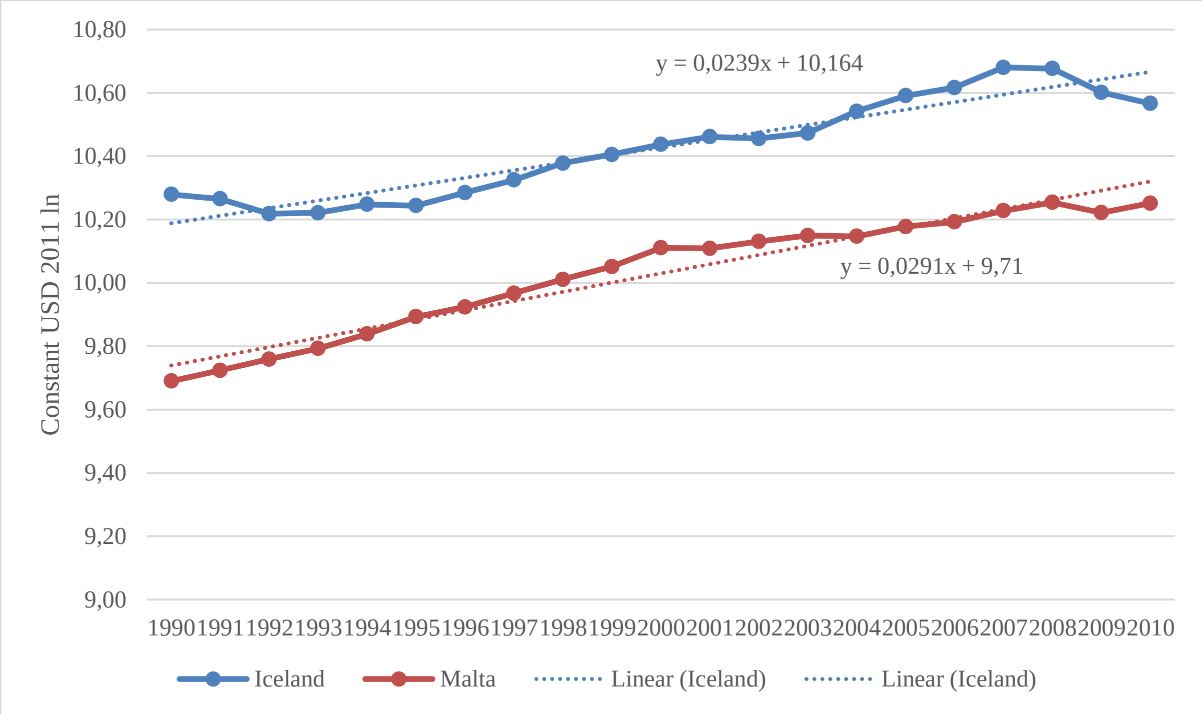
Source: World Bank https://data.worldbank.org/indicator/NY.GDP.PCAP.KD
Based on constant local currency, but aggregates are based on constant 2010 USD

Figure 5.4: **Iceland and Malta – Annual Growth Rates of GDP per Capita 1961-2010**



Source: World Bank https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD
Based on constant local currency, but aggregates are based on constant 2010 USD

Figure 5.5: **GDP (PPP) per Capita 1990-2010**



Source: World Bank https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD
Based on constant local currency, but aggregates are based on constant 2010 USD.

The 'per capita' factor in the denominator affected the GDP per capita comparison, i.e., the population, grew by 60% in Iceland and only by 19% in Malta in 1960-2000. Hence, the difference in the GDP real growth rates over the period 1960-2000 was smaller than the differences in GDP real growth rate per capita, i.e., Iceland had to grow its economy faster to cater for a more rapidly growing population.[7]

It is notable that the comparative statistics using the exchange rate, as applied by the World Bank 1970-2000, show a greater difference between Malta (4.92%) and Iceland (2.16%), or by a factor of 2.28, than the statistics in the local currencies 1960-2000, 5.56% for Malta and 2.92% for Iceland (1961-2000), or a factor of 1.9. Iceland's volatile foreign exchange rates, even within the same year, may have affected the calculation of the comparison.

Malta performed better than Iceland in the growth comparison, but Icelandic growth rates compared satisfactorily when juxtaposed against several developed countries.[8] Fluctuations

[7] In Malta, the real growth rates p.a. in 1960-2000, were 6.0% in GDP and 5.56% in GDP per capita, or a difference of 0.44%. In Iceland, the real growth rates p.a. in 1960-2000, were 4.1% in GDP and 2.92% in GDP per capita, or a difference of 1.28%, based on fixed local currencies.

[8] Bjarni G. Einarsson et.al., 2013. See Figure 1.b on page 4.

in output were, however, higher in Iceland than in most of the other countries in the comparison which had an average standard deviation of c 2.5%, compared to 3.9% in Iceland.[9]

The statistical comparison of Iceland and Malta shows how the two island states measured up against each other. Due to currency conversions and fixed price levels, data transposition may have affected the reliability of a detailed statistical comparison, but the main conclusion is clear. Malta lagged very much behind Iceland in terms of GDP per capita in 1960, its economy grew faster than the Icelandic economy in 1960-2000 and its population grew more slowly. Hence faster-growing economy and slower population growth, especially during the 1960s and 1970s, as well as a rising age dependency ratio in 1960-2000[10] helped Malta reduce the gap with Iceland significantly in terms of real GDP per capita, 1960-2000.

5.4 Total Factor Productivity (TFP)[11] and Growth Factors

The share of labour, capital and TFP in GDP per capita was calculated for Iceland and Malta 1973-2000 (figures 5.6 and 5.7); comparable data was unavailable for both states earlier. For 1973-2000 in Iceland, labour represented on average 49% of GDP, capital 23% and TFP as the residual 28% (figure 5.6). For Malta, labour represented 48% of GDP, capital 21% and TFP 31% (figure 5.7). The data show similarities between the two island states. The data in figure 5.6 are based on an indexed GDP per capita, where 1945=100, as calculated and published by Statistics Iceland. Both labour and capital are calculated as % of GDP per capita and TFP is the residual. The data in figure 5.7 are from the Malta Historic Statistics, published by the Central Bank. The data are published in million Euros, converted to 2010 prices. The comparison between Iceland and Malta is not straight forward. Figure 5.8 reveals that TFP grew at a rate significantly higher in Iceland than in Malta during 1974-1985 but at a higher rate in Malta 1985-2000. However, for 1974-2000, the TFP growth rate was around 5% for both islands in real terms.

Overall, for the period 1974-2000, Iceland showed a descending trend in the growth rate of TFP, or from over 12% growth per year 1974-1980 to a figure of -4% growth per year 1996-2000. TFP is, as explained before, a broad measure of how efficiently the economy transforms the inputs of labour and capital into outputs. In the 1970s, 1980s and 1990s, the economy over-invested in agriculture, fishing vessels, fish plants and over-manned these sectors. In addition, investments in various infrastructure facilities all over Iceland yielded low or no economic

[9] *Ibid*.

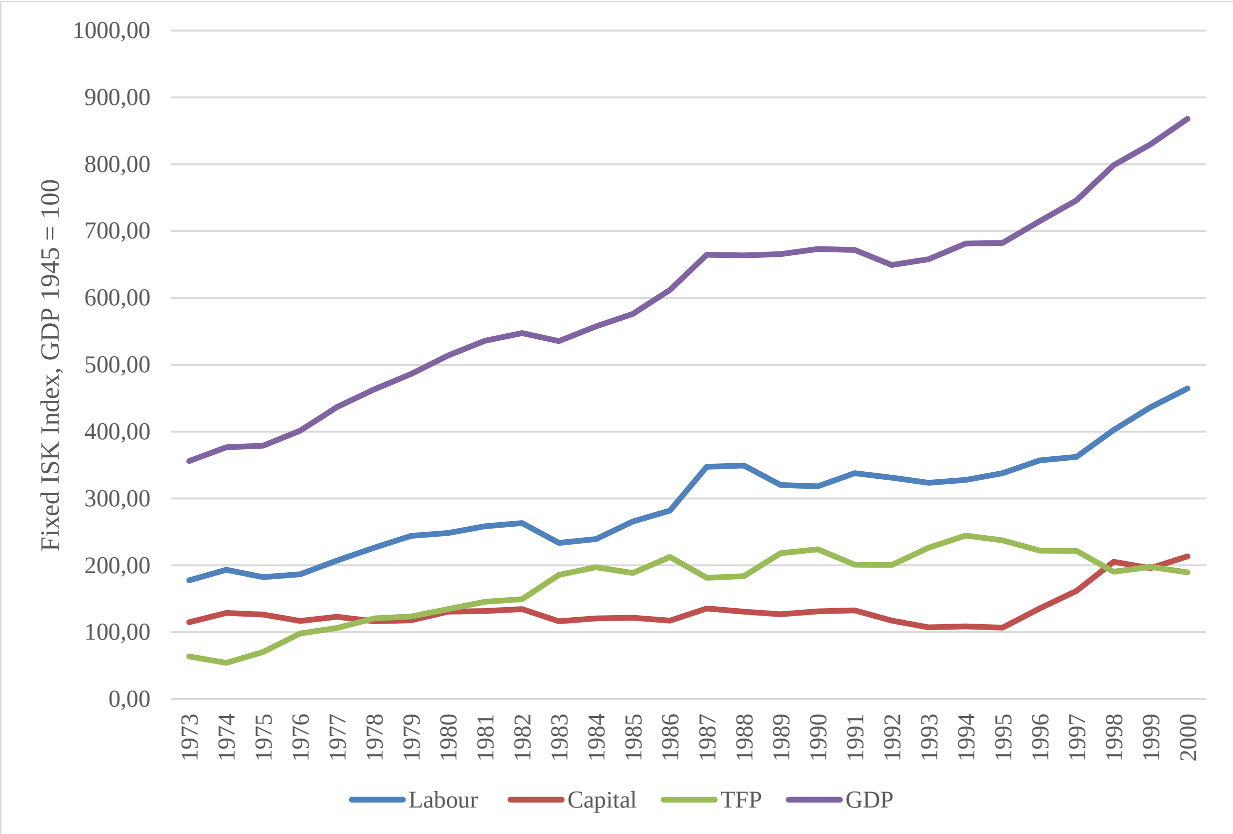
[10] Age dependency ratio shows the % of people 15-64 years of the total population.

[11] See chapter 3.3 for clarification of TFP.

returns. The continuously declining TFP growth rate indicates that Iceland used its capital and labour inefficiently during the last quarter of the twentieth century.

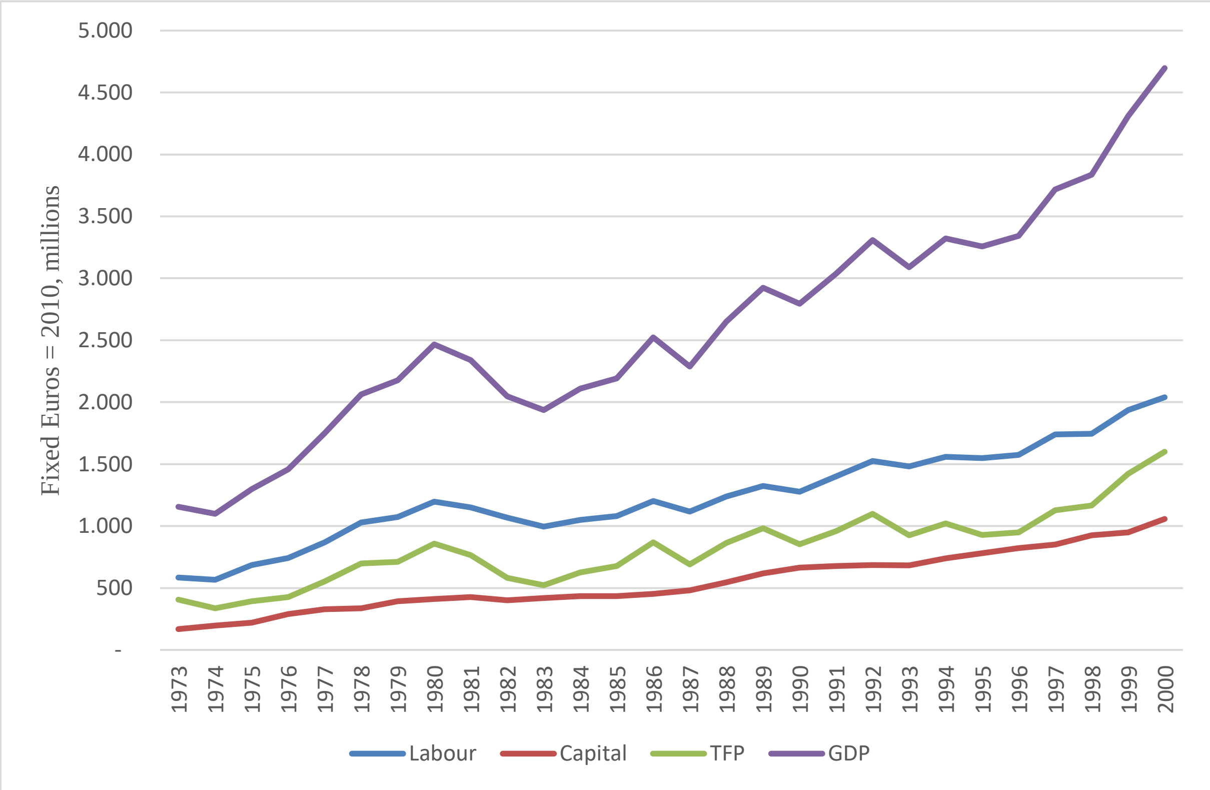
Malta showed a fluctuating trend in the growth of TFP per year, with no growth at all 1981-1985. This aligns with zero labour productivity growth in Malta during the first half of the 1980s. The years 1986-2000 were a period of more significant productivity growth in Malta than in Iceland, especially in 1996-2000. Malta's industrialisation program, tourism growth and later financial services gradually engendered the growing productivity. The growth of TFP evolved in quite a different manner during the last quarter of the twentieth century (figures 5.6 and 5.7); Iceland showing more remarkable advancement in 1974-1985 and Malta in 1986-2000.

Figure 5.6: **GDP, Capital, Labor and TFP per Capita in Iceland 1973-2000**



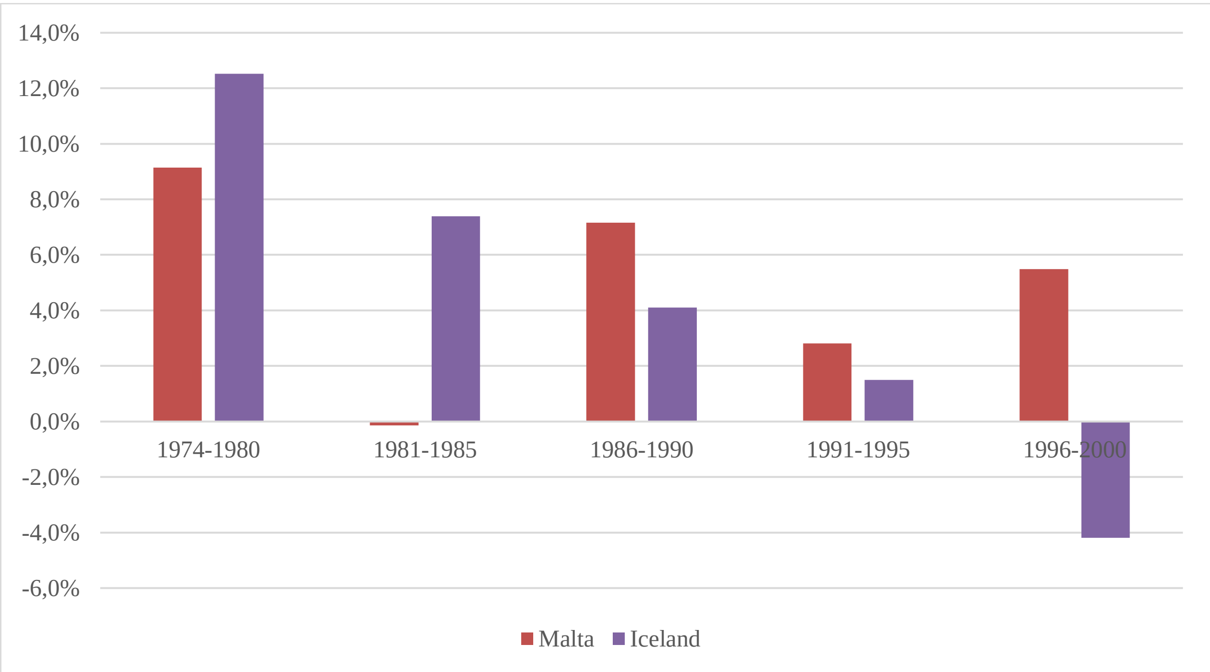
Source: Iceland Statistics (Fixed ISK index, GDP per capita 1945=100)

Figure 5.7: **Labour, Capital, TFP and GDP per Capita in Malta 1973-2000**



Source: Malta Statistics and Central Bank of Malta, fixed Euro 2010 (millions)

Figure 5.8: **TFP - Average Yearly Growth 1974-2000**



Sources: Malta Statistics and Central Bank of Malta, fixed Euro 2010 (millions) and Iceland Statistics (Fixed ISK index, GDP per capita 1945=100)

Calculations in Appendix I show a close correlation between labour, capital and real export income as explanatory variables and real GDP per capita as a dependent variable 1960-2000 for both island states. For an increase of each 1,000 employed, the GDP per capita grew by 3.76% in Malta and 1.27% in Iceland, both with a high coefficient of determination. For each unit of increase in capital formation, the GDP per capita grew by 1.66% in Iceland and 0.22% in Malta, though with a lower coefficient of determination in Malta. Despite some drawbacks in the comparability of the statistics, the difference is clear. Growth was more capital-intensive in Iceland and more labour-intensive in Malta. In Iceland each unit of increase in export income resulted in 1.96% growth in GDP per capita, but in Malta only 0.04% growth, both with a rather high coefficient of determination. The comparison of the export income shows that the direct impact of exports on growth was more potent in Iceland than in Malta.[12]

5.5 Economic Development

Economic growth in Iceland and Malta set in motion a broader economic, social, political and cultural progression – economic development – but the causal sequence between growth and development is inexplicable and enigmatic. No single measurement is available of the level or progression of economic development, only a multitude of indicators. A few attributes or general linkages of growth and development are observed in the thesis:

- Economic growth benefitted certain sections of the two societies more than others, which in due course – especially in the 1990s and after that – gave rise to growing income and wealth disparities.
- Both governments needed to develop social and welfare programmes and transfer and redistributive payments. These grew in extent and scope as the century elapsed but were more extensive in Iceland than in Malta.
- By the end of the century, Iceland and Malta had reached a level of output and economic development, which had resulted in an improved business environment and a more robust private sector – supporting further economic growth and diversification, as well as social and cultural progression, in the twenty-first century.

Signs of advancing levels of economic development being achieved gradually during the last four decades of the twentieth century are all over. The national statistics of both island states show that people became healthier and lived longer, infant mortality rates subsided, diseases were prevented and living standards elevated. Educational attainment and access to culture and sports rose substantially, and infrastructure and the housing stock expanded profoundly. Social

[12] Calculations are shown in Appendix I.

programs supporting selected groups developed, e.g. children, the elderly, people on parental and sick leave, people with disabilities, the unemployed, etc. Welfare programs were extended, providing a basic level of well-being for society, e.g., through tax benefits and allowances, social housing programs, rent rebates, disability and retirement pensions, public health care and public education. The status of women in society progressed considerably, including their educational level. Social policies and welfare programs helped tackle poverty and promoted more inclusive growth.

In addition to quite auspicious development experiences, some Icelandic and Maltese families encountered the gloomy side of development, i.e., the anguish and despondency of insecure and seasonal jobs, rough working conditions, low salaries for working-class people, unemployment, displaced families, lack of proper housing and the struggle to make ends meet. Certain sections of society were not able to take advantage of the emerging economic opportunities, e.g. the uneducated, unemployed, disabled, hard-up pensioners, low-income single mothers, some immigrants, destitute persons and people with long-term illnesses. The same plight was in both island states – economic progress was uneven.

Accompanying the economic progress were widespread social changes and advancements. Fewer children were born by each mother, women's educational level and participation in the labour market rose significantly and families became more prosperous, especially with two breadwinners. Working conditions improved, including facilities, work activities, training, skills, health and safety, well-being, working hours and work-life balances. There were fewer manual labourers in 2000 than in 1960, but more professional and skilled jobs, with increased mechanisation and automation. Health care improved, new facilities were built with the latest medical equipment and new medicine was introduced.

In 2000, the UN Human Development Index (HDI) was calculated at 0.867 for Iceland and 0.795 for Malta. Iceland ranked nr. 12-14 in the World on par with Ireland and Canada, while Malta ranked nr. 36-37 on par with Bahrain and like the Bahamas, Poland and Portugal.[13] The Legatum Prosperity Index[14] began evaluating long-term changes in global prosperity in 2007, but was first published for both Iceland and Malta in 2012, when Iceland ranked nr. 15 in the World and Malta nr. 25. The Index 2012 was based on eight criteria: Economy,

[13] Data available on http://hdr.undp.org/en/content/human-development-index-hdi The Human Development Index (HDI) is a summary measure of average achievements in key dimensions of human development.

[14] The Legatum Institute is a London-based think-tank with a bold vision to create pathways from poverty to prosperity. It published the Index first for Iceland and Malta in 2012: https://li.com/reports/2012-legatum-prosperity-index-2/

entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom and social capital. The Index confirmed economic prosperity in both islands in 2012.

In terms of individual and national prosperity, both Icelanders and Maltese were in general, much better off at the end of the century than they had been in the 1950s and 1960s, when many Maltese could hardly afford the goods and services needed for basic living. In 2000, a sizeable majority of the citizens of both states had gained prosperity, i.e., they owned their private property, a private car, various consumer durables and could afford to travel abroad.

Associated with economic growth in Iceland were also issues of environmental degradation, e.g., overfishing, overgrazing and soil erosion, as well as growing regional inequalities, resulting in displaced communities and depopulation of many districts while Reykjavík burgeoned. Due e.g. to the small size of the island, environmental concerns and spatial inequalities were less discernible in Malta than in Iceland. Scarcity of land and freshwater, high densities and unattractivehousing developments were a dilemma in Malta. Modern facilities and services like roads, electricity and telephones took decades to reach outlying areas in Iceland. The size of Iceland is c 325 times the size of Malta and Gozo, which makes a comparison of the modernisation process of infrastructure and public services perplexing and somewhat nonsensical.[15]

5.6 Concluding Remarks

Malta was in the early 1960s at a stage where economic output was only 20-25% of the level of GDP per capita in Iceland. After growth picked up in Malta during the 1970s it exhibited on average higher growth rates than Iceland until the close of the century. This corresponds with a higher growth of labour productivity in Malta than in Iceland after 1970, measured in percentages (figure 6.4), while the level of labour productivity in Malta in the year 2000 was only about half of what it was in Iceland.

The analyses show that labour, capital, institutions and exports were all contributing factors in the economic growth of both states, despite dissimilar economic structures and different levels of economic output and development. Economic growth was more capital-intensive in Iceland and more labour-intensive in Malta. Export income was a more potent growth factor in Iceland than in Malta.

The timing of upswings and downswings in the business cycles of the two states didn't match. Malta experienced a down-swing in the 1960s and a stagnation in the early-1980s while

[15] Mokhtar M. Metwally, 1977; John C. Grech, 1978; Magnús S. Magnússon, 1993; John Barry Bartmann, 1997; Mario Brincat, 2009; Mark Camilleri, 2012a; Godfrey Baldacchino and Robert Greenwood, 1998; Godfrey Baldacchino and David Milne, 2000; Godfrey Baldacchino and Geoffrey Bertram, 2009; Sveinn Agnarsson, 2009; Stefán Ólafsson and Katrín Ólafsdóttir, 2014, the Central Bank of Malta, 2018; IMF reports on both Iceland and Malta 1995; 1997.

Iceland had a down-swing 1968-1969 and a stagnation 1988-1995. Iceland showed greater advancement and efficiencies in 1974-1985 and Malta in 1986-2000.

Over the 1970s, 1980s and 1990s, the Icelandic economy was predisposed to over-invest in agriculture, fishing vessels, fish plants and hence to over-man these sectors. There were in addition, investments in various infrastructure facilities, especially in rural areas, which yielded low or no economic returns. The continuously declining TFP growth rate indicates that Iceland used its capital and labour inefficiently in economic terms during the last quarter of the twentieth century. Iceland used substantial funds for the enhancement of social policies and programmes and for costly infrastructure in rural areas as part of a regional policy. Such investments were of great local importance but with little or no economic returns for the national economy.

6 LABOUR AND CAPITAL

6.1 Preamble

The chapter deliberates arguments and reasonings associated with labour and capital growth factors. Labour is analysed as an explanatory factor of growth, while the analysis of capital as a growth factor is carried out only partly in the chapter; it is contemplated in other parts of the thesis as well, i.e., cross-border capital flows in Chapter 7, government debts in Chapter 9 and capital investment programs in the 1960s and 1970s in Chapter 10. The statistical relationship between the labour force and capital formation as independent variables and real GDP per capita as a dependent variable is established through regression analysis in Appendix I.

Labour is a more unified and suitably demarcated growth factor than the multifaceted capital, which evolved into a relatively boundless, sophisticated and omnipresent field of study in the late twentieth century. TFP (total factor productivity) is a residual factor and a broad measure of how efficiently an economy transforms labour and capital inputs into outputs, as calculated in Chapter 5. TFP includes the pivotal role of institutions and public policies in growth. Differences in TFP across countries have given rise to the deliberation of why some countries are more efficient in using labour and capital at their disposal than others.

In the 1960s and 1970s, enterprises in both island states experienced capital shortages and credit rationing due to undeveloped financial markets, lack of savings, asset deficiency for collaterals and restrictions on cross-border capital flows. The reaction in Iceland was increased government participation in the financial market through government-held investment funds and ownership of the largest banks. At the same time, Malta attracted foreign direct investments for manufacturing and practically nationalised all banking in the 1970s. Iceland had a sufficient labour force, while Malta had an excessive supply, resulting in unemployment. In the 1960s, the capital-labour ratio was low in both states and most economic activities were labour-intensive. Growing capital investments associated with technological advancements (mainly in the fishing industry) were emblematic for Iceland in the 1960s but arrived later on the scene in Malta; key sectors in Malta did not become as capital-intensive as the leading strategic sectors in Iceland since they were inherently different. During its first years of post-independence industrialisation, Malta invested in some low-tech, labour-intensive industries, as the main objective was to create employment.

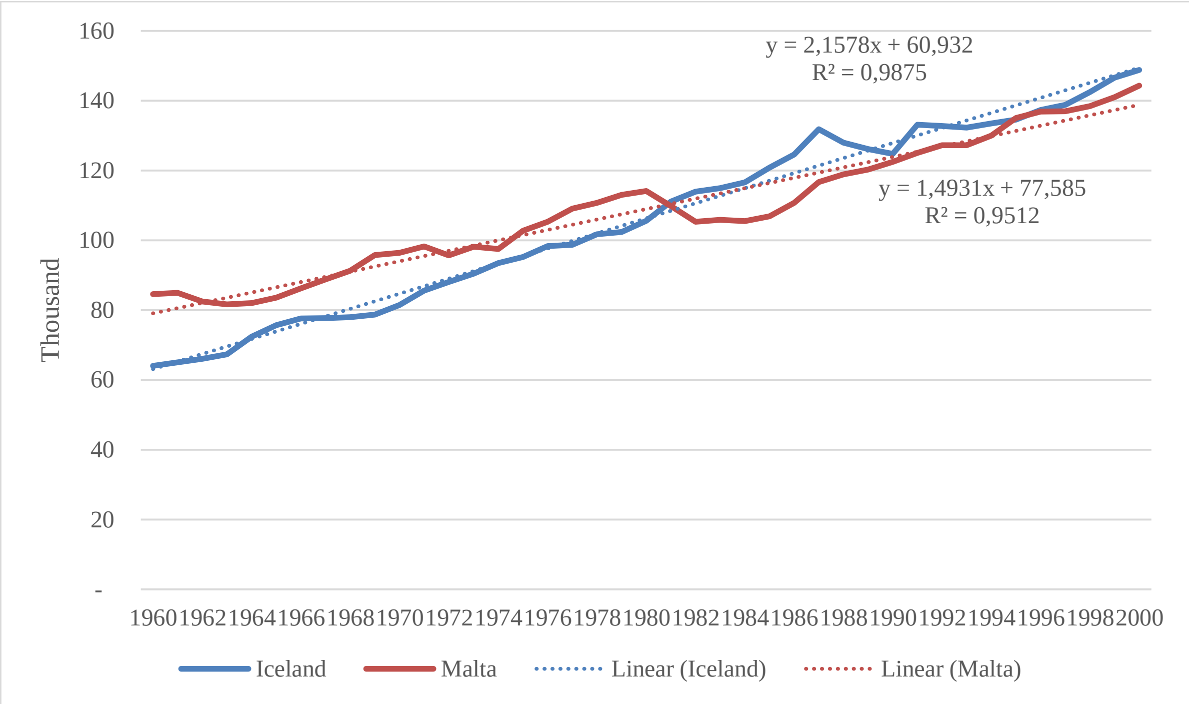
At the end of the twentieth century, labour was more productive and educated, engaged in jobs requiring more advanced skills-sets and enjoying better remuneration than in the 1960s; the standard of living improved, as well as health care, well-being and access to welfare services. Workers' participation rates in both labour markets rose significantly from 1960 to 2000 due to an ascending ratio of people 15-64 years of age and more women in the workforce.

6.2 Labour

How did the labour forces and labour markets of Iceland and Malta progress from the 1960s to the end of the century, i.e., in a context of growing employment, changing employment structure, rising labour productivity, improved education and training, reduced gender gap and evolving labour market policies and institutions? In what way did the labour force and labour market policies and customs shape and nurture the economic growth and development of both islands? This section will examine and deliberate the critical labour issues raised above and analyse trends, changes and influences in a comparative setting.

Despite differences in population levels, the size of the two labour markets was quite similar at the end of the century. The labour force, i.e., the number of employed, grew in Malta from 84 to 144 thousand between 1960 and 2000 while it grew simultaneously in Iceland from 64 to 149 thousand. The employment growth shows in figure 6.1. trendlines of descending growth rates for both island states. In the early 1960s, the average annual growth rates were c 3.5% in Iceland and c 1.9% in Malta, but in the late 1990s c 1.5% in Iceland and c 1.1% in Malta. Unemployment was higher in Malta than in Iceland (figure 6.2). Both islands experienced structural changes in their labour forces and labour markets. The educational level of the workforce rose to a higher level as the study period progressed, and types of jobs, careers and occupations altered, i.e., with a relative decline in manual and semi-skilled jobs and a growth of jobs requiring technical skills, education and professional qualifications. Employment in services grew significantly. In general, young people began to enter the labour market at a slightly older age than before due to higher educational attainments. In 1960, the number of women in the labour force was low in Iceland and Malta but grew substantially in the 1980s and 1990s. Working women at that time were generally better educated than during earlier times. Many Maltese emigrated during the 1960s due to a lack of job opportunities and bleak economic prospects. The employment situation improved in the 1970s and again during the 1990s. In comparison, Iceland experienced overall high employment levels, with an average unemployment of 1.3% from 1960 to 2000 while it averaged 6.3% in Malta.[1] There was a short-lived rise in unemployment in Iceland in the late 1960's, mainly due to a collapse of the herring fishery[2] and again in the early 1990s owing to a stagnation caused by a decline in the fisheries and also by structural policies related to budget deficits, exchange rates and interest rates.[3]

Figure 6.1: **Number of Employed in Iceland and Malta 1960-2000**



Source: https://www.centralbankmalta.org/historical-annual-database, Iceland Statistics

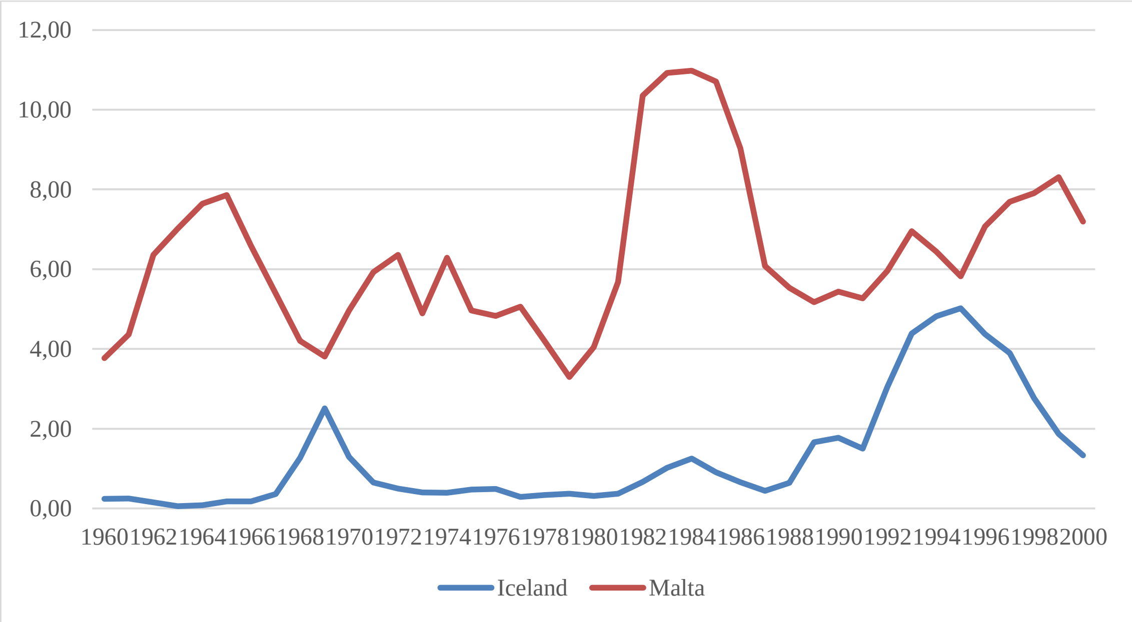
Unemployment benefits were relatively low in both countries around 1960, but rose gradually in the 1970s and 1980s. By 2000, unemployment had become more of a social problem because of a growing marginalisation of the weaker sections of the labour force. Imports of foreign labour began on a small scale in Iceland in the 1970's, especially by the fish plants. It spread later to construction sites, hospitals, hotels and cleaning services. A similar trend of foreign labour emerged later in Malta. The number of foreign labourers has proliferated in both island states over the 2000s and 2010s.

[1] The Central Bank of Malta, historical statistics of Malta (https://www.centralbankmalta.org/historical-annual-database). Historical statistics in Iceland on e.g., labour market data, are on the website of Statistics Iceland (https://sogulegar.hagstofa.is/)

[2] The economic recession and policies of the late 1960s are reviewed by Gylfi Þ. Gíslason, 1993 and Jóhannes Nordal, 1981.

[3] OECD Economic Surveys of Iceland, i.e., 1991-1992, published in 1992, pp. 11-21 and 1994-1995, published in 1995, pp. 1-18.

Figure 6.2: Unemployment Ratio 1960-2000



Source: https://www.centralbankmalta.org/historical-annual-database; Statistics Iceland. http://px.hagstofa.is/pxis/pxweb/is/Sogulegar/Sogulegar__sogul_vinnumarkadur/SOG05001.px

In Malta, the labour force was 27.7% of the population in 1960, but 39.6% in 2000. The rationale for this difference was as follows. The participation of women in paid employment grew from 18.8% in 1960 to 37.7% in 2000. People in the age group 15-64 years, grew from 53.6% of the population in 1960 to 67.7% of the population in 2000. At the same time, the ratio of people 14 years and younger declined from 38.4% in 1960 to 19.9% in 2000, reflecting declining birth rates and hence smaller families. A series of labour market surveys were conducted regularly in Iceland. Surveys for 1963 and 1997 show the labour force at 36.3% of the population in 1963 and 47.6% in 1997, both higher figures than in Malta, but reflecting similar trends and changes over the period.[4]

Statistics on labour productivity in Iceland and Malta reveal an intriguing comparison. Labour productivity was calculated by dividing real GDP per capita by the labour force size (employed only). For a meaningful comparison, GDP per capita (fixed 2010 USD) from World Bank data was used as the numerator and the number of employed (by the statistical authorities of Iceland and Malta) as the denominator. Growth (or decline) in labour productivity was calculated every year, with 1961 being the first data entry, i.e., changes 1960-1961 (see figures

[4]https://px.hagstofa.is/pxis/pxweb/is/Samfelag/Samfelagvinnumarkadur vinnumarkadsrannsokn4 vinnumarkadureldra /VIN06101.px

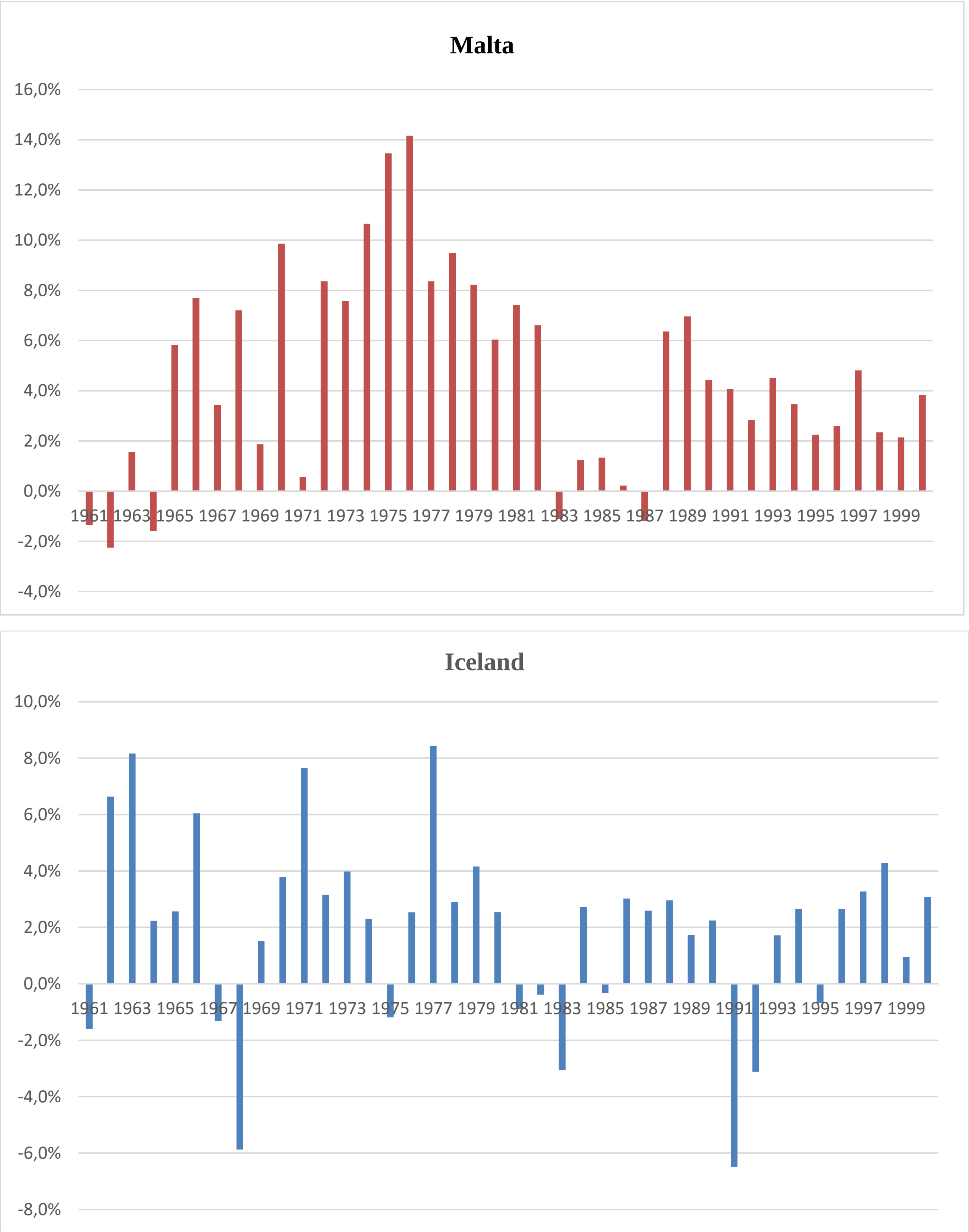
6.3 and 6.4). Calculations show that labour productivity grew unevenly from 1961 to 2000 and faster in Malta than in Iceland. By the late 1990s, labour productivity in Malta had reached c 50% of that of Iceland but had been in 1960 c 19% of Iceland's labour productivity.

The primary growth era in labour productivity in Malta stretched from c 1965 until 1982, with only 2-3 slack years during this almost uninterrupted growth period. The five-year period 1983-1987 showed virtually no growth in labour productivity, while it picked up in 1988, with an annual growth rate of 3-5% in the 1990s. Meanwhile, labour productivity growth in Iceland fluctuated yearly but was overall higher during the 1960s and 1970s than throughout the 1980s and 1990s. It measured only at c 1% on average in 1991-2000. There were substantial variations in labour productivity growth within the study period. Labour productivity in Malta grew by 9.1% per year on average during the years 1972-1982 while it tended to fluctuate more in Iceland, depending on the performance of the fisheries.

Figure 6.4 shows a twofold comparison of labour productivity in Iceland and Malta. The upper graph shows each country's labour productivity index growth, from a base point of 100 in 1960. The lower graph shows a comparative growth in labour productivity where the index is set for Iceland in 1960 at 100 and for Malta at 19. Estimates based on an extrapolation of the World Bank statistics show that Malta's GDP per capita (fixed 2010 USD) was 19% of the GDP for Iceland in 1960. By the year 2000, Malta had reduced the lag behind Iceland considerably. Since labour productivity is by definition Real GDP/Number employed, it depends on the GDP growth rate, which was higher in Malta. Investments in physical capital, new technology and human capital are all factors that contribute towards rising labour productivity.

The employment structure of Iceland and Malta changed significantly during the second half of the twentieth century. There were still remnants of the subsistence economy during the 1950s and 1960s, i.e., people living off the land in smallholdings, some with access to the sea, and many with supplementary income, often seasonal. The share of jobs in primary activities of total employment began to decrease in the immediate post-war years, while work in production (manufacturing, fish plants and construction) grew, as well as in services. Later in the study peri-od, services became the dominant sector of the economies of Iceland and Malta (figure 6.5). Changes in the employment structure were associated with regional shifts in Iceland, i.e., a continuous outmigration from the sparsely populated areas to the Reykjavik area and other large towns. Statistical analysis in Appendix I (figures 1 and 2) shows an enduring and unvarying relationship between the size of the labour force and GDP per capita in both island states.

Figure 6.3: Annual Change of Labour Productivity 1961-2000



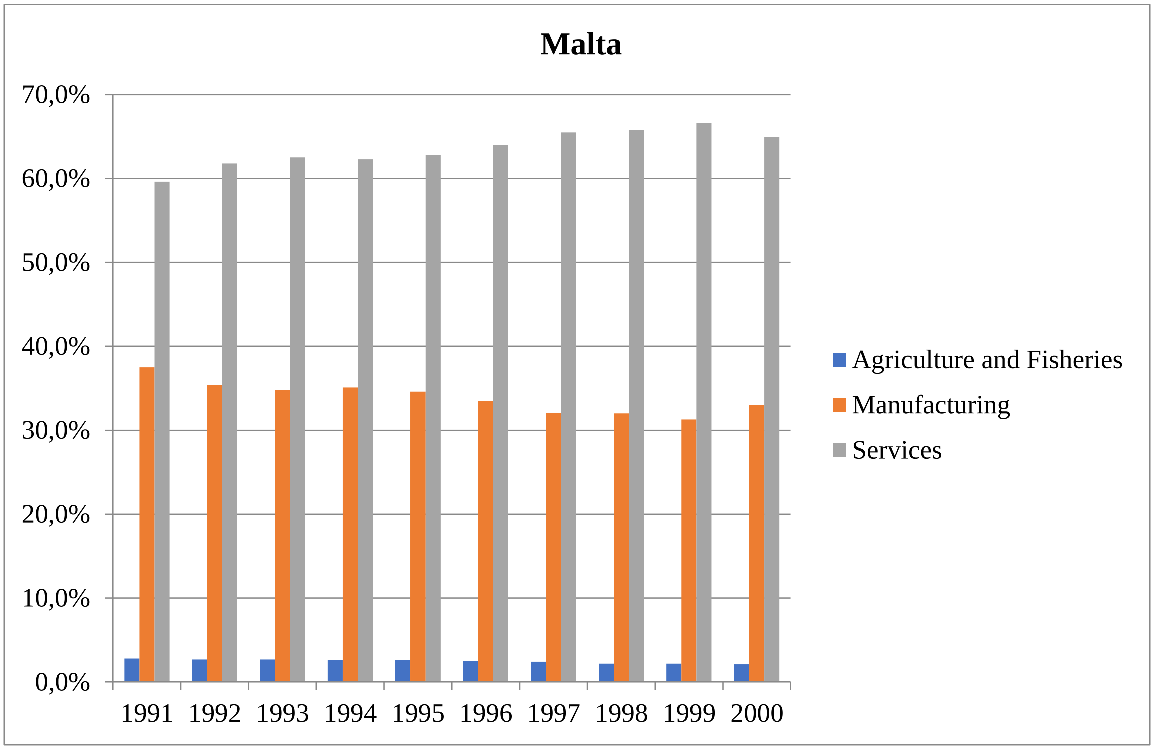
Source: Statistics Iceland and Malta Statistics on Labour and the World Bank on GDP World Bank https://data.worldbank.org/indicator/NY.GDP.PCAP.KD Labour productivity: Real GDP/No. employed.

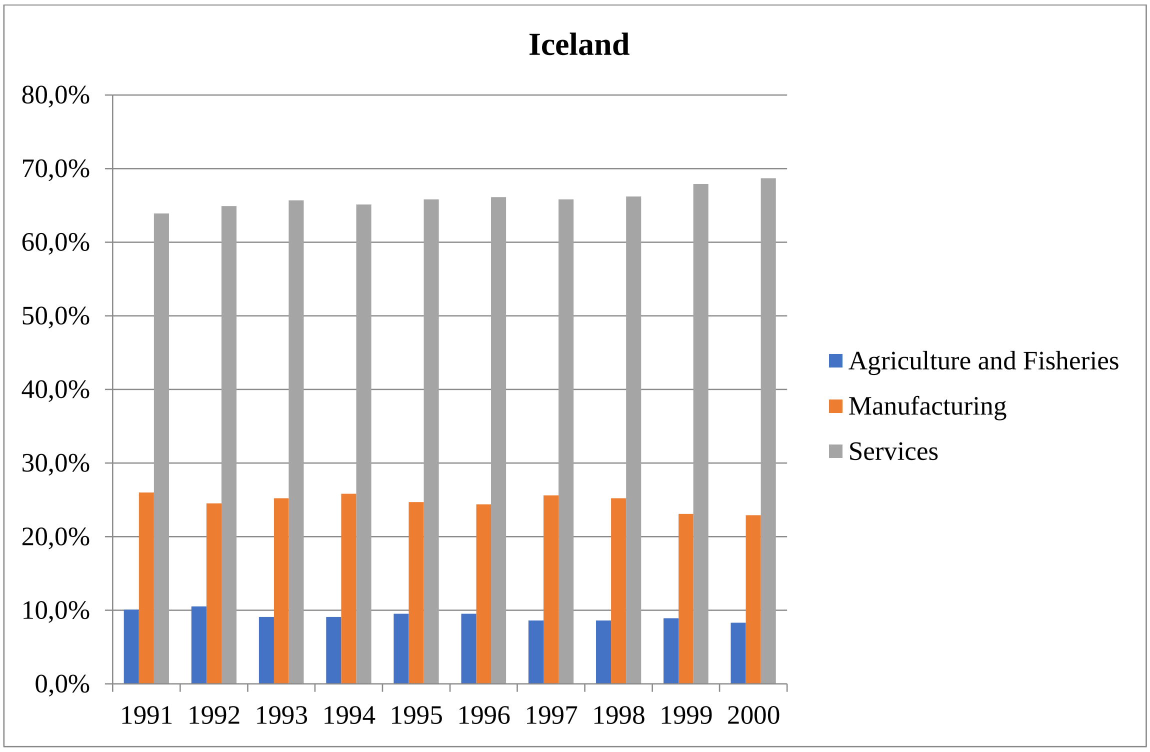
Figure 6.4: Labour Prodcutivity Growth 1960-2000

Base point set at 100 for both island states in 1960

The base index for Iceland in 1960 is 100 and 19 for Malta, reflecting actual differences in labour productivity during that year. Labour productivity is calculated as Real GDP/Number employed.
Source: Statistics Iceland and Malta Statistics on Labour and the World Bank on GDP World Bank
https://data.worldbank.org/indicator/NY.GDP.PCAP.KD

Figure 6.5: Employment structure 1991-2000





Source: World Bank https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS + SL.IND.EMPL.ZS + SL.SRV.EMPL.ZS

6.3 Labour Market Policies and Industrial Relations

Labour market advancements and structural changes marked the second half of the twentieth century. Professional classes replaced many unskilled and semi-skilled workers and became a significant labour force segment. Professionally qualified people worked, e.g., in health care, education, social services, public administration, tourism, financial services, other businesses and transport. The labour market became gradually more gender-balanced. In both states, there were proportionally more public-sector employees in 2000 than in 1960.

Labour market policies comprise various regulatory policies that influence the relations between labour supply and demand. They consist of policies that provide income replacement and labour market integration measures available to the unemployed.[5] The aggregate impact of labour market policies and institutions on productivity is difficult to assess but Bassanini and Venn undertook such an endeavour.[6]

6.3.1 Malta

Chapter II of the Constitution of Malta, i.e., Declaration of Principles, contains various labour market provisions, such as the right to work, protection of work, hours of work, rights of women workers, the minimum age for paid labour, safeguarding the labour of minors, professional and vocational training for workers, contributory social insurance and the provision of the means of subsistence for those unable to work. Chapter X stipulates public servants and Chapter XI has provisions for the Employment Commission.

In 1943, a new labour legislation was enacted. In 1948, the Conciliation & Arbitration Act was enacted, e.g., with provisions for settlements of trade disputes, but with the exclusion of all military and civil servants.[7] The Essential Supplies and Services (Settlement of Disputes) Regulations of 1952 aimed at protecting citizens from any attempts by trade unions to hamper the provision of essential supplies or services. An Employment Service Act in 1955 gave birth to a National Employment Board, which stipulated the conditions for registering the unemployed.

The Industrial Relations Act of 1976 (IRA) became an essential piece of legislation as it replaced and consolidated older legislation. It consisted of provisions on union recognition, unfair dismissal, registration of trade unions and employer associations and the establishment of an industrial tribunal. The Conditions of Employment (Regulation) Act (CERA) was set in 1952. It was the primary labour legislation during the second half of the twentieth century. It

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[5] https://www.ilo.org/empelm/areas/labour-market-policies-and-institutions/lang--en/index.htm

[6] Andrea Bassanini and Danielle Venn, 2007, *op.cit*.

[7] This statutory exclusion of public officers from the scope of specific labour law is still maintained.

remained in force until 2002 when the Employment and Industrial Relations Act (EIRA) Act XXII replaced CERA and IRA. CERA contained provisions for rules of payment of wages, overtime, sick leave and vacation leave. Wages, for example, became privileged debts. The duties of inspection and enforcement became the responsibility of the Department of Labour. Wage Councils were set up for specific sectors. A Labour Board was established as a national advisory body to recommend statutory provisions to the Minister.[8] The Employment and Training Corporation (ETC) was set up in 1990 to provide employment services and training to persons. A Commission for Occupational Health and Safety was set up in 1994 and replaced by an Occupational Health & Safety Authority in 2000 (OHSA). In 2000 the Protection of Persons with Disability Act was enacted, and a Gender Equality Act in 2002.

Industrial relations in Malta have reflected the legacy and traditions of British colonial rule. The shop steward represented the trade union at the workplace and was the pivot around which union activities were organised at the company level. Basic conditions of employment and minimum wage were set by law. Other working conditions were negotiated through collective bargaining at the enterprise level where the unions represented the workers. Malta has had no huge demand for sector-wide or nationwide bargaining supported by an institutional framework. Both employers and trade unions have forcefully defended collective bargaining at the enterprise level.[9] Despite this traditional model, industrial action has declined over the years and conflicts have been increasingly resolved through consultation and social dialogue.[10]

The history of the labour movement in Malta and its ties with the Labour Party has been narrated in a volume edited by John Chircop.[11] Trade unionism in Malta began during the First World War at the Admiralty Dockyard and spread to other sectors. It was instrumental in giving birth to the early Labour Party in 1921. The largest trade union in Malta, The General Workers Union (GWU) was founded in 1943 to embrace all working sectors. GWU represented over half of unionised labour, both unskilled and skilled, on the island during the second half of the twentieth century. It formed a political tie with the Labour Party, formalised between 1978 and 1992. Another trade union group was formed in 1966, the Confederation of Malta Trade Unions (CMTU), with the Union Ħaddiema Magħqudin (UĦM) as its principal member. The CMTU

[8] EIRA was enacted after the study period but was the conclusion of years of consultation and debate. It was an important step forward and brought Malta into line with similar European legislation and paved the way, as far as the standard of labour policies was concerned, for Malta's membership of the European Union.

[9] Godfrey Baldacchino, 2009, 13.

[10] Edward L. Zammit, 2006; Godfrey Baldacchino, Saviour Rizzo and Edward L. Zammit (eds.), 2003.

[11] John Chircop (ed.), *Revisiting Labour History*, 2012, contains 14 academic papers delivered at a conference held in October 2010, marking the 90th anniversary of the Labour Party. The volume includes a critical rethinking of the history of the labour movement in Malta.

unions have consisted mainly of white-collar workers and have over the years represented about a third of trade union members in Malta. The CMTU has been recognised for leaning towards the Nationalist Party. In 2004, a third union bloc, Forum Unions Maltin (FORUM) was formed; politically neutral and mainly made up of small occupational unions and professional associations. Official figures have shown trade union membership of over 50% of all workers, a somewhat lower ratio in the private sector but higher in the public sector. Debono examined membership levels in a survey of 781 employees, showing only 33% membership, which is considerably lower than officially reported.[12]

6.3.2 Iceland

Article 75 of the Constitution of Iceland states that all citizens have the liberty to work, which can be restricted by law if public interest requires. The right of persons to negotiate their employment terms and conditions has been prescribed by law.

Various new organised groups or unions began to emerge in the late nineteenth century, including the first co-operatives, farmers associations and guilds of craftsmen. The first trade union was established in 1887 by printers in Reykjavik.[13] Others followed suit, but the first attempts lasted only a short time. Local trade unions of fishermen emerged. The skippers and mates on schooners formed a trade union in 1893 and the deckhands in 1894. The first local unions of general workers were founded in the 1890s. The Federation of Trade Unions (ASÍ) was founded in 1916.[14] The first legislation protecting workers was set in 1921, providing for a minimum of six hours of rest per day for trawlermen.[15]

The 1930s saw an advancement in labour market legislation. In 1938, the Act of Trade Unions and Labour Disputes was enacted.[16] It contained provisions for the rights of employees to form unions, and their right to negotiate terms and conditions and procedures when labour disputes arose. The law has been amended many times but its main content has remained in effect. Redistributive policies and universal transfer payments were extended and formalised in

[12] Manwel Debono, 2018, analysed trade union membership in Malta.

[13] Ólafur R. Einarsson, 1969.

[14] Alþýðusamband Íslands (ASÍ) [The Federation of Trade Unions in Iceland]. The history of the federation was written by Sumarliði R. Ísleifsson, 2013.

[15] Vökulögin, lög um hvíldartíma háseta á botnvörpuskipum, 1921 [Law on min. 6 hours rest per day for dechands on trawlers]

[16] Lög um stéttarfélög og vinnudeilur nr. 80/1938 [Act on Trade Unions and Industrial Disputes]

the 1930s, i.e., social security, health insurance and unemployment benefits.[17] The labour market in the pre-war years had evolved in unity with an advancing economy and society.[18]

The Union of Public Servants (BSRB) was founded in 1942 and a pension fund for public servants was established by law in 1943. [19] Parliament approved in 1945 a new law with provisions for employment terms and conditions for public servants,[20] replacing older and outdated legislation from 1919. The new law recognised BSRB as the Union representing public servants. In 1954, a law on the rights and responsibilities of public servants was enacted, with new provisions for sick leave, maternity leave and holiday entitlements.[21] National collective bargaining between the state and the unions of public servants has evolved since 1945.

In 1961, Parliament passed the first Act on equal salaries for men and women. Equality was to be acheved over five years (1962-1967) for general, retail, office and manufacturing workers.[22] Maternity leave payments were initially limited but evolved gradually. A significant step had been reached in 1954 when women in public service got the right to three months' paid maternity leave.

The Federation of Trade Unions (ASÍ) and the Association of Employers (VSÍ/SA) were important participants and stakeholders in a nationwide social and economic dialogue with the government, much beyond negotiating only labour market terms and conditions.[23] Extreme inflation levels marked the period c 1970-1990. After each nationwide collective agreement, the government, through the Central Bank, was inclined to devaluate the Icelandic króna (ISK) and the extra purchasing power brought to workers by the new collective agreements was more or less wiped out. This circular effect of raising salaries and subsequently devaluating the ISK prevailed until 1990 when both the employers and the trade unions negotiated and signed a National Conciliation Accord.[24] It resulted in greater stability and lower inflation.

A critical social and economic dialogue was ongoing between employers, trade unions and the state on pension funds from 1969 to 1997. In a step-by-step process, the pension system was extended to all workers and pension contributions of both employers and employees were

[17] Lög nr. 26/1936 um alþýðutryggingar [The social security act].

[18] See a Ph D thesis by Magnús S. Magnússon, 1985. Similar labour market and industrial relations trends have been observed in other Nordic countries, e.g., Knut Kjeldstadli, *Arbeid og klasse - historiske perspektiver*, Pax, Oslo, 2018.

[19] Bandalag starfsmanna ríkis og bæja (BSRB) [The Federation of State and Municipal Employees]

[20] Referred to as ‘launalög’, revised in 1955 [law on employment terms and conditions for public servants]

[21] Lög nr. 38/1954 um réttindi og skyldur starfsmanna ríkisins [Act on the rights and responsibilities of state employees].

[22] Lög nr. 60/1961 um launajöfnuð kvenna og karla [Act on equal pay for women and men]

[23] See the history of ASÍ by Sumarliði Ísleifsson *ibid*, and the history of the association of employers by Guðmundur Magnússon, *Frá kreppu til þjóðarsáttar*. *Saga Vinnuveitendasambands Íslands 1934–1999*, 2005.

[24] In Icelandic, the National Conciliation Accord was called ‘þjóðarsáttarsamningar‘.

made compulsory. Parliament approved the final Act in 1997.[25] The pension funds for public servants were developed separately, based on the same principles of contributions and compulsory participation.

6.3.3 Comparison

Labour market policies, customs, practices and institutions evolved along dissimilar paths during the twentieth century, reflecting different industrial structures and unalike labour market trends in the post-war years, i.e., declining labour demand and emigration in Malta during the 1950s and 1960s while Iceland enjoyed prosperity and growth, albeit with interruptions. While Malta evolved quite detailed legislation on terms and conditions of employment, Iceland developed a more general and less specific legislation. Most employment terms and conditions in Iceland were, and still are, stipulated in sector-wide and nationwide collective agreements, between the labour unions and business associations as well as between the unions of public servants and the government. Union membership was higher in Iceland and the power of the trade unions overall greater, i.e., the sector-wide and nationwide collective bargaining power, but individual enterprise-based unions in Malta were probably more potent at the company level. The law and ordinances made detailed stipulations on labour matters in Malta, including minimum wage, while similar details were found in negotiated employment contracts in Iceland.

Iceland's Public servants had more substantial rights and responsibilities than their colleagues in Malta, including job protection, employment contracts negotiated by their union, the right to strike and generous public service pension. Unions of public servants, including teachers and health care professionals, have been quite influential in Iceland, based on indulgent provisions in the legislation and near monopolistic bargaining position with the state.

Compulsory national insurance (NI) contributions evolved dissimilarly. The NI contribution was higher in Malta as Iceland did, in addition, have a mandatory pension system. While employers and employees in Malta contributed to the NI they had to contribute to both systems in Iceland. State pension in Iceland, has been means-tested, mainly benefitting low-income pensioners and those with little or no pension from the pension funds.

In Iceland, public service pensions have been more generous, including pension rights for spouses, than private sector pensions. The former have been based on defined benefits, while the latter have been based on defined contributions. The state has subsidised the public sector pension schemes. Salary-related costs have been higher in Iceland than Malta, despite higher National Insurance contributions in Malta, as previously mentioned. This is due to the

[25] Lög um um skyldutryggingu lífeyrisréttinda og starfsemi lífeyrissjóða nr. 129/1997 [The Act of Compulsory Pensions and Pension funds]

contributions of employers to the pension system and more generous fringe benefits, e.g. sick and holiday leaves, maternity leave etc.

The Malta Dockyard was very influential in shaping early industrial relations in Malta, just like the fisheries were in Iceland. Both provided the first paid industrial jobs on a large scale in their country. Industrial relations in the Icelandic fisheries developed along a unique path as the fishermen had their remuneration based on the quantity and the value of the catch. They had a relatively low guaranteed income but enjoyed high salaries during prolific catches. The basic principles of the system have remained unaffected since the early 1960s despite various modifications.

During the study period, the trade unions in Malta lacked a proper confederate structure and a sector-wide national-level bargaining system, contrary to Iceland and some other European countries.[26] While industrial relations issues covered the whole of Malta, they were marked in Iceland by local digression due to many geographically isolated small-size distinctive labour markets and local trade unions. These local differences within Iceland have diminished since the 1990s due to the mergers of many trade unions.

6.4 Capital Formation and Government Debt

Capital formation reflects new state investments in infrastructure and buildings and new investments in capital assets made by private individuals and businesses, minus depreciation. Figure 6.6 shows the main trends in gross capital formation (new investments) for Iceland and Malta in 1965-2000. The data include all investment costs in addition to the fixed assets of the economy concerned, i.e., infrastructure, buildings, private houses and commercial and industrial buildings. The gross capital formation, calculated as % of GDP, shows a higher capital formation in Iceland than in Malta until c 1982, after which it was higher in Malta for the next 15 years, or until c 1997, mainly owing to inward foreign investments (figure 6.15). The relationship between capital formation as an explanatory variable and real GDP per capita as a dependent variable is shown in figures 3 and 4 in Appendix I, confirming the pivotal role of capital formation in economic growth. Capital formation in Iceland as a % of GDP declined from 30-35% in 1965-1975 to 20-25% in 1985-2000; Iceland over-invested in the 1970s. Malta experienced a reversal trend, from 20-25% of GDP in the 1970s to 25-30% in the late 1980s and 1990s.

Capital investments in Iceland during the 1970s were mainly in new fishing vessels and fish plants - funded primarily by loans from two public investment funds, i.e., the Fisheries Fund

[26] Godfrey Baldacchino, 2009.

and the Regional Development Fund. Other substantial investments in the second half of the 1970s included a few local geothermal district heating systems, which were a response to rising oil prices, funded chiefly by foreign loans taken by the respective local authority but frequently with a state guarantee. Thirdly, the National Power Company (Landsvirkjun) invested in two large-scale hydro-power projects in the 1970s, based on agreements with power-intensive, foreign-owned manufacturing companies purchasing the electricity. Malta saw significant investments after the mid-1980s and during the 1990s, while Iceland was heavily in debt after the investment boom of the 1970s. Public investments in Malta were in infrastructure facilities such as roads, ports, the airport, energy and telecoms, as well as in health care facilities, schools and business enterprises of national importance, e.g., Air Malta, Enemalta and Malta Freeport.

Grech[27] argued that high saving rate by the Malta government in the 1970s was due to the large annual rent paid by the British government for the use of military bases in Malta. Once those rents ended in the late 1970s, government savings took a downward path in the 1980s and turned negative in the mid-1990s. Gross government debt was c 10-12% of GDP in the early and mid-1980s but began to rise continuously from 1987. By 1995 it had exceeded 30% of GDP, and by 2000 gross government debt in Malta surpassed 50%.[28] The share of government in GDP reached c 30-33% in the 1990s while the public debt had come to a critical level.

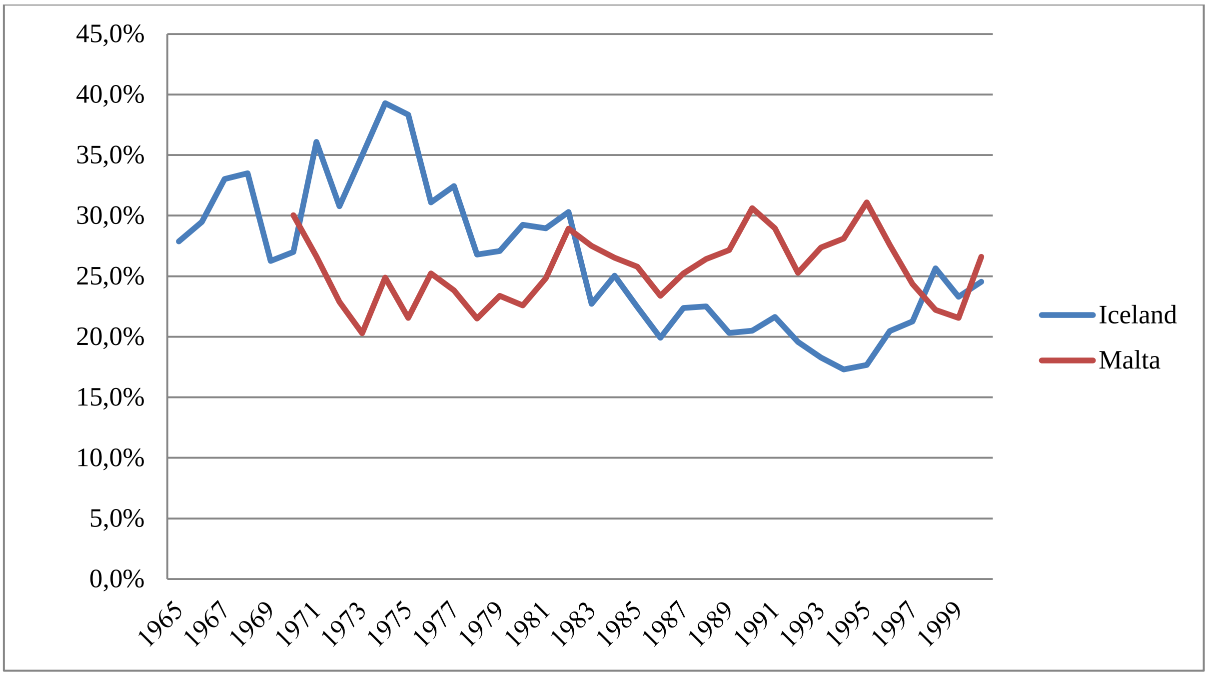
Government borrowing in Iceland involved the central government and c 200 local authorities. As a percentage of GDP, gross total government borrowing fluctuated more in Iceland than in Malta due to variations in the fisheries and in export income. In 1960, after meagre years in the 1950s, gross government debt had risen to 13.6% of GDP. After a boom in the herring fishery in the early and mid-1960s, it had come down to 5.6% in 1966. After the herring stock collapsed, it rose again and reached 14.6% in 1969. Gross government debt remained at 11-15% until 1974, but rose again in 1975, exceeding 20% of GDP in 1979 and 30% in 1983. It kept rising until it peaked in 1995 at 59.3% of GDP, after which it began to recede. From 1960 until the mid-1980s, government debt in Iceland was c 2/3 foreign and c 1/3 local. The balance shifted in the 1990s with domestic debt exceeding foreign debt by a small margin.[29]

[27] Aaron G. Grech, 2000, 51-61.

[28] Aaron G. Grech, 2015, 26-27

[29] The National Economic Institute, which closed down in 2002, provided figures on government debt in Iceland. The historical data on government debt is available on the website http://www.ths.is/rit/sogulegt/index.htm. It is table 3.7 titled ´Skuldir og kröfur hins opinbera 1901-1998´.

Figure 6.6: **Gross Capital Formation (% of GDP) 1965-2000**



Source: World Bank https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS

In comparison, gross government debt as a % of GDP was low or modest in both states before the mid-1980s, when it began to rise and kept ascending until it exceeded 50 per cent of GDP 1990s, to be examined further in Chapter 9.

6.5 Private Sector Capital and Entrepreneurship

6.5.1 Iceland

The role of private capital vis-à-vis public sector investments, publicly-owned enterprises, and assets in Iceland over 1960-2000 is an intriguing historical narrative. A complicated scheme of levies, duties, charges and taxes, funding transfers and redistribution payments in the fishing industry were already in place by 1960.[30] The schemes grew in scope and complication in the 1970s, fuelled by higher oil prices, inflation and regular devaluations. They stayed more or less unchanged throughout the 1980s, but were effectively reduced and eventually closed down in the 1990s. Other sectors dominated by state ownership and control were banking and the power sector, harbours, airports, education, health services and imports and the sale of alcohol and tobacco. The private sector was potent in wholesale imports, retail, fuel, shipping, aviation, tourism, manufacturing, construction and various professional services. Agriculture and related food processing were subsidised and heavily controlled by the government, in cooperation with

[30] Extensive transfers and subsidies were also prevalent in agriculture.

the powerful farmers' co-operatives, with limited business opportunities for private capital. In the post-war period until the early 1990s, non-governmental investments and businesses were divided mainly into two groups, the private sector and the co-operatives.

Many co-operatives fell apart in the 1990s, while a few survived. For decades they dominated the processing of agricultural products, i.e., meat, milk and wool, the fishery and fish processing in some towns, retailing outside the Reykjavik area and many transportation services. Through their federation, they owned and operated an oil company, a shipping line, an insurance company, and were engaged in the importation of consumer goods and exports of frozen fish and woollen products. The private sector proliferated mainly in Reykjavik. Relatively few families owned most larger businesses. A book published in 1991 argued that a large chunk of private sector activities in Iceland was owned or controlled by 14 families.[31]

6.5.2 Malta

The story of private capital was quite different in Malta. Land was more valuable there than in Iceland due to scarcity and high population density.[32] Capital accumulation was induced by the appreciation of land values and the eventual sale of land to developers. Malta developed manufacturing successfully in the 1970s and 1980s by offering factory buildings in industrial parks (e.g. in Ħal Far, Marsa, Kordin, Bulebel and Mosta Technopark) and financial incentives, mainly for foreign investors.[33] These companies offered jobs for Maltese workers and purchased services from local companies. Many were still in Malta 40-50 years later. Local entrepreneurs got involved in tourism, construction and property business and various related services and investment projects, which brought in long-term profits for local investors from the 1970s onwards. They built hotels, sold high-end property to foreigners and set up hotels, bars, restaurants, car dealerships and car rental services, for example. A group of family-owned, horizontally integrated businesses emanated in the 1970s to the 1990s, some though with long business histories.[34]. Many do still lead in the Malta domestic business scene.

[31] Örnólfur Árnason, *Á slóð kolkrabbans*, (Reykjavík, Skjaldborg, 1991) [Trailing the Octopus! – The business blocks of leading business magnets in Iceland in the 1980s, owned by the 14 families, were called the Octopus .]

[32] The Catholic church was a large landowner in Malta, keeping large chunks of land dormant and unexploited.

[33] Examples include ST Microelectronics, Methode Electronics, Crane Currency, Playmobil, Toly Group, Cardinal Health, Trelleborg, pharmaceutical companies, Lufthansa Technik, SR Technics and Carlo Gavazzi.

[34] In comparison, to the 14 families that controlled the private sector business in Iceland in 1991, there was a similar number of horizontally integrated family-owned business magnates in Malta (foreign-owned businesses not included). Groups in Malta in the late 20th century, arbitrarily selected, include Alf Mizzi & Sons, AX Holdings, Bonnici Group, Corinthia, Elbros, Farsons Group, GAP Holdings (merged), GasanZammit (merger), Mizzi Motors, Polidano Group, Testaferrata Moroni Viani business empire, Tumas Group, Vassallo Group and United Group.

7 EXPORTS, FOREIGN TRADE AND CROSS-BORDER ACTIVITIES

7.1 Introduction

Exports, imports, cross-border capital flows and effective coordination with other states are fundamental for small open economies. Exports, capital, labour and TFP were crucial growth factors in Iceland and Malta (cf. statistical analysis in Appendix I). The chapter will explore how rising cross-border economic activities, including exports, trade and capital-flows, influenced growth and development in Iceland and Malta and intersecting concerns. To what extent did the main trends and attributes of their cross-border activities and trade correlate or contrast? How did the political and economic effects of commodity exports from resource-abundant Iceland, i.e., fish, aluminium, and silicon alloys, deviate from the parallel effects of export incomes in resource-scant Malta? To what degree did their locations in the Mediterranean and the North Atlantic, including security concerns, affect choices of trading allies and cross-border endeavours?

The chapter will examine trade trends, patterns and the main directions of exports and imports. The elaboration in the chapter and elsewhere in the thesis will show a trend of extended interdependence and coordination with other states proliferating in the 1990s. Cross-border capital flows, including total assets, liabilities and investments, will be analysed. The national statistical offices, the Central Banks, the World Bank and IMF provide trade statistics for Iceland and Malta.[1] The structure of the investigation and chronicle of events on foreign trade trends and related activities, as well as foreign relations, will be as follows in chapters 7-9, but cross-referenced between narrating sections as pertinent:

- Foreign trade of Iceland and Malta (chapter 7.2);
- Interdependence and coordination (chapter 7.3);
- Cross-border capital flows (chapter 7.4);
- Foreign relations and European economic cooperation (chapter 8.2 and 8.3);
- Foreign trade policies of Malta (chapter 8.4) and of Iceland (chapter 8.5); and
- Monetary and foreign exchange policies affecting foreign trade (chapter 9.3 and 9.4).

[1] Trade statistics for Malta have been complied by the Central Bank and made available on the bank's website from 1970 onwards https://www.centralbankmalta.org/historical-annual-database. For Iceland: https://www.statice.is/.

7.2 Foreign Trade of Iceland and Malta[2]

7.2.1 Iceland

The performance of the export-based fisheries drove the national economy during most of the twentieth century but, to a lesser extent, the services exports. The rise of power-intensive industries (aluminium and ferrosilicon) during the last quarter of the century and tourism after the turn of the century has considerably diversified Iceland's export base.

Trade statistics[3] for Iceland in 1960 show that fish products accounted for c 60% of total export values, agricultural products c 4-5% and services c 30-33% (figure 7.1). In 2000, fish exports comprised c 41% of the total export value, power-intensive industries c 14%, and service exports c 35%. In the last category, aviation and shipping accounted for c 17% and tourism for c 8%. Total export values grew by 4.58% per year in 1960-2000, and total import values by 4.57% per year (figures 7.2 and 7.3), measured in real USD=2010. The growth rates are measured along the exponential growth curves, which show an overall good fit as verified by the values of R^2, the coefficients of determination.[4]

Throughout the study period, 70-75% of exports went to Europe, except c 1970-1985 when the share was down to c 65%. The most important European export destinations were the UK, Germany, the Nordic countries and the Soviet Union until the late 1980s. Outside Europe, the US was Iceland's main export market. From the mid-1960s until the mid-1980s, over 25% of Icelandic exports by value went to the US. The US imported fish products from Iceland, paid for services and goods at the US military base, and many American tourists visited Iceland. East Asia emerged as a growing export market for seafood in the 1980s and 1990s.[5] Imports of goods consisted of cars, vessels, engines, tools and equipment, construction materials, fuel and consumer goods. Leading import countries firmly matched the main export markets.

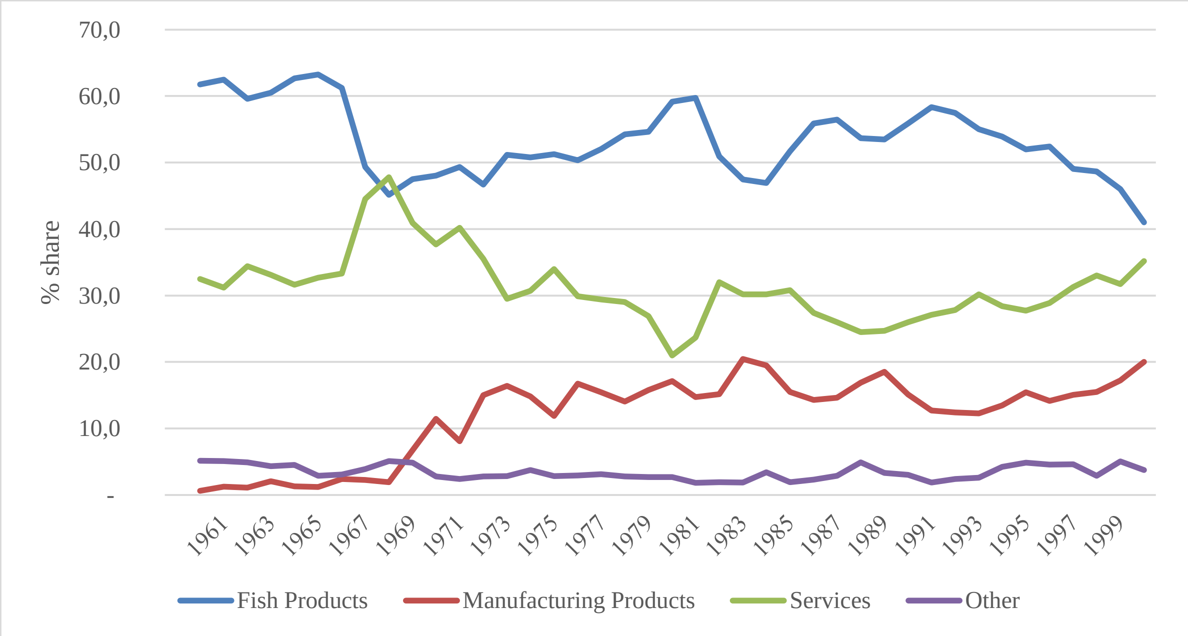
[2] The foreign trade statistics of Iceland and Malta used in the study cannot be thoroughly compared during the 1960s and 1970s. Their comparability improved in the 1980s and 1990s in line with evolving international standards in collecting and processing national statistics. Data on the exports and imports of goods are reliable in 1960-2000, except on re-exports. Data on exports and imports of services and cross-border financial transactions were patchy and not comparable during the early part of the study period but improved after that. Frequent devaluations of the ISK and high inflation during the 1970s and 1980s make a conversion to real USD a necessity for comparing export statistics. However, conversions of massive fluctuations of ISK currency values affect the accuracy of the final manipulated real USD figures.

[3] Verslunarskýrslur Hagstofu Íslands [Trade statistics from Statistics Iceland] were published annually. They contain a wealth of information on the foreign trade. *Líftaug Landsins II*, pp. 440-482 [History of Iceland's foreign trade, volume II] contains a statistical appendix summarising trade statistics from the nineteenth century to 2010.

[4] Other measurements, e.g. in real local currencies and average annual growth rates, will give slightly different results.

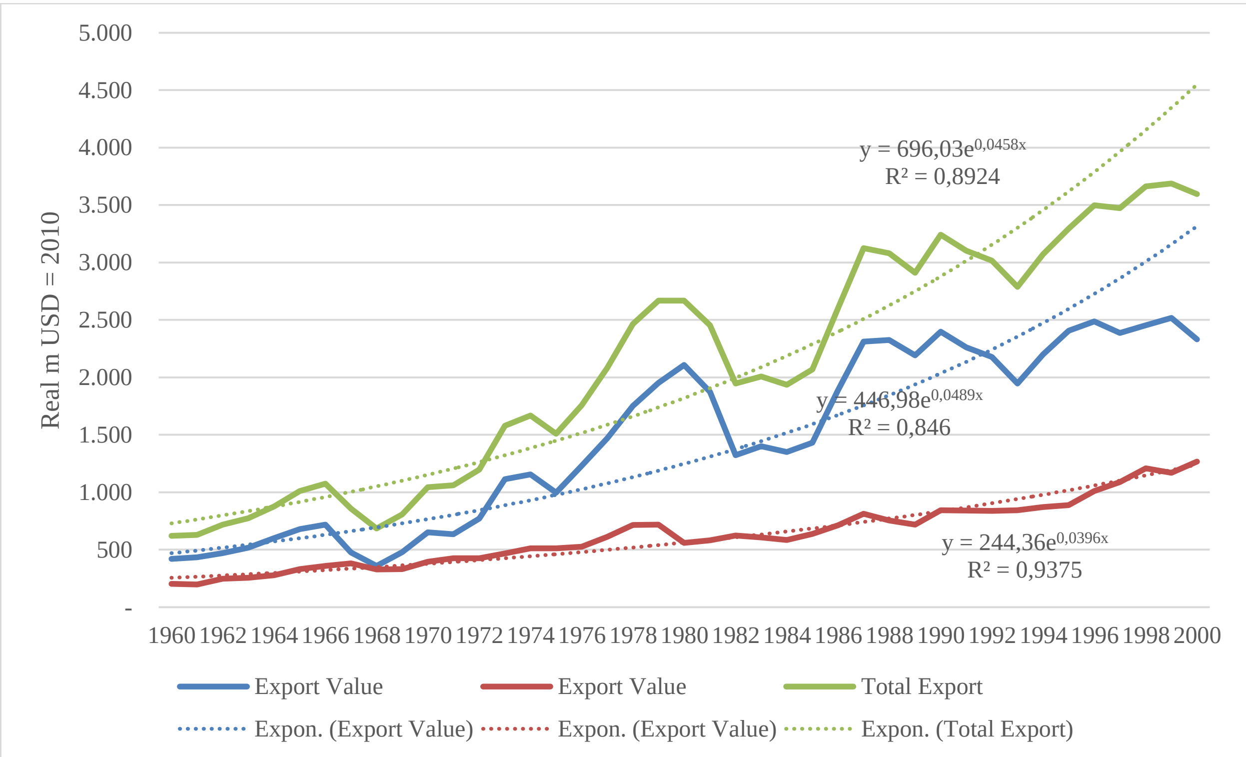
[5] Trade statistics for Iceland are available on the website https://statice.is/statistics/economy/external-trade/

Figure 7.1: **Export Types as % of Total Exports, by Value - Iceland 1960-2000**



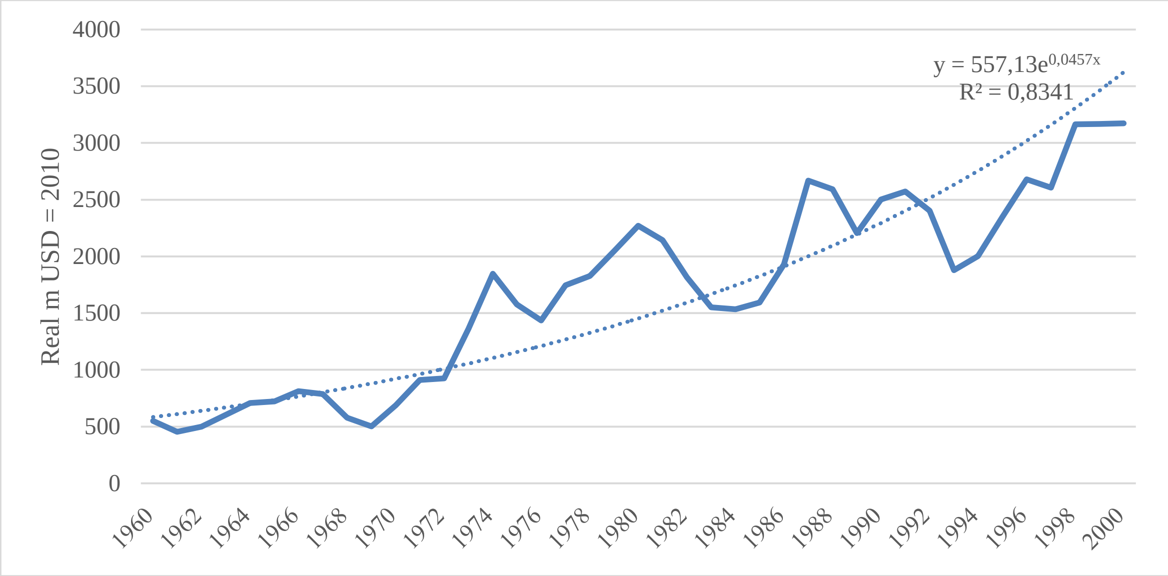
Source: Hagstofa Íslands, Verslunarskýrslur [Statistics Iceland, Trade Statistics] and *Líftaug Landsins II*, [History of Iceland's foreign trade II], table 6, p. 454. Data on manufacturing excludes the fish plants as their output is classified as fish products.

Figure 7.2: **Iceland - Export by Value 1960-2000**



Source: Iceland Statistics, sögulegar hagtölur https://sogulegar.hagstofa.is/utanrikisverslun/

Figure 7.3: Iceland - Imports by Value 1960-2000



Source: Iceland Statistics, sögulegar hagtölur https://sogulegar.hagstofa.is/utanrikisverslun/

7.2.2 Malta

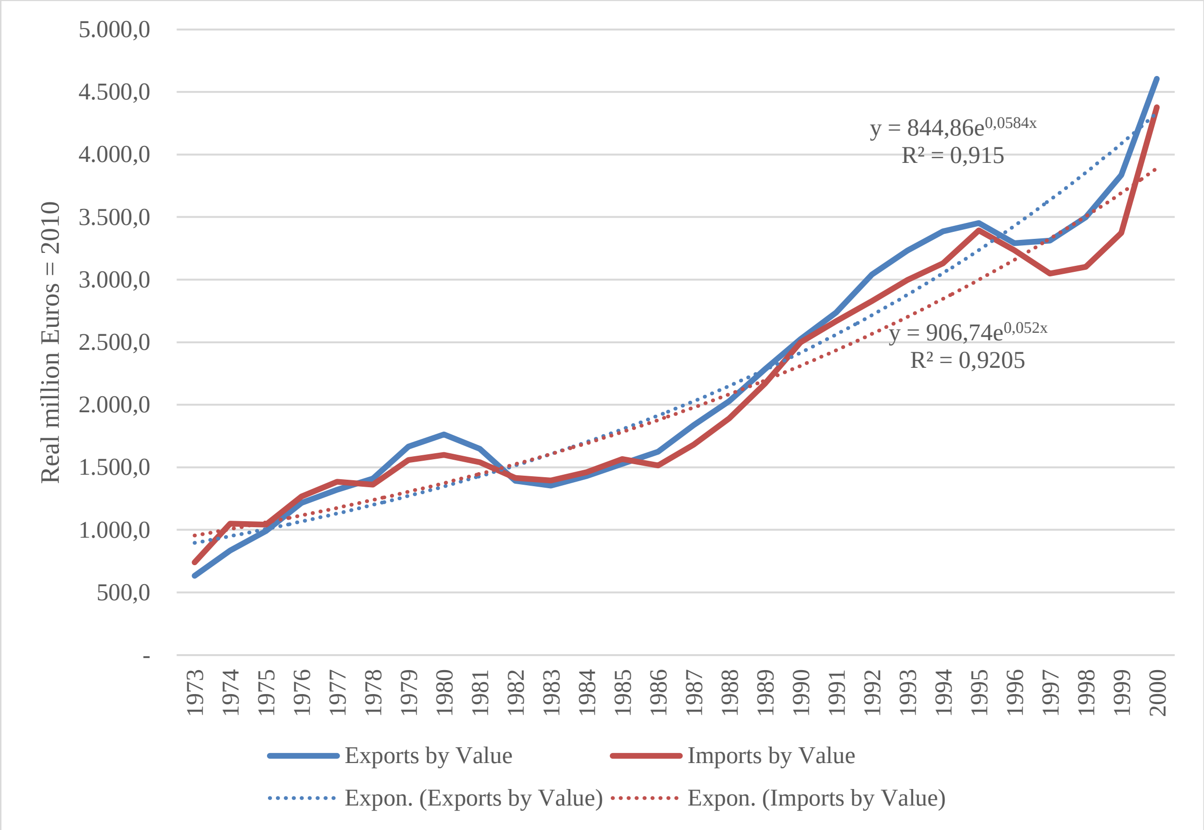
The foreign trade of Malta was in the post-war era and until the 1960s, affected by the 'Fortress Economy' and the presence of the British Armed Forces on the island. A substantial part of imports served the needs of the British Armed Forces, while Maltese exports were limited. Tourism income was low in the 1960s but on the rise, while manufacturing exports, rising from foreign direct investment, were growing in the 1960s and 1970s. Foreign trade statistics for Malta are not internationally comparable until after 1970.[6]

Calculations based on exponential trend lines of foreign trade during 1973-2000 show a 5.84% average growth rate of exports and 5,20% of imports per year, measured in real Euros=2010.[7] Figure 7.4 does furthermore show harmonious growth curves of both exports and imports. Figure 7.5 shows that exports of goods (manufactures) and services were roughly equal in importance from 1973 until the late 1980s, after which exports of goods exceeded service exports in value. After Malta joined the EU in 2004, service exports leapfrogged the exports of goods.

[6] The World Bank does not include Malta in foreign trade statistics (exports and imports) until 1970, but Iceland from 1960.

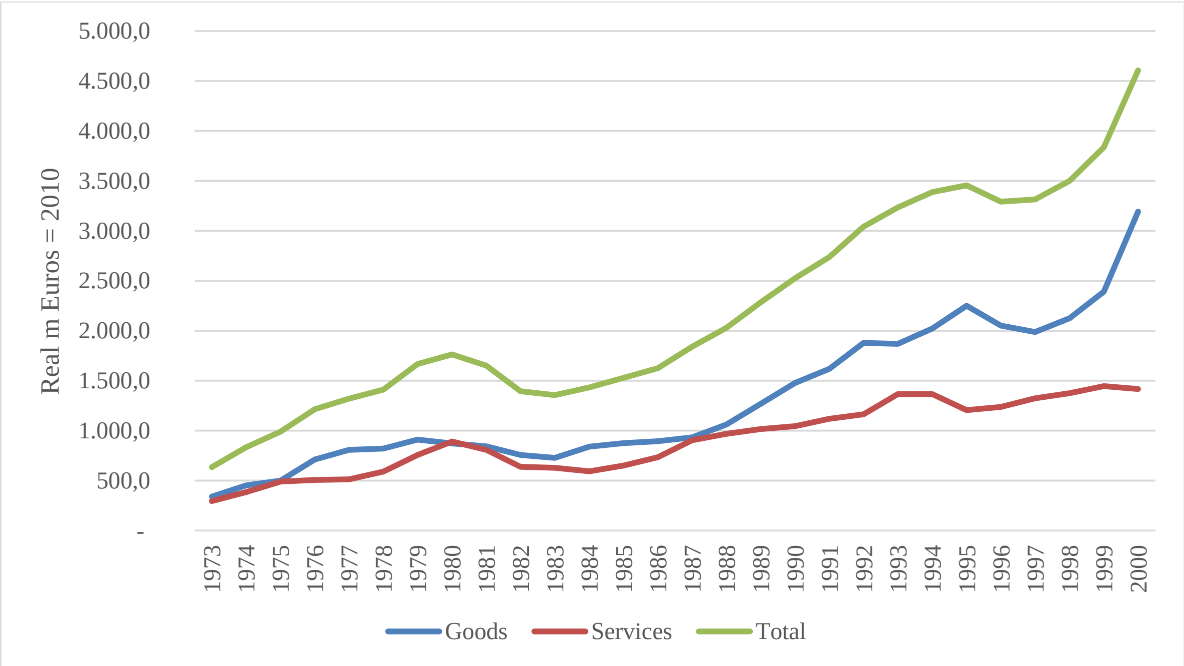
[7] Figures from the Central Bank https://www.centralbankmalta.org/historical-annual-database

Figure 7.4: **Malta Exports and Imports by Value 1973-2000**



Source: Central Bank https://www.centralbankmalta.org/historical-annual-database

Figure 7.5: **Exports of Goods and Services by Value 1973-2000**



Source: Central Bank https://www.centralbankmalta.org/historical-annual-database

The export statistics reveal a strong European focus until the 1990s, when exports to Asia and the US began to grow.[8] Regarding Europe, exports to Italy declined while income from exports to France grew. The shifts show changes in tourism, growth of financial services and pharmaceutical exports in the mid-and late-1990s.[9] The primary export goods during the 1980s and 1990s were electrical machinery and equipment, mineral fuels (including re-exports), pharmaceuticals, toys, computers and aircraft parts. Imports were diverse, including capital goods, materials, fuel, gas, cars, household appliances, furniture and food.

Close to 75 per cent of imports to Malta in 1973-2000 were from the EC/EU countries, mainly France, Germany, the UK and Italy. Imports from the US and Asia grew in importance during the 1990s while there was a parallel decline in the EU share.[10] Trade statistics show that European countries were Malta's main trading partners during the 1970s, 1980s and until the mid-1990s. The trade statistics do not show the importance of Libya for Malta as the nature of the trade was more like an extension of Maltese businesses through Libyan branches or executed directly on Libyan soil by commuting Maltese businessmen.[11]

7.2.3 Iceland and Malta compared

The annual growth rates of exports and imports in Iceland and Malta show long-term growth of exports and imports, measured in real values. While imports grew by 4.57% and exports by 4.58% per year in Iceland, 1960-2000, exports grew by 5.84% and imports by 5.2% in Malta, 1973-2000.[12] The higher growth rate of exports and imports in Malta compared to Iceland, corresponds to a similar difference in economic growth rates between the two island states, shown in figure 5.3, i.e., Malta c. 4.2% (1971-2010) and Iceland c. 2.5% (1960-2010); an indication of a relationship between export performance and growth, well-known in small open economies.[13]

Exports and imports fluctuated annually in both island states, and their composition changed, reflecting both new growth sectors and structural changes in the economy. Exports of goods exceeded overall the exports of services. The statistics show a strong European focus on Icelandic and Maltese exports but North America as a significant export market for Iceland. Both states increased trade with Asia in the 1990s. The origin of imports showed a similar pattern of trading nations.

[8] Central Bank of Malta https://www.centralbankmalta.org/historical-annual-database

[9] Aaron G. Grech, The Evolution of the Maltese Economy Since Independence, 2015. See pp. 22-25.

[10] Official statistics list EC/EU as a trading block which kept changing in size due to enlargements – 1973, 1981, 1986 and 1995. The enlargement of EC/EU as exporter or importer makes a time scale comparison a bit fluid.

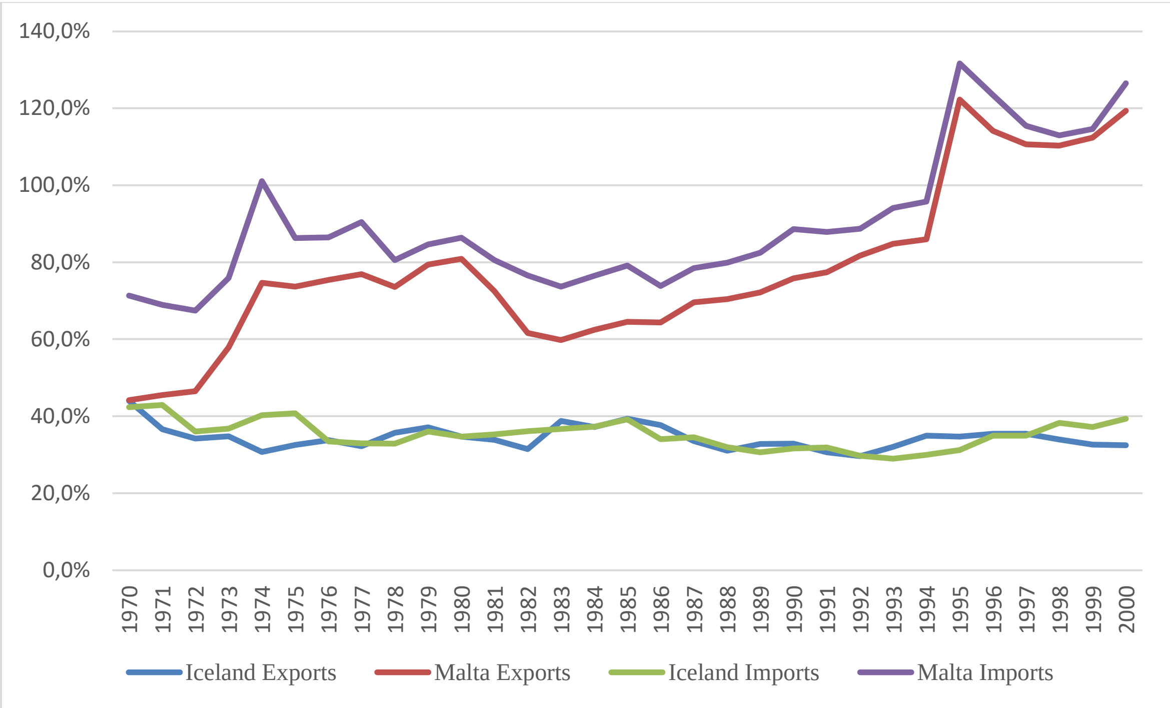
[11] Based on observation by the author, who ran a business from Malta in Libya until 2011.

[12] Figures for Iceland 1973-2000 show annual growth of exports at 2.94% and imports at 2.35%.

[13] Is endorsed in Figures 5 and 6 in Appendix I.

Based on World Bank Data, figure 7.6 compares Iceland and Malta 1970-2000.[14] It shows the economy of Malta being more dependent on international trade than the Icelandic one. Exports were on average 78.1% of GDP and imports 89.7% during 1970-2000, while exports in Iceland were 34.4% of GDP and imports 35.3%.[15] The trade balance was negative by c 11.6% of GDP per year in Malta from 1970 to 2000, while it was negative by 0.9% per year in Iceland. The significantly higher percentage of exports and imports in GDP in Malta, especially in 1995-2000, reflected specific differences. In comparison with Iceland, Malta relied extensively on imports of food and energy, was engaged in entrepôt trade (trans-shipment or re-exports) and did manifestly build up financial services in the 1990s, which involved growing cross-border financial transactions. At the same time, Iceland restricted inward direct foreign investments and foreign exchange.

Figure 7.6: **Exports and Imports in Iceland and Malta, 1970-2000, % of GDP**



Source: World Bank, World Development Indicators NE.EXP.GNFS.ZS and NE.EXP.GNFS.ZS

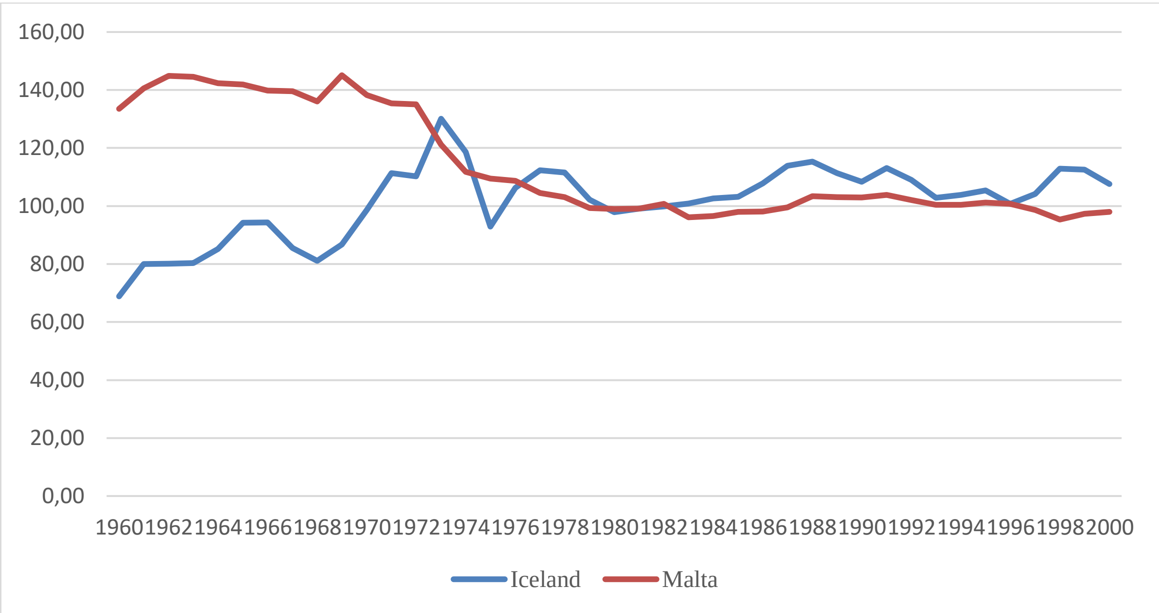
Statistics on the terms of trade (TOT), where the TOT index wavered around 100,[16] show an interesting comparison (figure 7.7). In Malta, due to the impact of British spending, the TOT index was in the early 1960s highly favourable, or over 140, but declined gradually to

[14] Comparable data for the two islands are not available until 1970.
[15] The difference may be due to considerable re-exports (entrepôt trade) in Malta.
[16] In the historic statistics, Malta uses 2010 as a base year, but Iceland 2005, where TOT=100.

1979 when it was 99.3 and became relatively stable after that. In Iceland, the TOT index was unfavourable in the early and mid-1960s c 85 in the 1960s, e.g., due to an overvalued currency, but improved after two significant devaluations of the ISK in 1967 and 1968 (see chapter 9.4.1). The TOT index fluctuated during the tumultuous 1970s but stabilised after that at around 100. The currency arrangements with floating exchange rates introduced in the early 1970s, and discussed in chapter 9.4, may have contributed to more stable TOT through frequent adjustments of exchange rates, compared to the inflexible system of the 1960s. A growing diversification of both economies did probably have stabilising effects on the TOT.

Briguglio[17] shows how changes in terms of trade were affected by Malta's direction of trade rather than the composition of exports and imports. He linked weak commodity terms of trade with Malta’s competition with developing countries in its exports while the island purchased most of its imports from industrialised countries.

Figure 7.7: Terms of Trade 1960-2000



Source: Central Bank of Iceland and Central Bank of Malta

The foreign trade statistics discussed above show aggregate figures and trends but do not exhibit the volatility and precariousness of the export incomes and the cost of imports. The figures have been deflated to counteract the effect of inflation to unravel their actual values and even converted to USD to make them internationally comparable. Chapter 9 examines monetary issues and exchange rate policies affecting foreign trade, while Chapter 8 embraces foreign trade policies. Prices and demand in foreign markets tended to fluctuate, depending on a combination

[17] Lino Briguglio, 1993.

of factors, which Iceland and Malta did not control. In the case of Iceland, there were, at times, considerable fluctuations in fish catches, which could have detrimental effects on foreign markets. The local currency was devaluated repeatedly, e.g. due to external shocks and local monetary issues; inflation became a serious problem. Fisheries-focused economic policies were of paramount concern during the 1970s and 1980s, including elaborate transfer payments and subsidies, and at times beyond the bounds of macroeconomic principles. On the other hand, Malta experienced greater monetary stability, i.e. lower inflation and more stable currency (Chapter 9).

The choice of trading allies was, e.g. affected by location and security concerns. Iceland and Malta were geo-strategically active, participating in trade blocks and economic cooperation in Europe and Iceland in NATO. At the same time, both islands also stretched their trade relations to Eastern Europe and Asia and Malta to Libya. Iceland developed a gainful political and trade relationship with the US. It had skirmishes with Britain over fishing rights in Icelandic waters, which resulted in intermittent trade embargos on Icelandic fish in Britain. The repercussions were increased barter trade with the Soviet Union and Warsaw Pact countries. Foreign relations and international security issues affected the choice of trading allies and trade agreements, especially from the 1960s to the 1980s.

Old trading patterns began to break up in the 1990s, as explained above, due, e.g. to growing trade liberalisation in Europe, globalisation, the rise of trade with Asia, and the fall of communism in the Soviet Union and Eastern Europe. The control of trading allies by the governments of Iceland and Malta diminished. Inflows of tourists from European countries were not controlled, and neither were business agreements made by the private sector regarding exports and imports of goods and services, with a few exceptions. VAT replaced custom duties which increased competitiveness across borders.

7.3 Interdependence and Coordination

Characteristic for advanced economies, Iceland and Malta included, was a growing trade and financial openness, which escalated from the 1990s onwards as capital flows and cross-border trade were liberalised. The average trade openness ratio for advanced economies doubled from 1960 to 2000, and the ratio of financial openness increased fivefold in 1960-2000.[18] The Financial Openness Ratio (FOR) is measured in nominal million USD as:

FOR= (Cross-border Total Assets + Cross-border Total Liabilities)/(GDPx2) x 100

[18] Discussed by Agnès Bénassy-Quéré et. al., 2019, 110-114. Information provided by IMF Working Paper WP/06/69 and in a paper by Philip Lane and Gian M. Milesi-Ferretti, 2007. The IMF constructed estimates of external assets and liabilities for 145 countries over the period 1970–2004. They describe their estimation methods and present critical data at both state and global levels.

Total Assets are Portfolio equity assets, FDI assets, debt assets, financial derivative assets and total reserves minus gold. Total Liabilities are Portfolio equity liabilities, FDI liabilities, debt liabilities and financial liability derivatives. The Trade Openness Ratio (TOR) is:

TOR = (Exports + Imports)/(GDP*2) x 100.

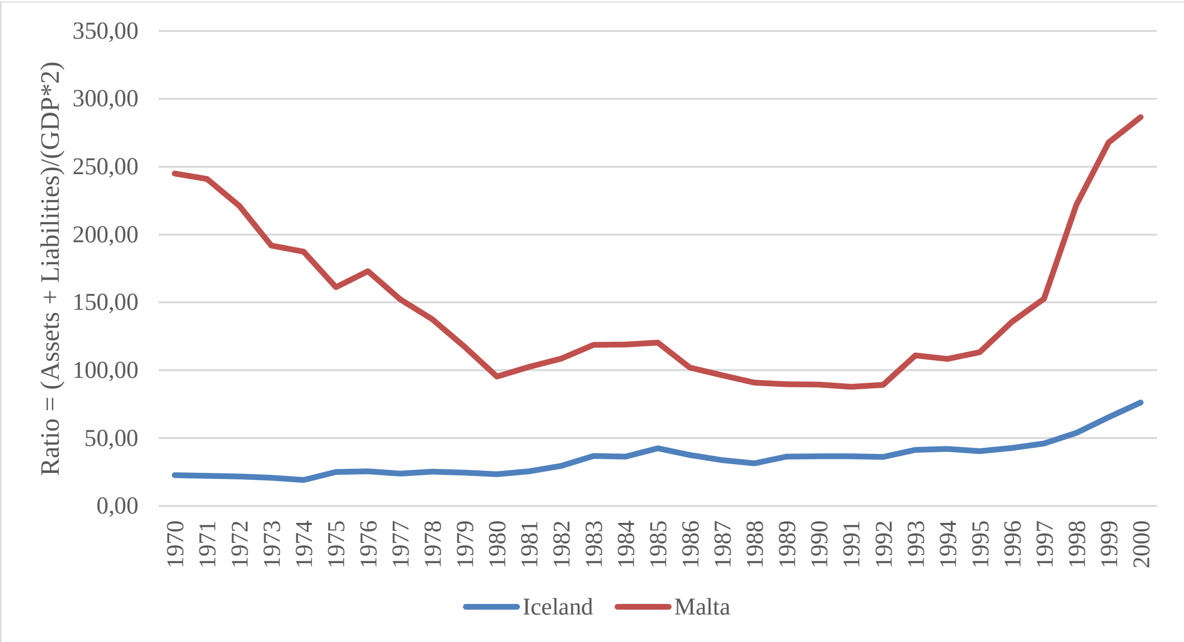
The average TOR for high-income countries was around 25 in 2000, while the same ratio was 36 for Iceland and 123 for Malta. It began to rise in the 1990s and continued to rise after the turn of the twenty-first century. In 2015 TOR was 140 for Malta and 50 for Iceland.

Comparison of financial openness during the 1970s is probably skewed by the financial contributions received by the Malta government from the British government. The financial openness ratio remained more or less unmoved c 1980-1995, after which it escalated to higher levels in Malta and began to move slightly upwards in Iceland. The average financial openness ratio for advanced economies was around 120 in 2000, while the same ratio was 76 for Iceland and 286 for Malta.[19] While Malta excelled in its economy's financial openness, which exposed it to other countries, Iceland was a relatively closed economy concerning cross-border financial activities. It employed strict foreign exchange controls until the 1990s. Malta had moved ahead and begun to develop global financial services. At the end of the century, the Icelandic government was still in control of the largest banks and appeared to have had little or no appetite for cross-border financial services.

Cross-border liabilities rose in Iceland during the 1980s and 1990s to a level 2-3 times higher than cross-border assets. At the same time, Malta showed a more prudent approach where cross-border assets exceeded cross-border liabilities only by a small margin. The FOR and TOR may not fully reflect interconnectedness. High trade openness ratios are based on trade being recorded on a gross basis, while GDP is the sum of values added, which cancels out intermediary consumption. Imports and exports inflate the numerator but not the denominator. High import content in exports, like in Malta, will inflate the TOR.

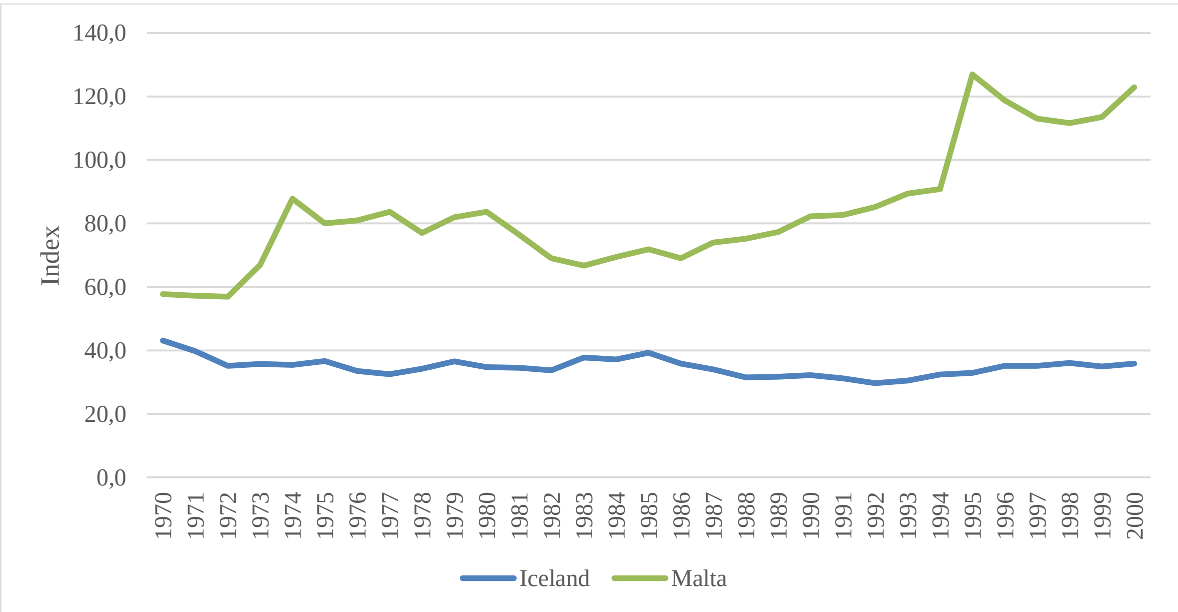
[19] *Ibid.*

Figure 7.8: **Financial Openness Ratio – Iceland and Malta 1970-2000**



Data: IMF website: http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip. This is the web appendix for the paper "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004", by Philip R. Lane and Gian Maria Milesi-Ferretti, IMF Working Paper 06/69. It contains data and notes on data construction. Financial Openness Ratio = (Cross-border Assets + Cross-border Liabilities)/(GDP*2), measured in current million USD.

Figure 7.9: **Trade Openess Ratio – Iceland and Malta, 1970-2000**



Data: World Bank, World Development Indicators NE.EXP.GNFS.ZS and NE.IMP.GNFS.ZS, available at the website: https://databank.worldbank.org/source/world-development-indicators. The Trade Openness Ratio = (Exports + Imports)/(GDP*2) *100.

7.4 Cross-border Capital Flows

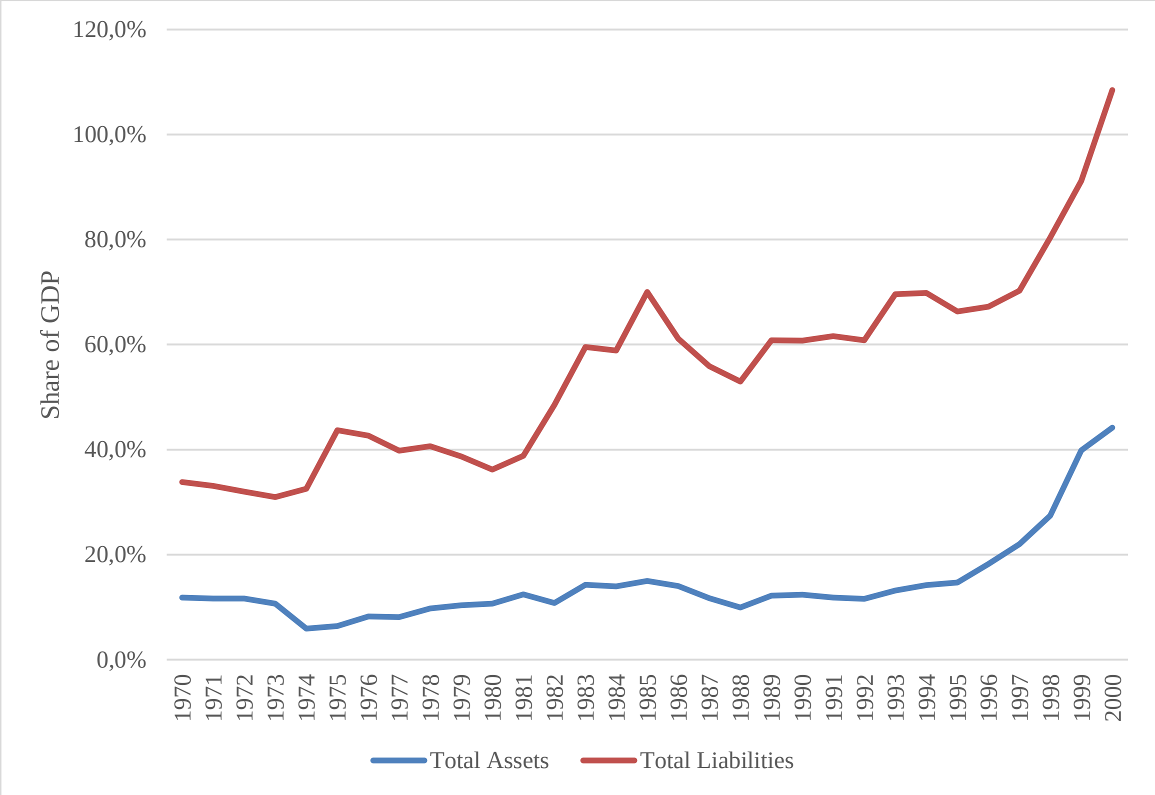
The trade openness ratio may vary considerably, depending on the nature and competition of exports, the size and scope of entrepôt trade and on the extent of cross-border capital flows. Iceland was an example of trade openness accompanied by volatile economic growth, while Malta had a higher degree of trade openness and lower growth volatility.

Trade openness makes a country susceptible to external economic conditions and shocks. A study by Briguglio and Vella has concluded that trade openness exasperates growth volatility.[20] They also observed that some countries did not exhibit high growth volatility despite high trade openness. Briguglio and Vella argued furthermore that good economic and political governance could mitigate growth volatility.[21] Exports of staples from resource-rich economies have shown volatilities in production levels, demand on world markets and export prices, as was experienced by Iceland during the twentieth century. Export income was more diversified in Malta, from manufacturing, tourism and financial services, and hence less volatile.

Cross-border capital flows were limited in the 1960s and 1970s, on the rise during the 1980s and escalated in the 1990s (figures 7.10 - 7.13). The trend of FDI liabilities exceeding assets began to evolve first in Iceland after the mid-1970s and proliferated after the mid-1980s. The net external position got worse and was by the year 2000 negative by a figure amounting to over 100% of GDP (figure 7.10). The trendlines of total assets and liabilities and the external position of Malta show a more careful approach. Total assets either exceeded or were at a similar level as total liabilities throughout the period. The external position of Malta was in balance in 1970-2000 and was in 2000 negative by 0.1% of GDP (figure 7.11).

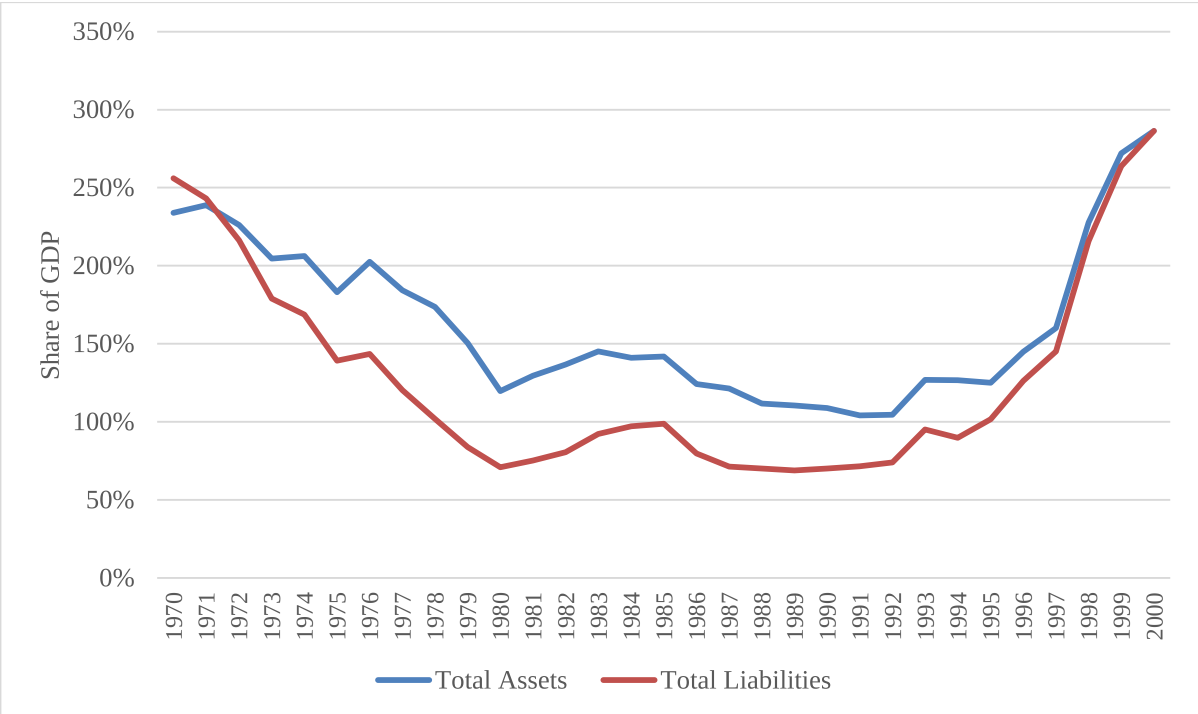
[20] Paper by Lino Briguglio and Melchior Vella, 2018.
[21] *Ibid*., p. 50.

Figure 7.10: **Iceland – Cross border Financial Assets and Liabilities. 1970-2000**



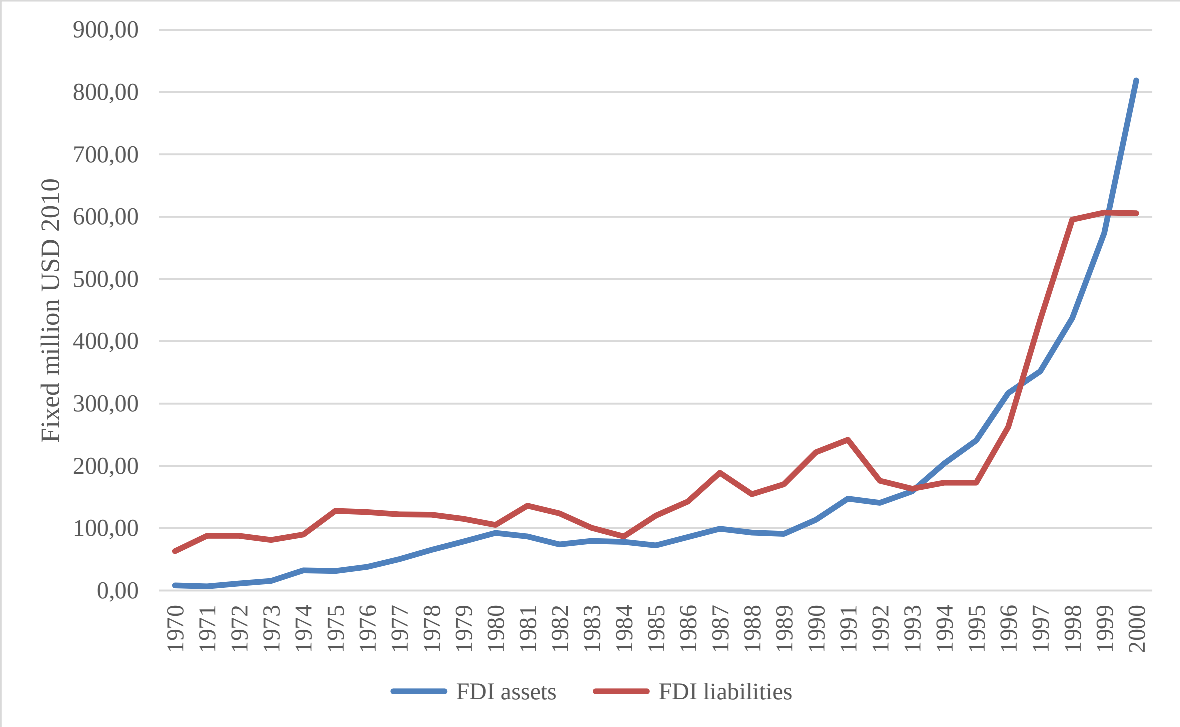
Data: IMF website: http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

Figure 7.11: **Malta – Cross-border Financial Assets and Liabilities 1970-2000**



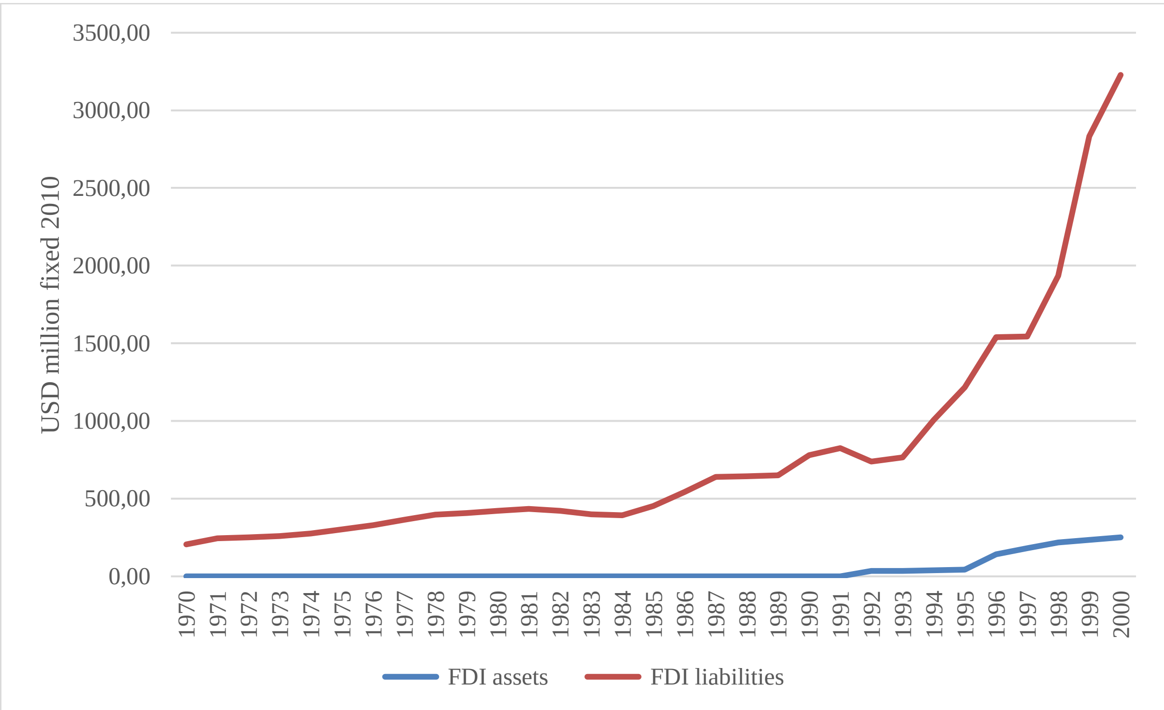
Data: IMF website: http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

Figure 7.12: **Iceland – FDI assets and Liabilities 1970-2000**



Data: IMF, available at the website: http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

Figure 7.13: **Malta FDI Assets and Liabilities 1970-2000**



Data: International Monetary Fund, http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

The FDI statistics for Iceland and Malta in figures 7.12 and 7.13 are presented on an asset and liability basis, as recommended by international guidelines.[22] The data shows the balance between Iceland's FDI assets and liabilities over the whole period, a low level in the 1970s, rising slowly in the 1980s but escalating to new heights in the 1990s. Malta saw a similar trendline for FDI liabilities but with the numbers in nominal USD about four times higher than in Iceland during the 1990s.[23] Malta did not record any FDI assets until the mid-1990s. Malta received huge FDIs in the 1990s, while the Maltese were less active in investing abroad, showing a gap between FDI assets and liabilities.[24] The figures show different trends of the two islands and quite different exposure to foreign capital markets.

Figures on inward foreign direct investment (FDI) from the World Bank are available for Iceland and Malta from 1970 (figures 7.14 and 7.15). They are the sums of equity capital, reinvestment of earnings and other capital. Foreign investments of both countries were low in the 1970s and 1980s. For Malta, they did not include contributions by foreign governments, e.g., from the UK in the 1970s. Many foreign manufacturing companies invested in machinery, equipment and human capital.

Figure 7.14 compares Iceland, Malta, Singapore, Ireland and Cyprus in terms of new investment inflows less disinvestment, divided by GDP. The data are from two periods, i.e., 1976-1990 and 1991-2000. Singapore led by a considerable margin, receiving foreign direct investments at 8.9% of GDP 1976-1990 and 11.5% of GDP 1991-2000. Malta and Ireland were strong recipients of FDI 1991-2000, with 7.1% of GDP in Malta and 7.4% of GDP in Ireland. Cyprus received FDI at 3.5% of GDP 1991-2000 but Iceland only 0.7%. This comparison shows how deprived Iceland compared with the other economies as regards FDI.

The Malta government invested in a few industrial estates, e.g., Bulebel, Ħal Far**,** Kordin and Mosta Technopark, and rented buildings to foreign and local manufacturing firms. Investments in the buildings and infrastructure on the industrial estates were, of course, not recorded as foreign investments. Statistics on FDI show a considerable growth of foreign investments in Malta in the 1990s. Malta grew as a financial services centre and attracted investments in financial assets to be managed by Maltese companies. Private foreign investments in residential and commercial property, including hotels, were also growing.

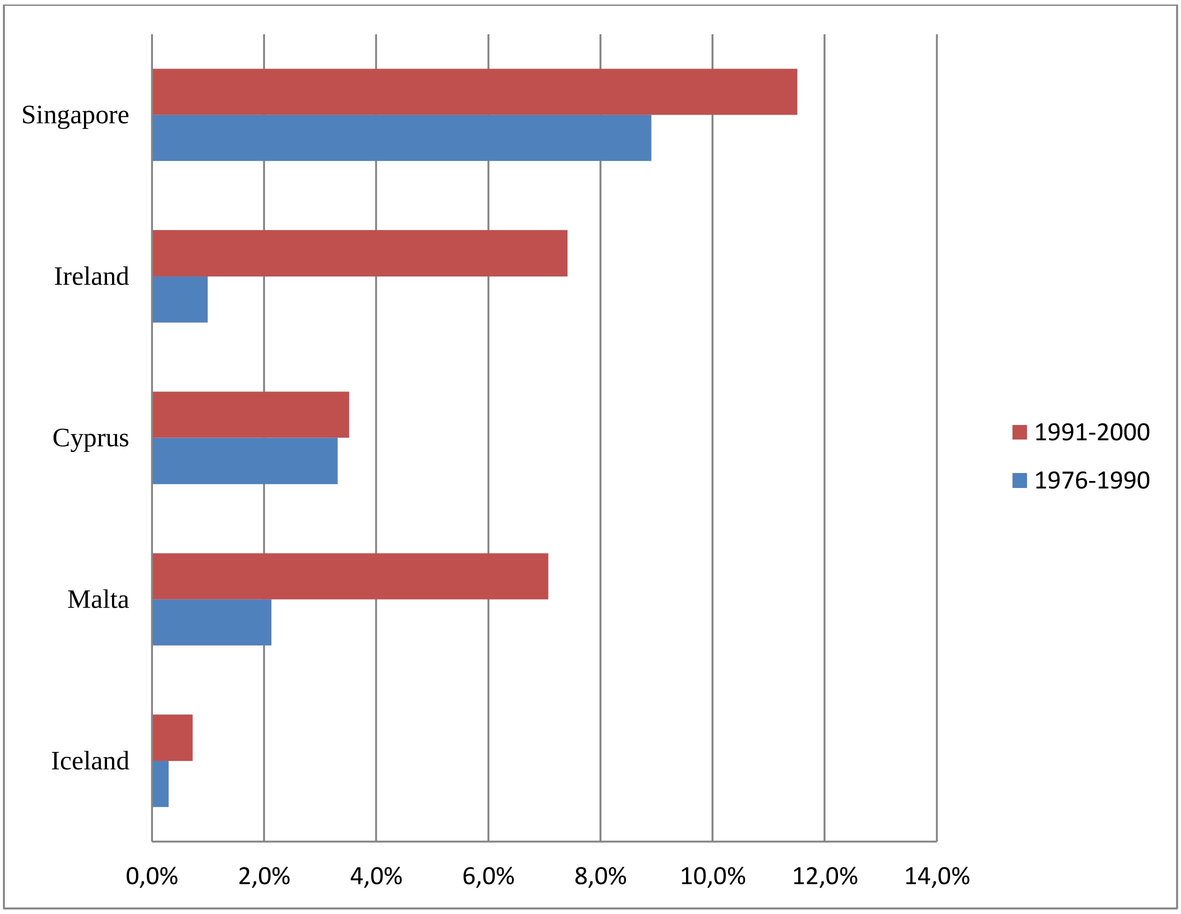
[22] Guidelines from both OECD and IMF. On an asset/liability basis, direct investment statistics are based on whether the investment relates to an asset or a liability for the country compiling the statistics. The country's assets include, e.g. equity investments by parent companies resident in that country through their foreign affiliates because those investments are claims they have on assets in foreign countries.

[23] Please note the difference between Figures 7.12 and 7.13 in the vertical scale.

[24] Total assets are the sum of FDI assets, debt assets, financial derivative assets and total reserves (minus gold). Total liabilities are the sum of FDI, debt, and financial derivative liabilities. Net external position = Total Assets – Total Liabilities.

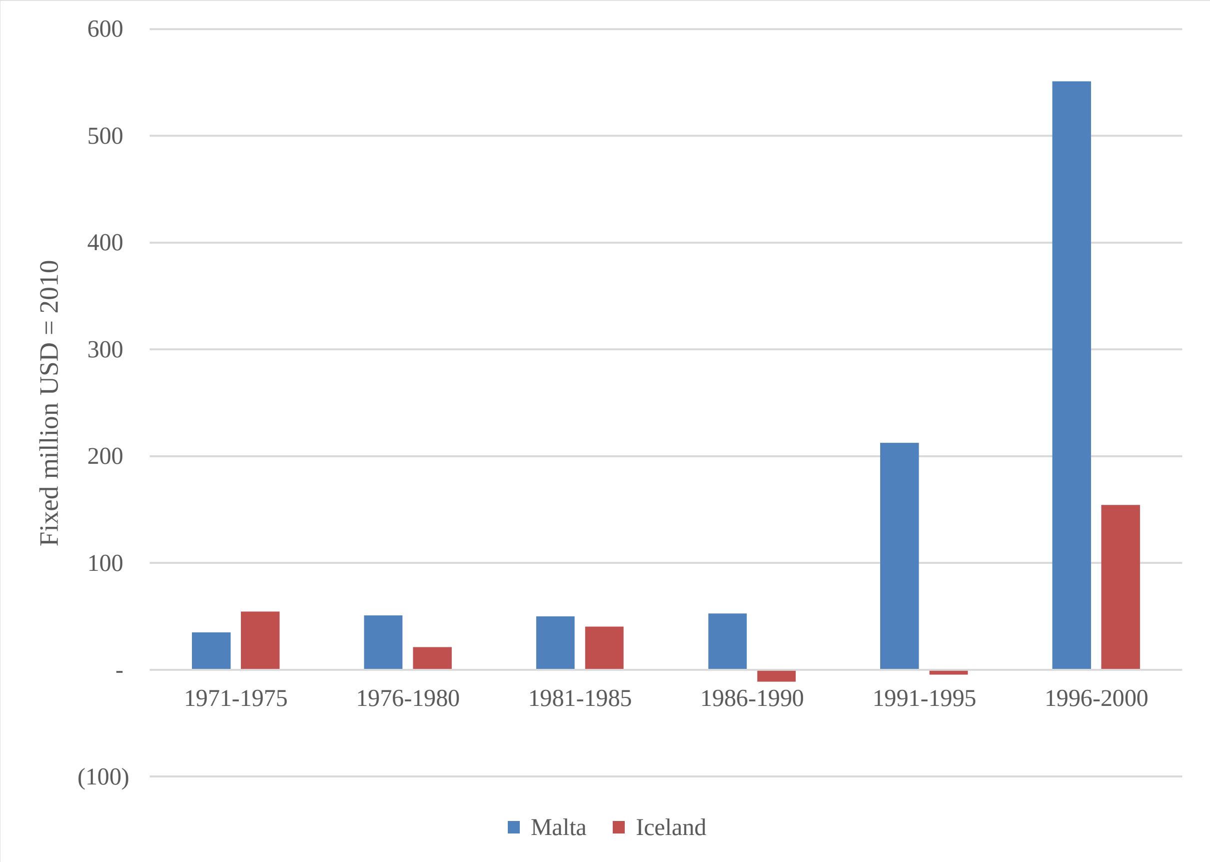
Figure 7.15 shows the net inflow of foreign direct investments. The outward foreign investments of Icelandic firms may explain the difference in net inflows between Iceland and Malta during the 1990s partly. While Malta attracted and encouraged actively foreign direct investments, Iceland borrowed heavily from international markets, with local banks and public investment funds acting as financing intermediaries to local borrowers. Iceland was largely closed to foreign investors, except for power-intensive industries, where investment projects were negotiated by the government or state-owned power companies.

Figure 7.14: **Foreign Direct Investments, Net Inflows (% of GDP)**



Source: World Bank https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS

Figure 7.15: **Foreign Direct Investments, Net Inflows 1971-2000**



Source: World Bank https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD
[Figures are in fixed USD=2010 and show a net inflow of foreign investments, i.e., the balance of payments]

7.5 Epilogue

Iceland evolved during the twentieth century as a staple exporter and a price-taker on global markets, with supply constraints and an exposure to foreign shocks and volatilities. The rise of power-intensive industries during the last quarter of the century and tourism after the turn of the century considerably diversified the export base. Malta experienced an influx of imported goods during the British period and limited exports, but developed after independence a broader export base of light manufactures at first, then tourism and lastly, financial services in the 1990s and 2000s. Malta's export growth engendered more diversified trade partners and less exposure to foreign shocks and volatilities than Iceland's export sectors, with positive macroeconomic effects. Meanwhile, especially during the 1970s and 1980s, Iceland focussed overly on their primary commodity exports of seafood products.

The comparison has uncovered certain dissimilarities in international trade and other cross-border activities between Iceland and Malta. Malta enjoyed higher economic growth rates than Iceland in the 1980s and 1990s. Exports and imports wavered between 30-40% of GDP in

Iceland during the 1970-2000 era, without any upward or downward long-run trend. Over the same period, exports in Malta grew from c 40% to c 120% of GDP and imports from c 70% to over 120% of GDP, reflecting flourishing trade and a growing import content of exports, i.e., entrepôt trade. Imports exceeded exports in Malta until c 1980, with the difference being funded largely by the British government.

Terms of trade (TOT) were favourable in Malta in the 1960s and 1970s due to the influence of British expenditures on the island. TOT were unfavourable in Iceland in the 1960s, owing chiefly to the high value of the ISK, but improved after two devaluations in 1967 and 1968. TOT were relatively balanced in both states during the 1980s and 1990s.

Malta saw significantly higher ratios of trade openness and financial openness than Iceland during the 1970-2000 era (figures 7.7 and 7.8). Cross-border capital flows were low in the 1960s and 1970s, rose in the 1980s and increased rapidly in the 1990s. They were assessed at two levels, i.e., as cross-border financial total assets and liabilities (figures 7.9 and 7.10) and as its partial measure, FDI assets and liabilities (figures 7.11 and 7.12). FDI assets and liabilities grew notably in Iceland during the 1990s and were closely associated, while FDI liabilities grew in Malta and not the FDI assets, reflecting significant foreign direct investments in Malta but a low level of Maltese investments abroad.

Cross-border capital flows are a sign of international financial integration. Icelanders filtered and restricted inward FDIs investments but were more significant speculators and risk-takers than the Maltese in investments abroad. They invested in capital-intensive fisheries and power projects at home, funded mainly with foreign loans. The Maltese refrained from risky ventures, both at home and abroad, and sought foreign investors for their capital-intensive projects. Their prudent approach reaped benefits in the 2000s and 2010s.

The expanding international trade and cross-border capital flows enhanced markedly growth and development in Iceland and Malta over the 1960-2000 era. Circumstances, economic structures, politics, export markets, foreign relations, and the political economy of foreign trade and cross-border activities were dissimilar. Both governments were conducive, but in quite different ways, in nurturing foreign trade and international relations, while Iceland took a more restrictive approach to cross-border capital flows. Old trading patterns began to break up during the 1990s due to the growing liberalisation of trade, globalisation, thriving tourism, expanding trade with Asia and the break-up of the Soviet Union and the transformation of Eastern Europe.

8 FOREIGN POLICIES

8.1 Introduction

In what way were the small open economies of Iceland and Malta engendered and shaped by their foreign relations, trade policies and global and European political and economic developments? How did the concentrated and prepondering seafood exports from resource-bountiful Iceland diverge from resource-scant Malta's more diversified export incomes, i.e., in terms of their political-economic implications? Why could Malta make swift political changes in foreign relations while political decisions by coalitions in Iceland were more onerous and slow-moving? To what extent did their respective locations in the Mediterranean and the North Atlantic, including geopolitics and security concerns, affect their foreign relations and trading networks and alliances? Why did their policies towards foreign direct investments diverge? The chapter will bring up for consideration the matters raised above, explicate the enthralling trade policies of Iceland and Malta during the second half of the twentieth century, the global economic and political context within which they evolved and their participation in the European economic cooperation process and international organisations.[1]

8.2 Foreign Relations - Participation in International Organisations

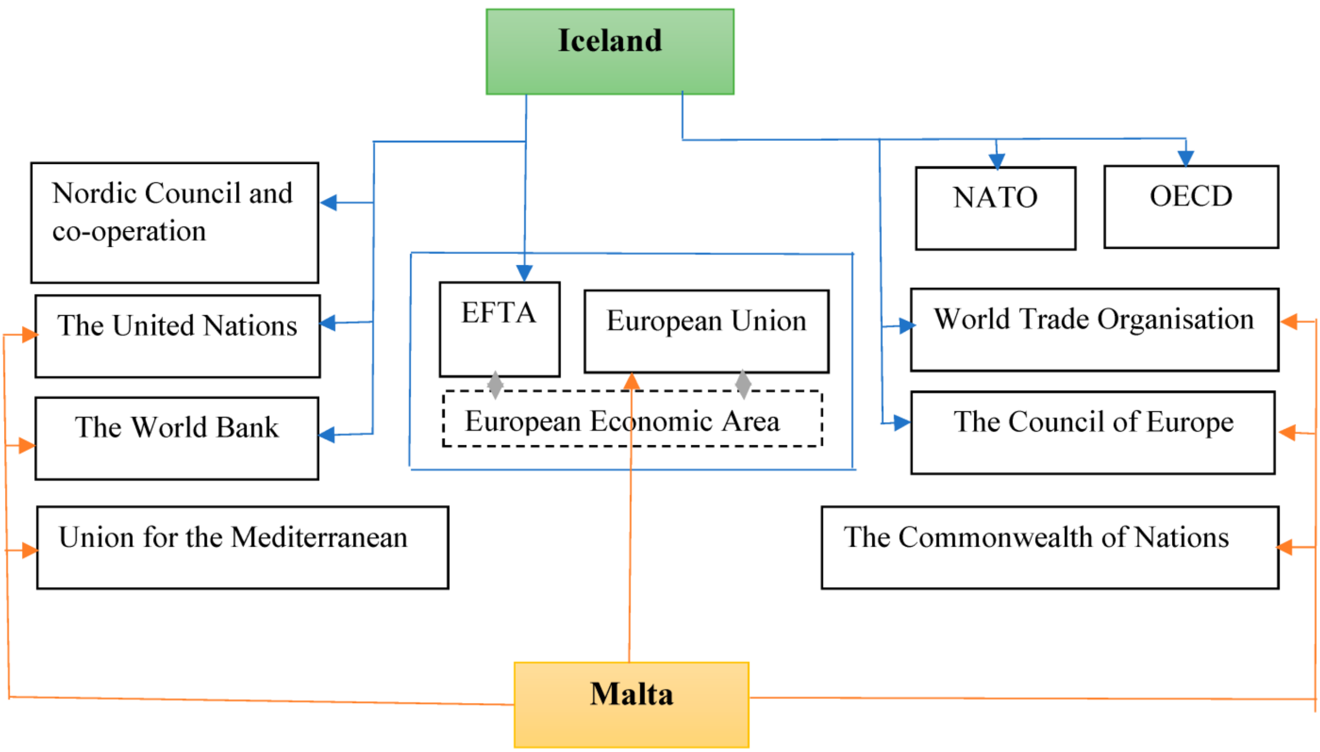
Several international organisations were founded and treaties signed in the mid-or late-1940s, which affected the post-war econodndmies of the world, e.g., the Bretton Woods Agreement, the World Bank Group, the International Monetary Fund, the United Nations and GATT[2]. Under the Bretton Woods Agreement signed in 1944, a new monetary and exchange rate management system was established where currencies were pegged to the price of gold and the US dollar was seen as a reserve currency.

[1] Baldur Thorhallsson (ed.), 2019, provides formidable insights into the foreign policy issues of small states in the international system. Godfrey Baldacchino and Anders Wivel (eds.), 2020, identify challenges and opportunities involved in the politics of small states. An enlightening Ph.D. thesis is by John Barry Bartmann, 1997. The thesis examines the international relations of micro-states relating to issues of status and legitimacy, the conduct of diplomacy and the efforts of micro-states to achieve strategies of self-reliant economic development during the post-war period until the mid-1990s. Other notable publications are by Godfrey Baldacchino and David Milne (eds.), 2000; Robert Keohane, 1969; Christos Kassimeris, 2009; Jeanne Hey (ed.), 2003.

[2] Now WTO. See the website https://www.wto.org/en/

The United Nations (UN) were founded in 1945 by 51 nations.[3] Iceland joined the UN in 1946 and Malta in 1964. Iceland joined the World Bank and the International Monetary Fund (IMF) in 1945, while Malta joined the IMF in 1968 and the World Bank in 1983. The General Agreement on Tariffs and Trade (GATT) took effect on 1 Jan 1948. It was an international trade treaty to boost the economic recovery of member states following the Second World War, i.e., by eliminating or reducing various tariffs, quotas and subsidies. In 1995 it became the World Trade Organisation with 123 member countries, including Iceland and Malta. Iceland signed the GATT in 1968, and Malta after independence in 1964.[4] The OEEC was founded in 1948 in preparation for the European Recovery Program of the Marshall Aid, with Iceland as a founding member and, in due course, a recipient of Marshall Aid. The Organisation for Economic Co-operation and Development (OECD) superseded the OEEC as a worldwide body in 1961.

Figure 8.1: **Membership of International Organisations**



[3] Information about the UN on the website https://www.un.org/en/

[4] Information about WTO and GATT is on the website https://www.wto.org/en/

Iceland's membership of the Nordic Council has reflected its location and cultural and historical ties with the Nordic countries. It is the political forum for cooperation between the Nordic states, including Greenland, the Faroe Islands and the Åland Islands and has since the 1990s developed a solid Nordic-Baltic cooperation. The Nordic states have founded several financial institutions which have served the Nordic countries. The Nordic Industrial Fund was established in 1973, the Nordic Investment Bank in 1975, the Nordic Development Fund in 1989 and the Nordic Environment Finance Corporation in 1990. These financial institutions have funded capital investment projects in Iceland over the years, Icelandic/Nordic projects in the Baltic states and Icelandic fisheries and geothermal power projects in developing countries.

The North Atlantic Treaty Organisation (NATO) was founded in 1949 as a military alliance of the US, Canada and European countries to safeguard the freedom and security of its member countries by political and military means.[5] Iceland was a founding member. A US military base was built in Iceland in 1951. The US armed forces stayed there until 2006 but with a reduced force in the 1990s and 2000s.[6] NATO membership and the military alliance with the US have directly and indirectly brought significant economic benefits to Iceland.[7]

Malta became a member of the British Commonwealth in 1964. Malta did not join NATO, but the UK, which retained a military base in Malta until 1979, was a member. The Mediterranean was the southern flank of NATO and of substantial political and strategic importance to the US and NATO, as well as to the Soviet Union and the WP countries. The US operated the Sixth Fleet in the Mediterranean from 1950, headquartered in Naples. During the Cold War, the fleet was continually engaged in different military or naval interventions and affairs in the Mediterranean Sea. NATO had sub-headquarters in Malta in the 1950s and 1960s but had to leave the island after the Labour Party took office in 1971. The Malta-UK Defence Agreement was revised, restricting the use of the base to Britain.

The Soviet Union and affiliated nations in Central and Eastern Europe signed the Warsaw Pact (WP) in 1955. The alignment of nearly every European nation into one of the two opposing camps of NATO and WP, under the leadership of the US and the Soviet Union, respectively, formalised the political division of Europe that emerged in the late 1940s and early 1950s.

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[5] See information on the website https://www.nato.int/. See also Timothy Andrews Sayle, *Enduring Alliance: A History of NATO and the Postwar Global Order*, Cornell University Press, 2019

[6] A detailed book about the US-Ireland relationship in 1945-1960 and the NATO base in Iceland is Valur Ingimundarson, 1996.

[7] Examples of the economic benefits include massive construction work on the base in the early 1950s, many jobs and service contracts on the base from the 1950s throughout the century, commercial aviation rights for Icelandair to fly between the US and Europe via Iceland, huge and lucrative market for frozen seafood in the US, imports of latest American technology and consumer good to Iceland and education of Icelandic students in the US.

8.3 Foreign Relations – European Economic Cooperation

The growing openness of European economies, rising globalisation and the political developments in Central and Eastern Europe after 1990 intensified the economic integration process in Europe. Iceland and Malta participated in this process and became enmeshed in European trade and economic cooperation. In the post-war years, Europe began establishing the institutions that would eventually lead to the European single market in 1993 and the single currency, the Euro, in 1999. The formal starting point was the European Coal and Steel Community in 1951, followed by the Treaties of Rome in 1957, which created the European Economic Community (EEC) in 1958, later the EC and finally the European Union (EU). In 1960, seven countries outside the EEC established the European Free Trade Association (EFTA). In 1967, tariffs were abolished on industrial goods traded between the EFTA countries, but with few exceptions. Five of the seven founding members left EFTA later to join the EU, i.e., Denmark, Sweden, the UK, Austria and Portugal, while Norway and Switzerland stayed put. Iceland joined EFTA in 1970, and Lichtenstein joined in 1991. Three of the EFTA countries – Iceland, Norway and Lichtenstein – signed in 1992 an agreement with the EU, defining the European Economic Area (EEA), with a free flow of labour, capital, goods and services within the EEA, coming into effect on the 1 Jan. 1994.[8] Malta signed an association agreement with the EC in 1970,[9] and ultimately joined the EU in 2004 and the Eurozone in 2008. Iceland joined Schengen in 2001 and Malta in 2007. In 2004, 10 states joined the EU, i.e., Cyprus, Malta and eight Central and Eastern European states. Croatia, Bulgaria and Romania joined later, making it a total of 28 states by 2013 and 27 states after the UK left EU in 2020.[10]

8.3.1 Malta

An Association Agreement between Malta and the EEC, was signed on 5 Dec. 1970 and came into force on 1 April 1971.[11] The agreement provided for two successive stages, each of five years duration. The objective of the first stage was to eliminate trade obstacles between the EEC and Malta progressively. In effect, many Maltese exports to the EEC were made subject to a reduced rate of import duties and later made totally exempt. Malta reduced customs duties levied on imports from the Community.

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[8] Publications available on the European integration process include https://europa.eu/ and https://www.efta.int/. The Official Journal of the EU is the principal source of information on EU affairs, https://eur-lex.europa.eu/content/help/oj/intro.html.

[9] E. A. Causon, 1971.

[10] Ph D thesis by Magnús Árni Magnússon, 2011, on the different routes Iceland and Malta took towards European integration in 1989-2009. MA dissertation by Guðbjörg Oddný Jónasdóttir, 2011, on lessons for Iceland from Malta's EU experience.

[11] EEC-Malta Association Agreement (signed on 5.12.1970; entered into force on 1.4.1971) (OJ L 61, 14.3.1971)

In 1976, the Labour government declared it did not wish to enter into a customs union with the EEC. The first stage of the agreement from 1970 was initially extended to June 1977 and later to Dec. 1980. After that, the Community unilaterally extended the Agreement to Dec. 1988 when a supplementary protocol was signed, extending the Association Agreement until the end of 1990. In March 1976, a financial protocol was signed between the EEC and Malta, providing for financial support, including a soft loan and a grant from the European Investment Bank. They were intended for financial and infrastructure projects, such as Telemalta. The EEC provided further assistance to Malta. The government also approached EEC member countries directly for financial and economic cooperation.[12]

The Malta government applied for EEC membership in 1990 and began to harmonise internal legislation and structures with those of the Community. It was agreed in 1993, after deliberations with the Commission, that various structural reforms were needed, first some priority reforms and then a structural reform program, before accession negotiations could get underway. The reform program, approved in March 1994, was comprehensive and included, e.g., monetary policies, the introduction of VAT, the dismantling of most of the tariff protection, competition law and environmental protection issues. In June 1995, a structured dialogue began between the EC and Malta.[13]

In the October election of 1996, the Labour Party got back to power, but it only lasted two years, following which the Nationalists returned to office in Sept. 1998. Labour opposed the EU membership and put Malta's application on hold during its brief stint in office[14] Upon re-gaining power the Nationalist government reactivated the application. Negotiations resumed and although membership was approved in a national referendum in March 2003, the Labour opposition did not accept the result as final. Five weeks later, the Nationalist Party won the general election on a platform of EU membership, following which the Labour Party conceded that the people had spoken and withdrew its opposition. This was an unusual election in which the single most crucial issue was Malta's candidacy for membership of the EC.[15]

[12] See Edgar Mizzi, 1995, 185-186. See also a dissertation by Carmelo Formosa, 1989, on trade policies in Malta 1970-1990 and by Julian Rausi, 2008, on trade policies in Malta 1991-2007.

[13] See: Roderick Pace, 1998, 2003 and 2006; Guido de Marco, Malta's Foreign Policy in the Nineties: Its Evolution and Progression, (Ministry of Foreign Affairs of Malta, 1996). Guido de Marco was the Minister for Foreign Affairs when Malta first applied for EC membership in 1990 and was elected as the President of Malta in 1999-2004.

[14] At that time, the Secretary General of EFTA, Mr. Kjartan Jóhannsson of Iceland, told the author in a private conversation that the Labour government approached EFTA for preliminary talks, exploring the possibility of Malta joining EFTA instead of EC.

[15] Guido de Marco, *ibid*.; Roderick Pace, 1998; Dominic Fenech, 2003.

Marking the 15-year anniversary of Malta's membership of the EU in 2019, the *Times of Malta* sought a response from prominent politicians about Malta’s experience. The reply by Labour prime minister Joseph Muscat stated:[16]

> Although Malta has been a member of the European Union for 15 years, what truly makes us Maltese 'European' are the common EU values we have embraced: human rights, democracy and peace. By joining the EU, Malta gained access to its internal market – a market of over 500 million people.
>
> We also benefit from trade deals with countries like Japan, which we would not be able to enjoy outside of the EU. And EU funding: Malta has one of the highest project selection rates in Europe. Projects that are benefitting the whole population, from improving our roads and infrastructure, to the restoration of our historic buildings.

8.3.2 Iceland

The European Free Trade Association (EFTA) was founded in 1960 for the promotion of free trade and economic integration of its member states.[17] The seven founding members were Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK. Meanwhile, the EEC and later EC (from 1993) and EU (from 2009) had in the 1960s six core members: Belgium, France, Germany, Holland, Italy and Luxembourg. Iceland, being an export-based economy, realised as the 1960s progressed that it was being left out of the two emerging trade blocks in Europe and had become at disadvantage as a fish exporter. The coalition government of the Independence Party and the Social Democrats, which took office in 1959, stayed in power until 1971.[18] It was known for its initiatives in partly liberalising trade in the early 1960s. Serious talks between Iceland and EFTA began in 1967, a formal application was approved in Nov. 1969, and an agreement was reached, which was approved by the Parliament in Dec. 1969. The opposition either abstained or voted against membership. In March 1970, Iceland became a member of EFTA. The Federation of Icelandic Industries opposed the agreement. They feared that if protective tariffs were abolished, manufacturers would be disadvantaged in competing with imported goods.[19]

The main political debate on EFTA membership in Iceland revolved principally around economic arguments and reciprocity in foreign trade policies, i.e., open export markets for fish

[16] Published in the Times of Malta on 29 April 2019.

[17] The history of EFTA is reviewed on the website: https://www.efta.int/About-EFTA/EFTA-through-years-747

[18] The coalition parties retained their majority votes in national elections in 1963 and 1967. Gylfi Þ. Gíslason 1993, a leader of the Social Democrats in 1968-1974, wrote a highly informative, but not impartial, book about the coalition government in power in 1959-1971, focusing on politics, economic - and foreign trade policies.

[19] Scholarly articles on Iceland joining and coming to terms with EFTA membership include Jón Sigurðsson, 1970; Þórhallur Ásgeirsson, 1972; Gylfi Þ. Gíslason, 1979 and Guðmundur Jónsson, 2010. A report by the EFTA Commission, appointed by the Minister of Trade (Mr. Gíslason) in 1968 [EFTA-nefndin, Skýrsla um Fríverzlunar-samtök Evrópu (EFTA), 1968] reviews the political and economic background and rationale for Iceland's application.

in return for liberalised import markets for manufactured goods. Other concerns raised in the parliament included relatively narrow nationalistic views and a negative attitude towards international cooperation. A few MPs feared that small Iceland might lose its uniqueness in such an intimate relationship with larger European nations. The distinctiveness and special status were used as an argument for the opt-outs and special solutions which Iceland brought to the negotiating table.[20]

The UK and Denmark left EFTA and joined the EEC in 1973.[21] The EEC had earlier invited the remaining EFTA countries to negotiate bilateral free trade agreements, which they all did. Iceland began negotiations with the EEC in November 1970 and a free trade agreement was reached in July 1972, effective from 1 April 1973.[22] In 1984, the Luxembourg Declaration on broader cooperation between EEC and EFTA was signed. EFTA did also sign free trade agreements with countries outside Europe.

In 1992, after lengthy negotiations, the agreement on the European Economic Area (EEA) was signed between the EC and EFTA.[23] Switzerland rejected participating in the EEA in a referendum. The EEA Agreement entered into force in 1994 between the EU and EFTA. Austria, Finland and Sweden left EFTA in 1995 to join the EU, and Liechtenstein became a full participant in the EEA Agreement together with Iceland and Norway. The EEA was, without a doubt, a massive step which had a huge influence on the Icelandic economy and society. It has entailed free movements of goods, services, labour and capital throughout Europe, but most importantly it did not include the EU common fisheries and agricultural policies.

During the 1990s, the political debate on European issues in Iceland centred around the interests of the fishing industry and Iceland's uniqueness as a resource-rich small island in the North Atlantic, which needed to protect its sovereignty and resources.[24] An EU membership

[20] See p. 332 in the English summary of the Ph.D. thesis by Eiríkur Bergmann Einarsson, 2012. Labour used similar arguments against Malta's membership of the EU, even more strongly because of fear of losing sovereignty.

[21] The UK and Denmark first applied in 1961, but France (Charles de Gaulle) vetoed British membership, and Denmark did not wish to join the EEC without the UK. Denmark applied again in 1967, and the EEC approved it in 1969. After de Gaulle had left the French presidency in 1969, the UK made a third and successful application for membership, formally approved in 1972.

[22] Þórhallur Ásgeirsson, *ibid*.

[23] There is extensive literature available on Iceland's participation in the European integration process, including an overview by Einar Benediktsson, 2000; Utanríkisráðuneytið, *Samningur um Evrópska efnahagssvæðið*, Reykjavík, 1992 [The EEA Agreement, published by the Ministry of Foreign Affairs]; Alþingi Evrópustefnunefnd, *Ísland og Evrópa I-VII rit*, Reykjavík, 1990 [Documents published by the European Committee of the Parliament, Iceland and Europe, during the EEA negotiations in 1990]. After a parliamentary request from 13 MPs in 2017-2018, the government appointed a task force to study the pros and cons of the EEA Agreement for Iceland. The task force delivered a report in Sept. 2019 https://www.stjornarradid.is/lisalib/getfile.aspx?itemid=013b2f1a-e447-11e9-944d-005056bc4d74. The report is detailed and informative, with a positive undertone of the benefits of the EEA Agreement for Iceland.

[24] Eiríkur Bergmann Einarsson, 2009, *ibid*.

application was submitted in 2009 after a new left-wing coalition government took office, in the context of the crushing financial crisis that hit Iceland particularly hard. The accession process began in 2010 but was shelved after a new coalition government took office in 2013.

8.4 Malta - Foreign Trade Policies

The focus of Malta's foreign policy shifted in 1964 from a mother-country relationship with Britain to a broader European, Mediterranean and even global focus by the year 2000. Maltese exports of goods and services grew steadily after independence, both in value and diversity. The export income became gradually more diversified regarding products, services, cross-border capital flows and trading countries. Imports exceeded exports until the mid-1990s when exports matched at first and then exceeded imports. Malta's strategic weakness was, and still is, being exposed to energy and food imports.

In international relations, the Maltese built strong ties with Britain as their previous ruler. Over the years, a flow of tourists has persisted in both directions. The Maltese have sought higher education and technical training in the UK, financial services, banking and foreign investment relations, culture, sports and entertainment. The international relations and foreign trade in Malta, during the epoch from independence in 1964 until the end of the twentieth century, can be divided into three sub-periods, dominated by either the Nationalist Party or Labour, inclined to pursue their own ideology-based foreign affairs and trade policies:

1. The Nationalist administration, 1962-1971, with Borg Oliver as prime minister. It began as self-government in 1962 and continued after Independence in 1964 for 7 years.
2. The Labour Party governments 1971-1987, with the charismatic Mintoff as prime minister 1971-1984, a leader well known for his impetuous and eventful foreign policies. Mifsud Bonnici took over as prime minister in 1984 and served until 1987.
3. The Nationalist period, 1987-2013, during which they ruled almost uninterruptedly, except 1996-1998, when labour had a short spell in power. Fenech Adami was their prime minister 1987-1996 and again 1998-2004, while Sant, the Labour leader, was a prime minister 1996-1998. Gonzi took over as prime minister in 2004 and served until 2013.

8.4.1 Nationalist governments 1962-1971

The years 1962-1964 were marked by negotiations and events leading up to independence in 1964 when an agreement was signed with Britain on mutual defence and assistance.[25] It was

[25] Great Britain and Malta. Agreement on Mutual Defence and Assistance: Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Malta: (with Related Exchanges of Letters), Malta, 21 Sept. 1964. London: HMSO, 1964. Print. Treaty Ser. No. 54 (1966).

accompanied by an exchange of letters constituting agreements on the civil dockyard and on the Flight Information Centre in Malta. The agreement was amended in 1966 by an exchange of letters. Malta's merchandise exports were limited to a few traditional food items, notably potatoes. Additional export income came via other sources. Some Maltese enjoyed an investment income from abroad, and the government received transfers from Britain. British continued military expenditure in Malta was economically important.

The Nationalist governments devised a system of protection under which tariff duties were levied mainly for state revenue. However, quantitative trade restrictions were applied for protection and balances of payments. The Ministry of Finance issued the tariff duties, but the import licences by the Ministry of Trade. A tariff system, introduced in 1964, provided for preferential treatment of goods imported from the Commonwealth countries. Import duties varied from no duty on medical supplies and educational materials up to duties exceeding 50% for cars, furniture and luxury items.

The Importation Control Regulation was introduced in 1969 as a protective device for the national currency. Originally, Malta had an open licensing scheme that applied to all commodities except for a small number of restricted items. Over the years, the regulation came to be used in an increasingly selective fashion as a protective measure. Following the devaluation of the British sterling in November 1967, the government put into effect retail price controls to curb the rising cost of living. As inflation subsided, the controls were removed. The Nationalists laid the foundation for powerful state control of the economy in the 1960s. It is maintained that they used it sparingly while labour applied it with more vigour in the 1970s.[26] Export income began in 1965 to grow more rapidly than in previous years through growth in export-oriented manufacturing, tourism and construction of apartments for British retirees.[27]

Soon after the EEC-Malta Association Agreement was enacted on 1 April 1971, Malta changed government. The Labour Party had previously shown little interest in the agreement, but it became Labour's charge to implement it.

8.4.2 The Labour period 1971-1987

Labour under Dom Mintoff beat the Nationalist Party narrowly in the 1971 election.[28] This election launched his 13-year stint as prime minister and began a period marked by challenges and controversies in Malta's foreign affairs and foreign trade policies. Mintoff was known for his non-alignment foreign policy and new directions in international relations, including links

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[26] Ronald Findlay and Stanislaw Wellisz, 1993, 269.

[27] *Ibid* p. 270.

[28] Mintoff had served before as a prime minister of Malta's self-government 1955-1958.

with the Arab world and the communist countries, making some of his western allies edgy and apprehensive, especially the US and NATO. Malta, this previously quiet island, was suddenly making headline news worldwide. Malta's foreign policy and activities during Mintoff's period in government were wide-ranging, sporadic and at times, seemingly impulsive. Edgar Mizzi, one of Mintoff's top civil servants, who accompanied him on many of his foreign trips, wrote a detailed narrative of Mintoff's activities during his time in office.[29]

At the time of Malta's independence in 1964, the CIA issued a secret report only made public in 2009. The report mentions complicated politics in Malta and the powerful influence of an unusually conservative Catholic episcopate:[30]

The Malta Labour Party (MLP) opposition, led by an erratic neutralist who is given to flirting with Moscow and Cairo, is not only determined to change the constitution but is more dynamic than the ruling Nationalist Party.

The new state contains NATO’s Mediterranean command headquarters, but NATO is undecided on what terms it will offer Malta for continued participation in the alliance. This, together with the prospects of an MLP government, raises the spectre of a Soviet toe-hold in the middle of NATO’s present defence perimeter.

After Mintoff came to power in 1971, he negotiated a new agreement with Britain on revised terms of retaining the British military presence. It was signed after lengthy negotiations in March 1972.[31] It led ultimately to the departure of the British Forces in 1979.

In April 1972, Mintoff formally visited China and was warmly received.[32] US President Nixon had visited China a few weeks earlier. China had just replaced Taiwan at the UN. The Western world still had its diplomatic relations with Taiwan, but Malta made a bold step and recognised the People's Republic of China, representing the whole of China, including Taiwan. Both Malta and China had, at that time, relatively cool relations with the Soviet Union.

The Americans closely scrutinised Mintoff's government through the CIA from the beginning, and there was no love lost between the US and the Malta governments during Mintoff's time as prime minister. It was not so much a hostility between the two states as American hegemony of the Western world, including a wish to preside over Mintoff's choice of allies. They

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[29] Edgar Mizzi, 1995.

[30] CIA Special Report, The outlook for independent Malta, 30. Oct. 1964. Available on the CIA website https://www.cia.gov/library/readingroom/docs/CIA-RDP79-00927A004600110002-0.pdf

[31] Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Malta with respect to the Use of Military Facilities in Malta, 26 March 1972.

[32] Mintoff’s visit to China and the relationships that followed as described by Edgar Mizzi, 1995, on pages 133-137. See also https://www.nytimes.com/1972/04/10/archives/mintoff-says-malta-and-china-are-near-a-trade-pact.html and https://timesofmalta.com/articles/view/Malta-s-relations-with-China.637700.

were suspicious about his relations with Libya and Gaddafi, as well as his connections with Palestine, the Soviet Block and China.[33]

Mintoff sought political and financial cooperation with the Arab world, especially Libya, employing skilful tactics. He supported Arab unity but not extremist Arab views against Israel.[34] However, he became a spokesman for the Palestinians at the international level, which was considered anti-western by the US and NATO. The main financial support from the Arab world to Malta came from Libya, as previously mentioned. He frequently toured the Middle East, the Gulf Arab States and the Maghreb countries to discuss matters directly with the sheikhs and the heads of state. He also established direct links with the Arab League. Mintoff's urge was driven by economic relations, such as cheap oil from Libya, which was imperative following the 1973 oil crisis, and soft loans from Saudi Arabia, China and a few other cordial states. Malta's chief challenge in the 1970s was economic growth and diversification in order to withstand the end of British defence spending by 1979. Gaddafi's readiness to compensate for the loss of revenue, should the British quit Malta suddenly in 1971-1972, greatly strengthened Mintoff's negotiating position with Britain in the eyes of NATO, given Gaddafi's radical anti-western policy. Mintoff was convinced that Britain and Europe would only help Malta if they feared that Malta would turn its back on them and possibly strike deals with their adversaries, be they radical Arab states or Eastern European ones. The CIA prepared in 1980 a memorandum on Malta-Libya relations:[35]

Given Qadhafi's (Gaddafi) reputation for instability, and the disproportionate national strengths of the two countries, it has been clear from the outset that the Malta-Libya relationship, though profitable for Malta, was also potentially dangerous. Mintoff's desire for large amounts of aid for Malta led him during the two years bracketing the British withdrawal from Malta on 31 March 1979 to play the Europeans off against the Libyans. However, his heavy-handed tactics so infuriated the Europeans, Mintoff was mainly left isolated from the West with little but his own personal resources to counterbalance possible Libyan pressure for a greater return on its investment.

CIA indicates in the same report that in November 1979, Libya had agreed to an aid package to Malta worth USD 50m over the next four years to promote industrial and tourist growth and subsidise Malta's oil purchase under an existing agreement of USD 35m. It also

[33] There were many CIA reports on Malta during the 1970s and 1980s which have been made public over the last few years, available at https://www.cia.gov/library/readingroom/search/site/Malta

[34] Article in *Malta Today* on 11 April 2013: https://www.maltatoday.com.mt/news/national/26000/kissinger-cables-part-3-20130411#.X9_TgNj7QuU

[35] CIA, 1980, 2.

hints at a Libyan demand for a military base in Malta as 'the price for the continued flow of oil', which Mintoff refused.[36]

In short, Malta's foreign relations changed radically during Mintoff's reign. Due to economic pragmatism, he turned away from Britain, which previously provided the economic backbone of the island. Malta is at the crossroads in the Mediterranean, lying between the rich oil-exporting Arab countries and the economically stagnant Europe of the 1970s, a change of direction was inevitable. Malta was economically backward and needed economic cooperation from rich countries, which also respected Malta's independence and neutrality.

The new Labour government took charge in 1971 of the newly effected EEC-Malta Association Agreement, as mentioned earlier. The agreement had to be partly negotiated after the UK, Denmark, and Ireland joined the EEC in 1973. The provisions of the agreement from 1973, as amended, were extended in 1976.[37] A second Financial Protocol was signed, which raised the EEC financial support to Malta and a third financial protocol came later.

Restrictions on import quantities and capital movements that originated in the 1960s under the Nationalist government were made considerably tighter by Labour. Under these restrictions, imports were divided into four categories: (a) imports that were normally freely licensed (this category included most raw materials and machinery), (b) imports under the bulk-buying scheme, (c) imports subject to specific product quotas, and (d) items temporarily suspended.[38]

Labour applied import restrictions on goods produced locally in sufficient quantities to satisfy the local market. They introduced, as an example, a total ban on imports of biscuits, chocolates, toothpaste, soap and colour television sets. Import quotas were adjusted to domestic production levels, giving local industries and agricultural production a monopoly. The quotas' size reflected whether the administration deemed the product essential.

Labour introduced the concept of countertrade in the imports of cars, i.e., linking exports to the importation of a profitable item. The countertrade acted as a subsidy on export trade carried out by the respective importers. The car dealers importing cars had to generate exports equal to twice the value of the cars. Tourism counted as an export.[39] In the late 1970s and the

[36] *Ibid.*

[37] Agreement extending the provisions governing the first stage of the Agreement establishing the association between the EEC and Malta (signed on 27.2.1976; entry into force on 1.4.1976) (OJ L 81, 27.3.1976).

[38] Ronald Findlay and Stanislaw Wellisz, 1993, 279-280. Richard Pomfret, 1982, examined trade preferences and foreign investments in Malta mainly in the 1960s and 1970s and Carmelo Formosa, 1989, reviewed trade policies in Malta 1970-1990.

[39] *Ibid*.

1980s, Malta was, just like Iceland, flooded with Ladas and Skodas because of barter agreements with USSR and Czechoslovakia.

Incidentally, Mintoff denied the USSR an embassy in Malta until bilateral trade was balanced,[40] an example of how economic imperatives trounced theoretical foreign policy preferences, despite all the rhetoric and suggestions that Mintoff's Malta was drifting towards the Communist bloc. In addition to the currency controls elaborated above, personal spending of Maltese people travelling abroad was restricted as a part of the balance of payment targets,

A bulk-buying scheme was introduced in 1979, aimed at reducing the cost of essential imported goods. At the time, prices of imported goods were rising rapidly, and the government intended to gain economies of scale through bulk buying. Under the scheme, the Ministry of Trade acted as a purchasing agent for the importers of butter, meat, livestock for slaughter, corn, wheat, barley, potatoes, soybean oil, rice, sugar, canned milk, canned meat and fish, cheese, coffee, tea, fruit, cement, steel, and timber. The purchases were handled by a board made up of licensed private importers under the auspices of the Ministry of Trade which kept records of available inventories and plans and executed the purchases on the basis of international tenders.[41]

8.4.3 The Liberalisation age from 1987

The foreign policies and geo-strategies of Malta were after 1987 influenced by three global political economic advances: 1) The drive towards a political and economic union of Europe, 2) the globalisation of the world economy, and 3) growing liberalism in politics, policies and trade.[42] The Nationalist government liberalised imports scrapped the bulk-buying scheme and eased price controls. Import licencing requirements were simplified and tariff rates reduced, although high tariffs remained on certain goods.[43]

In the 1992 election, the Nationalists had foreseen Malta joining the EU by 1995, which turned out to be optimistic. It was apparent in the general election in October 1996 that the application was progressing slowly and was low-key on the electoral agenda. As a part of structural reforms required, an unpopular VAT had been introduced by the Nationalist government in

[40] Carla Borg, 2011, p.41.

[41] For a review of foreign policies during the 1970s and 1980s, see Carmelo Formosa, 1989. See also a paper by Dominic Fenech, 1997b, on Malta's external security.

[42] Guido de Marco, Malta’s Foreign Policy in the Nineties: Its Evolution and Progression, Ministry of Foreign Affairs of Malta, 1996 and Julian Rausi, 2008, who studied trade policy in Malta during the period 1991-2007.

[43] Paul Caruana Galizia, 2017, 314-315 and Julian Rausi, 2008.

1995, replacing, to certain extent customs duties which were eliminated.[44] Accompanying the VAT were requirements of sealed cash registers that came with it, which many retailers and other service providers opposed; it forced them to declare their income. Many of these small business owners had traditionally voted for the Nationalists. The Labour Party promised to scrap VAT if they would win the election, which they did.

During its short-lived administration from late October 1996 until early September 1998, under Alfred Sant as Prime Minister, Labour introduced an alternative customs and excise tax that fundamentally did not change the nature of the VAT so much. It even led to the resignation of Lino Spiteri, the Minister of Finance, early in 1997. The government also decided to hold back Malta's EU application but did not withdraw it. When Mintoff, then a backbencher, attacked Sant's policies, which he did not consider in line with Labour principles, and voted against the government, it weakened the Labour cause further. Sant called a snap election in which Labour lost, and the Nationalists led by Fenech Adami returned to power.[45] The Nationalists said that they would, if back in power, restore Malta's application for EU membership, which they did.[46]

8.5 Iceland - Foreign Trade Policies

During the decades following the Second World War, Iceland's foreign trade policies were marked by controls of exports and imports through licences and permits, with custom and excise duties, levies and export taxes. Foreign trade was a major source of government income. The foreign exchange policy was conjoined to volatile export performance and foreign trade outlooks, as expected in a small open economy. The foreign trade consisted predominantly of fish exports and imported goods, while service exports and imports were insignificant but grew in importance later. The control of fish exports focussed, e.g., on quality control, balanced supply on foreign markets and prevention of price cuts. Import controls were politically more controversial as they involved foreign exchange rationing, import permits to selected importers, ban or high duties on luxuries, a ban on imports of meat, import-substitution policies, a ban on imports of key agricultural products (e.g., dairy and potatoes) and barter arrangements with the Soviet Union and Eastern Europe in the 1950s, which was also the case in Malta. Consumer

[44] The leader of the Nationalist Party and prime minister, Eddi Fenech Adami, explains the reason for the 1996 defeat in chapter 30 of his autobiography, *My Journey*, 259-65. The results of the election are also reviewed by Dominic Fenech 1997.

[45] Dominic Fenech, 1999.

[46] Roderick Pace, 1998.

choices were limited until the 1960s, and smuggling of alcohol, tobacco and certain consumer goods was lucrative.

Policy choices and manoeuvres in international relations in the post-war era, especially in political, economic or cultural relationships, were resolutely, but not exclusively, aimed at securing Iceland's interests in foreign markets for fish products. Imports were less concerned as they could be purchased from various countries for the cash income generated by fish exports. Reciprocal trade agreements were signed, and barters were carried out as needed. From the 1970s onwards, Icelandic exports became gradually more diverse; free trade became more extensive, new trading nations entered the scene (e.g., in Asia), service exports multiplied, trade flows became more complex and cross-border investments and production systems proliferated.

During the latter half of the twentieth century, the Icelandic government was generally on good political terms with other nations through trade, diplomatic and cultural relationships and participation in international organisations. The four main political developments in Iceland's international relations affecting foreign trade policies may be considered as follows:

- Membership of NATO from 1949 and a defence treaty, the Keflavík Agreement, signed in 1951 through NATO, where the US took responsibility for the defence of Iceland. Iceland positioned itself with the Western Allies during the Cold War.
- Four Cod Wars fought with the UK, 1952, 1958-1959, 1972-1973 and 1975-1976, over unilateral extensions of the fishing limits, resulting in interim embargos on the imports of Icelandic fish into the UK. Other European nations respected the extended fishing limits.
- Iceland joined EFTA in 1970 and signed a trade agreement with the EEC in 1972.
- Iceland signed the European Economic Area (EEA) Agreement, coming into force in 1994.

Apart from the Cod Wars, Iceland was not involved in any other significant international conflicts or skirmishes.[47] The foreign trade policies were linked to other national economic policies, especially in the 1960s and 1970s, but by the mid-1990s, the trade policies had become enmeshed into the EEA Agreement, which covered broader issues than just trade. Decidedly, foreign trade policies played a superseding role in national macroeconomic policies.

[47] Some short-lived conflicts over shared fish stocks and fishing rights elsewhere in the North Atlantic during the period of study, e.g., in the Barent Sea, Greenland Waters and on the Flemish Cap. Iceland has participated in the North East Atlantic Fisheries Commission and the North West Atlantic Fisheries Commission. Both regulate fisheries outside the Exclusive Economic Zones of each member nation in the region. Since the 1980s and 1990s, the EU Common Fisheries Policy has entailed international agreements of co-management of fish stocks outside the EEZs.

Cold-War issues caused divisions in Icelandic politics and society from the 1950s until the 1980s. The socialists' stance was anti-NATO and anti-US. They protested regularly and held political rallies against Iceland's membership of NATO and the US base at Keflavik. The stance of the Independence Party was pro-NATO and pro-US, while the Progressive Party and the Social Democrats were more neutral as their members were divided on the issue. The Socialists were against NATO membership.

Iceland's membership of EFTA in 1970 changed Iceland's foreign trade policy and significantly impacted the economy. The fish exports gained better access to European markets in return for lower tariffs on European imports to Iceland. The import-substitution policy was effectively abolished over the next few years. Icelandic farm products continued to be protected from import competition.[48] In 1972, Trade Agreements were signed with EEC and the Soviet Union.[49]

Restrictions on the imports of agricultural products were based on the need to secure food supplies, to protect the country from animal diseases and were also an attempt along with subsidies to guarantee the income of sheep and dairy farmers. Despite subsidies, the prices of agricultural products were high, and this brought about opposition from the Social Democrats, who demanded lower prices for the public and a level of free trade. Overproduction was enduring and disposed of through subsidised exports. Fundamentally, the problem was the harsh climate and numerous small and uneconomical farms in a land marginal for farming. A law from 1922 prohibited foreign ownership in the Icelandic fishing industry. This issue has seldom been debated in parliament, and no political party has taken a stance against it. The general view has been to protect valuable fish resources from foreign exploitation.

The parliament debated a few investment agreements with multinational companies to build, own and operate five large manufacturing plants. These were all power-intensive industries, with each project having the duality of a power project and a production plant, where the local power company was state-owned. When this journey began in the mid-1960s, the main issue of the opposition was foreign capital and multinational corporations. In the 1990s, the opposition to such projects focussed more on environmental issues. All such projects were fiercely debated by the opposition in parliament and, lately environmental groups as well.

[48] Jón Sigurðsson, 1970, 19-25.

[49] Utanríkisráðuneytið, *Opinber tengsl Íslands við Sovétríkin/Rússland 1943-2008*, Reykjavík, Sögufélagið, 2013. [The Iceland History Society published a 464-page book on behalf of the Ministry of Foreign Affairs on the 70th anniversary of diplomatic relationships between Iceland and the Soviet Union/Russia. The book contains all public documents between 1943 and 2008 relating to security, defence and foreign trade issues between Iceland and the Soviet Union/Russia].

Given the country's rich fishing grounds, Iceland opted not to follow the other EFTA countries when they joined the EEC, neither in the early 1970s nor in the early 1990s. A similar, but more elaborate reasoning related to their fisheries and farming, prevailed in Norway, especially in the North. Norwegians have twice rejected to join EC or EU in a national referendum, i.e., in 1972 and 1994. Iceland has benefitted from the EEA agreement, and it has probably served the country well.[50]

Another aspect of public policies affecting foreign trade was the volatile and feeble Icelandic króna (ISK), high inflation and frequent devaluations. Trade in foreign currencies was, for long periods, restricted and rationed for Icelanders travelling abroad. Until Iceland joined EFTA in 1970, certain imports were prohibited, and others had high import tariffs. Macroeconomic policies were often swayed to support the needs of the fisheries, as is elaborated in Chapter 9. The same applied to foreign relations and trade policies; they evolved around the export interests of seafood and other fish products.

In March 1991, parliament passed a new Act on foreign inward investments. As the previous legislation had done, it prohibited foreign investors in the fisheries in Icelandic waters and in fish plants. Foreign investments were allowed in manufacturing plants, except in the production of canned seafood. Foreign investors were not allowed to own any power production rights, i.e., hydro and geothermal, nor to own companies in power production or distribution. There were, in addition, restrictions on both the amounts and percentages of foreign ownership in general in Icelandic companies.[51] On the other hand, there were hardly any limits on Icelanders investing abroad, except foreign exchange restrictions.

As previously explained, the European Economic Area (EEA) was a significant step for Iceland.[52] In the main, the agreement provided for a free flow of capital, labour, goods and services between countries within the EEA; however, with certain restrictions, e.g., on trade in agricultural products. In addition, Iceland and the EC made a special agreement on reciprocal fishing rights. Special provisions for Iceland included import restrictions on industrial goods made of agricultural inputs. Icelanders could ban imports of raw meat, eggs etc., based on health protection regulations. Moderate import duties on industrial products which were not in competition with domestic production were allowed. Free flow of capital between countries was to be secured, and rules for financial services companies were harmonised. All residents would

[50] *Skýrsla starfshóps um EES samstarfið*, 2019 [A report by a government Commission on the EEA cooperation]. See also Jón Sigurðsson, 1970; Einar Benediktsson, 1968; and Jón Sigurðsson, 1977. The number of members has grown considerably since 1 Jan. 1994. Sweden, Finland and Austria left EFTA and joined the EU; 10 new countries joined the EU in 2004, and 3 later, while the UK left the EU in 2020.

[51] Lög um fjárfestingu erlendra aðila í atvinnurekstri no. 34 1991. https://www.althingi.is/lagas/nuna/1991034.html

[52] Lög um Evrópska efnahagssvæðið no. 2, 13th January 1993. https://www.althingi.is/lagas/nuna/1993002.html

be permitted to seek employment anywhere within the EEA area or be self-employed, except public servants. The agreement contained provisions on how it would be implemented and administered. The agreement had stipulations on various types of cooperation, e.g., in social policy, consumer protection, environmental policy, economic data and various framework agreements and research projects in technology, education, training, youth etc. One of the objectives was abolishing foreign exchange controls to facilitate cross-border financial transactions.[53]

The 1990s saw a major transformation in the organisation and control of fish exports.[54] The sales and marketing of fish products on foreign markets had, since the 1930s and 1940s, been channelled through export unions,[55] which, backed by government licensing policies, controlled export sales and marketing.[56] In the main, one union exported salt cod; two unions exported frozen fish products and one union herring products. The export unions were owned and controlled by their members, the co-operatives and the government. The initial justification for their establishment in the 1930s and 1940s was to control the quality of Icelandic fish exports, regulate their supply on export markets and prevent exporters from underbidding each other in export prices. By the late 1980s, times had changed – more efficient supply chains and modes of transport, increased product range, greater demand for fresh fish, etc. Vessel owners were increasingly bypassing the fish plants as they could sell the fish directly on local fish markets where the plants had to compete with exporters. The overall control of the export unions waned in the 1990s as fish exports were liberalised and became a highly competitive business. A shift in the manner of production and shipments of fish products was experienced in the 1990s and 2000s as fish was increasingly exported fresh using air cargo or sea-going containers instead of being transported in bulks as frozen or salted.

[53] https://fullveldi.data.is/ [See an entry on the 13 Jan. 1993. Samningurinn um EES staðfestur á Alþingi] The agreement was amended later in the year as Switzerland declined to be a member of the European Economic Area.

[54] The export strategies and marketing management of fish products in the 1980s, dominated by the export unions, are elegantly examined in a Ph D thesis by Arnar Bjarnason, published in 1996. Another study by Eyjólfur Brynjar Eyjólfsson, 2013, explains the more free market, competitive fish exports after the turn of the century.

[55] The first export unions emerged during the Great Depression of the 1930s, one controlled by salt cod producers (SÍF) and another for herring, controlled by the state (Síldarútvegsnefnd). Similar co-operative or collective export arrangements evolved for frozen fish products after the Second World War, protected by government licencing policies, one serving the co-operatives (SÍS) and another serving other producers (SH), privately owned and government-held freezing plants.

[56] Act no. 4/1988 on export licences authorised the Minister for Foreign Affairs to restrict and control exports of goods by issuing export licences, to be specified in a regulation. https://www.althingi.is/lagas/138a/1988004.html See, e.g. regulation on export licences no. 70/1993 and no. 502/1996. The Act was abolished in 2010.

8.6 Summary and Comparison

Economic growth and development in Iceland and Malta relied on gainful export markets, growing foreign currency income and a benign global economy. Political priorities were often subject to economic and trade preferences, notwithstanding rhetoric and appearances. Both governments used their foreign political relations to negotiate trade and Malta to attract foreign investments. Their foreign trade policies differed in their sectoral and geographical focus, strategic choices and scope revolved around trade agreements and membership of economic unions, tariffs, export and import controls and embargos, the exchange rate of the local currency affecting the competitiveness of either imports or exports and import-substitution policy. Both states exercised various import restrictions and control until the 1980s.

Mintoff's foreign relations were quite action-packed while he governed in the 1970s and early 1980s, stretching Malta's political alliances to Libya, the rest of the Arab World, China and Eastern Europe. As a leader of a one-party majority government, he was able to sway Malta's foreign relations almost at his will. The foreign relations of both Iceland and Malta gravitated in the late 1980s and over the 1990s towards a focus on growing European economic cooperation, structural changes and more liberal trade policies, with Iceland joining the EEA in 1994 and Malta the EU in 2004. Malta again was able to change a course swiftly in their foreign policies in 1987 when the Nationalists got back to power; they wanted to pursue membership of the EU for Malta, which Labour did not.

Several countries with abundant natural resources have tended to endure less economic growth than countries with limited natural resources, which was indeed the case when post-independence Iceland and Malta are compared. It is argued that Malta's successful political responses to the lack of natural resources were non-aligned economic policies, entailing fiscal and monetary stability, as well as incentives attracting foreign investments in the pursuit of industrial growth, expanding export incomes and diversification. The Icelandic economy became overly dependent on volatile seafood exports. Foreign relations and trade policies evolved around the vested interests of seafood exports at the expense of general macroeconomic policies, which affected growth and stability adversely and magnified inflation. The Icelandic government did, furthermore, devaluate the ISK regularly to protect the interests of seafood exports (see Chapter 9), as previously explained. The Malta government took a more prudent approach, curbed inflation and maintained more or less the value of the Maltese Lira.

9 MACROECONOMIC POLICIES

9.1 Concepts and Issues

How did the fiscal, monetary and foreign exchange policies of the two island states contrast and compare? The chapter will explore lead policy formulations, identify prime policy instruments and elaborate on their implementation and how they changed over time. Due to differences in available data for Iceland and Malta, there is some asymmetry in tables and figures in the chapter, which will neither affect underlying reasoning nor principal conclusions.

The objectives, approaches and instruments of macroeconomic policies have evolved to generate and maintain stable economic conditions.[1] Macroeconomic policy choices are intricate political-economic conundrums. They evolve around contentious and emotive issues within the constraints of the national economy. Post-war macroeconomic policies adopted by Western nations were significantly influenced by Keynes, with fiscal emphasis.[2] The 1950s and 1960s saw sustained economic growth, low unemployment rates and reduced economic disparities in the Western world - a significant turn-around from the pre-war years. During this era, economic policy was dedicated to the public good, conceptually simple and reasonably easy to implement.[3] Mainstream macroeconomic debates shifted in the early 1980s to Friedman-style monetarism, especially in the US and the UK, from where it spread to other countries. Growing monetarism accompanied a rising faith in the deregulation of markets, and liberalisation rose to prominence in the economic sphere.

9.2 Fiscal Policies

The domain of fiscal policies is public finance, including all its essential constituents – sources of revenue, expenditures, transfers, investments, budgets, accounts, loan portfolios, assets and liabilities. It is a sister strategy to monetary policy, discussed in section 9.3. Fiscal policies focus on how governments adjust spending levels and tax rates to plan and shape national economies.[4]

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[1] Short-term macroeconomic policies may have long-term implications, called the hysteresis effect, i.e., referring to an economic policy decision that persists into the future, even after the factors that led to it have dematerialised.

[2] The most influential writing of John Maynard Keynes (1883-1946) was *The General Theory of Employment, Interest and Money*, first published in 1936. His key recommendations were effective after the Second World War and until the early 1970s.

[3] Agnès Bénassy-Quéré et. al., 2019, 103.

[4] Gísli Blöndal, 1965; 1986; International Monetary Fund, 1986; Björn R. Guðmundsson, and Gylfi Zoëga, 2000.

Joint objectives for fiscal and monetary policies are full employment, sustained economic growth and stable prices and wages.[5] Fiscal policies affect aggregate demand through government spending, taxation and transfer payments. Their direct and indirect effects can affect personal spending, capital expenditure, exchange rates, deficit levels and interest rates.

9.2.1 Iceland

The fiscal policies of the 1960-2000 epoch coped with accentuating public expenditures and taxes in a growing economy, excessive inflation in the 1970s and 1980s, massive devaluations of the ISK, volatile export income, swelling public debt, sizeable transfers and redistribution payments and various cost-sharing schemes between the state and the local authorities. The relatively uncomplicated fiscal policies of the 1960s had, by the 1990s, evolved into a more expensive policy formulation, instruments and content. A few Icelandic economists published their research on fiscal policies during the latter half of the twentieth century. Foremost was the research by Blöndal during the 1960s and 1970s.[6]

Government financial activities, in different forms (investments, subsidies, loan guarantees, grants and share capital), extended far beyond the conventional government budget into state-owned enterprises, parastatal companies, power companies, public transport, airlines, utilities, ports and airports. The definition of government income and expenditure was equivocal around 1960 but became more precise as the century drew close, e.g., due to the international collaboration of statistical authorities.

Fiscal data is presented below, with reservations about accuracy and comparability. The main trends are intelligible and can be interpreted with a significant level of confidence. GDP per capita in Iceland, measured in real ISK, grew by c 3.0% per year on average in 1961-1998,[7] At the same time, the share of government expenditure as % of GDP grew from 25.3% to 37.7%. It can thus be estimated that government expenditure, measured in real ISK per capita, grew c 6 times from 1961 until 1998. Most noticeable was the massive increase in government spending on health care and education, from c 18% of the total expenditure in 1961 to c 33% in 1998. Public costs of welfare, social housing and culture, and public administration increased. Data on government expenditures in industries and infrastructure in table 9.1 do not accurately represent government fiscal activities in these sectors. They were part of more comprehensive

[5] Gordon Cordina, 1992; Avinash Dixit and Luisa Lambertini. 2003; Torsten Persson and Guido Tabellini, 2000.

[6] Gísli Blöndal, 1965; 1969; 1977; 1983 and 1986. See also Björn R. Guðmundsson and Gylfi Zoëga, 2000.

[7] Definitions changed in the data in 1999, which made it less comparable thereafter. 1960 was the last year of heavy producer subsidies in Iceland, hence not comparable to the new fiscal structure beginning in 1961.

sectoral redistribution schemes. Producer or export levies were imposed on producers to finance redistribution funds, subsidies, loans and grants.

Manufacturing and the fishing industry were largely self-sufficient financially, while agriculture was a net recipient of government funds. Only part of incentives and subsidies came directly from the government budget as they were also funded by levies from the respective sector. Companies owned by the state or local authorities provided electricity, water and geothermal heat. Harbour funds invested in and operated port facilities, as established by law. They received grants from both the state and local authorities. Iceland saw significant investments in infrastructure initiated, planned and funded (or underwritten) by the state, local authorities and other publicly-held companies. Table 9.1 indicates that public debt was low in the 1960s and 1970s but rose sharply over the 1980s and 1990s. Government interest payments rose from 0.6% of GDP in 1970 to 3.7% in 1990.

Table 9-1: State[1] Expenditure in Iceland 1961-1998, by Sectors, % of GDP

	1961	1970	1980	1990	1998
Public administration	2,4%	2,9%	2,8%	3,2%	3,3%
Education	2,8%	4,3%	4,4%	4,8%	5,7%
Health	2,0%	3,2%	5,5%	6,8%	6,9%
Social, housing, culture	8,0%	9,0%	8,3%	10,6%	11,1%
Industry, fisheries, agric.	5,3%	4,3%	4,9%	4,9%	2,8%
Infrastructure	3,5%	4,7%	4,5%	3,6%	2,9%
Other	1,1%	1,0%	1,4%	1,9%	1,5%
Interests	0,2%	0,6%	1,6%	3,7%	3,6%
Government total	25,3%	29,9%	33,5%	39,3%	37,7%

[1]Includes local authorities
Source: Statistics Iceland
https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__fjaropinber__fjarmal_opinber__fjarmal_opinber/THJ05992.px/table/tableViewLayout1/?rxid=d4da916d-b297-45ac-832a-fc3e726ccce0

Table 9.2 shows a different perspective of state expenditure than table 9.1. Public consumption and income transfers in table 9.2 are roughly equivalent to the cost of public administration, health, education and social, housing and culture in table 9.1. The income transfers are mainly related to social security, which partly covered health care as well. Producer subsidies and capital accumulation in table 9.2 reveal the cost of government but do not fully match producer subsidies and infrastructure in table 9.1. Capital transfers in table 9.2 reveal capital costs by the state but transferred to other state agencies, state-owned investment funds, state-held companies and local authorities. Table 9.3 shows how state income as a proportion of GDP rose from 26.9% in 1961 to 37.3% in 1998, mainly through direct taxes, manifesting an expanding role of government.

Table 9-2: State[1] Expenditure in Iceland 1961-1998, Economic Classification, % of GDP

	1961	1970	1980	1990	1998
Public consumption	10,1%	12,7%	16,7%	18,5%	20,4%
Depreciation (-)	-0,8%	-1,0%	-0,6%	-0,8%	-0,9%
Interest paid	0,2%	0,6%	1,6%	3,7%	3,6%
Producer subsidies	4,8%	3,3%	3,6%	3,5%	1,7%
Income transfers	5,3%	5,5%	5,1%	6,9%	6,8%
Capital accumulation	2,8%	4,6%	3,6%	4,1%	3,7%
Capital transfers	2,1%	3,1%	2,9%	2,6%	1,4%
Total expenditures	24,5%	28,9%	32,9%	38,5%	36,8%

[1] Includes local authorities
Source: Statistics Iceland
https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__fjaropinber__fjarmal_opinber__fjarmal_opinber/THJ05992.px/table/tableViewLayout1/?rxid=d4da916d-b297-45ac-832a-fc3e726ccce0

Blöndal[8] discussed the fiscal policy objectives of providing public goods and services, reducing income disparities and enhancing economic growth. The objectives were interrelated as implementing one policy had knock-on effects on other objectives. Blöndal argued that the government's emphasis on economic growth strategies in the 1970s destabilised prices and foreign trade. He mentioned a few unique challenges for fiscal policy in Iceland in the 1970s. Firstly, general price and wage indexation in the economy, i.e., of salaries, rent, contracts and social security benefits, to protect people and firms against the effects of chronic inflation. Secondly, subsidies for domestic agricultural products affected consumer prices and safeguarded low-income families. They had destabilising effects through increased demand for domestic agricultural goods, by the tendency of the government to bias the subsidies towards low-income families and predetermined goods. Skewing the price system would, in the long run, be detrimental to economic growth. Thirdly, cost obligations based on statutory law and government contracts were limited very much by any change of fiscal policy or manoeuvring by

[8] Gísli Blöndal, 1977, *ibid*.

the government. Blöndal claimed that 69.1% of the expenditures in the 1976 budget[9] were statutorily confined, e.g., through acts on health care, education, welfare benefits and infrastructure. Fourthly, a tax strategy targeted a balanced budget on the income side. Indirect taxes were indexed and formed part of the basket of the consumer price index, fuelling inflation and causing further costs for the treasury – a vicious circle limiting additional fiscal policy options. Investments in state-owned enterprises and later their privatisation, affecting the fiscal policy and position, are encapsulated in chapters 10 and 11.

Table 9-3: State Income in Iceland 1961-1998 as % of GDP

	1961	1970	1980	1990	1998
Direct taxes	8,1%	8,9%	9,0%	11,6%	16,8%
Indirect taxes	17,9%	20,0%	23,0%	21,3%	18,3%
Interest income	0,5%	0,6%	1,9%	1,5%	1,3%
Other income	0,4%	0,6%	0,3%	0,9%	0,9%
Total income	26,9%	30,1%	34,2%	35,3%	37,3%
Surplus/deficit	2,5%	1,2%	1,4%	-3,3%	0,5%

Source: Statistics Iceland
https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__fjaropinber__fjarmal_opinber__fjarmal_opinber/THJ05992.px/table/tableViewLayout1/?rxid=d4da916d-b297-45ac-832a-fc3e726ccce0

A study of fiscal policy 1960-1998, argued that the government's approval of discretionary budgetary costs had generally magnified economic fluctuations, while extra tax levies in the budget had the opposite effects, i.e., of stabilising the economy.[10] The economy had experienced a budget surplus at full-employment level but a deficit at times of stagnation or recession. Such discretionary policies had counteracted the mild automatic stabilisers – taxes and transfers – and partly neutralised the impact of the fiscal policy. Iceland's financial market was still embryonic, and real interest rates were negative until 1985. Monetary policies were employed to maintain full-employment levels until the 1980s.[11] Changes in the exchange rate of the ISK reduced real

[9] Gisli Blöndal, 1977, 154.

[10] Björn R. Gudmundsson and Gylfi Zoëga, 2000.

[11] The National Economic Institute (NEI) calculated the operating results in the industry. If the industry was loss-making, the ISK was devaluated to cancel out the loss and vice versa, i.e., the industry's profits were counter-balanced with the ISK's appreciation.

wages when unemployment rose and prevented further reduction of production and employment.[12]

Statistics on public debt in Iceland from 1960 to 2000 are difficult to analyse due to various publicly-held entities, fully- or semi-independent from the state or local authorities. Data consist of state debt, the debts of many local authorities, both local and foreign debt. Entities carrying their own debt included companies owned fully or partly by the state or local authorities, including various utilities responsible for power, telecom, ports, water and sewer. Time series data on state debt is available 1967-1990.[13] From 1990, Statistics Iceland provided data on total and net public debt as a proportion of GDP, which is probably the most realistic data available on public debt.[14] Data show that the state debt grew in the 1970s and 1980s while the share of domestic debt in total state debt grew. Foreign debt as a share of total state debt was 69% in 1970, 59% in 1980 and 53% in 1990. Net public debt was 19.1% of GDP in 1990; it reached 39.7% in 1997 but began to fall off in the late 1990s and 2000s due to GDP growth and proceeds from privatisation helping to reduce the debt. By the year 2000, it was down to 24.0%.

9.2.2 Malta

The role of macroeconomic policies of Malta in the 1960s was unique, involving a switch from reliance on British expenditures on the island to independence and growing economic self-reliance. Employment for thousands still depended on British defence spending, while efforts at diversifying the economy were still in their infancy. As a part of the efforts to accelerate this diversification towards a civilian economy and to help finance the weaning of the economy from dependence on British Services, the Maltese government renegotiated in 1972 a new agreement with Britain to lease the military base for a total of £100 million over the period 1972-1979. A self-reliant fiscal policy evolved in Malta in the 1980s and 1990s along similar lines as in other small European states.

Grech[15] argued that the large current account surpluses in the 1970s reflected high savings by the state due to the annual rent payments received from the British government. After the rental payments elapsed in 1979, state treasury savings (or the surplus of revenue over recur-

[12] Björn R. Gudmundsson and Gylfi Zoëga *ibid*. In June 1977, as an example, wages were raised generously in a nationwide collective bargaining process, to the delight of the labour unions. The ISK was devalued soon after that, which raised prices, lowered the purchasing -power of the newly raised wages and enhanced inflation, which exceeded 20%. The year-average exchange rate of 1 USD was 199 ISK in 1977 and 272 ISK in 1978.

[13] Hagskinna, 775

[14] See the website of Statistics Iceland, https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__fjaropinber__fjarmal_opinber__fjarmal_opinber/THJ05185.px/table/tableViewLayout1/?rxid=eaa9a122-da15-49af-a40e-907bb8fa88cc

[15] Aaron G. Grech, 2000.

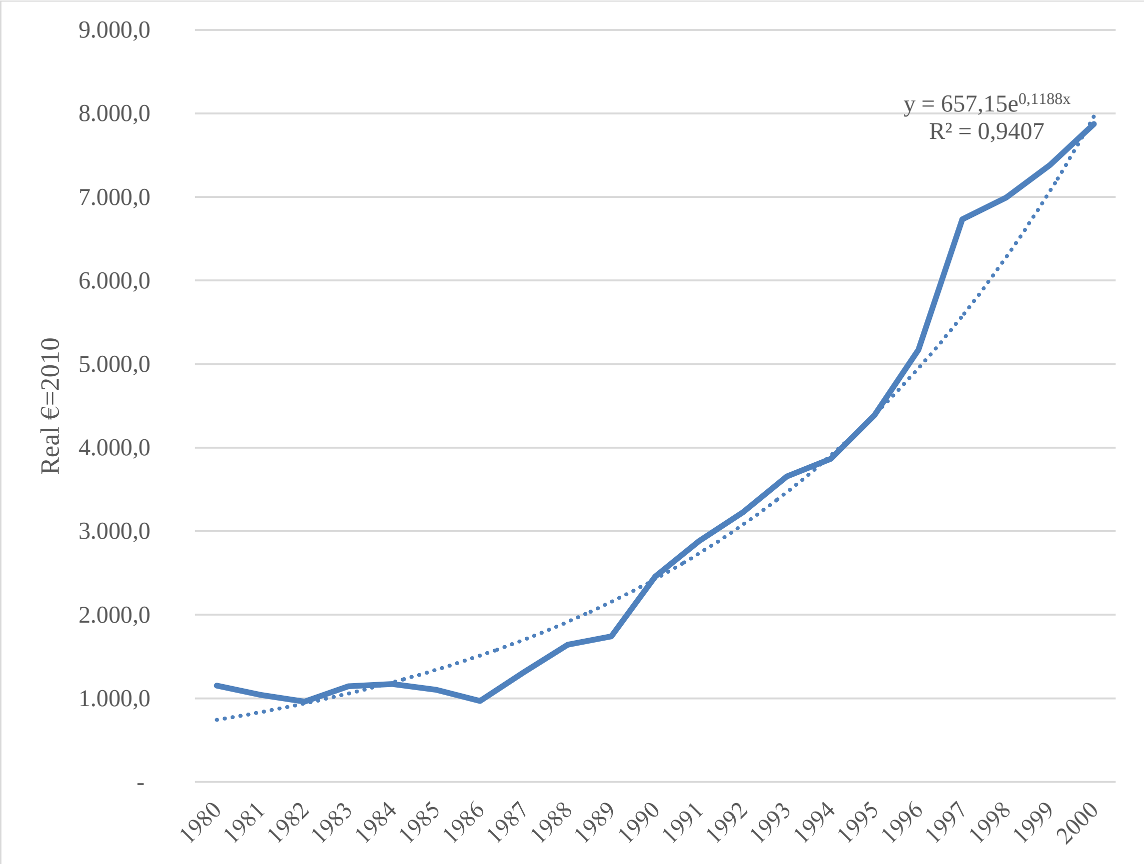
rent expenditure) turned downward and came to be negative in the mid-1990s. Budgetary deficit and public debt grew slowly in the 1980s but proliferated in the 1990s (see figures 9.1 and 9.2). State revenue as a proportion of GDP declined from 37.1% in 1982 to 30.3% in 1998. At the same time, total expenditure grew from 35% to 39% of GDP, primarily because of rising public debt servicing costs.[16]

Internationally comparable economic time series provide limited information from the 1950s and 1960s, but more comprehensive data are on hand from c 1970 onwards. Fiscal data is available from 1980 in the macroeconomic database.[17] State revenue was calculated in real Euro=2010 values per capita. During 1980-1987, it wavered at around €3,000 per capita but rose to significantly higher levels, exceeding €4,000 in the 1990s, mainly through indirect tax revenue. State expenditure increased on average by 7.4% per year in 1980-2000 in nominal value, 5.0% in real value and 3.5% in real value per capita, while the RPI grew on average by 2.35% per annum. Therefore, annual growth in real state expenditure was measured at c 5.05%. State revenue grew on average by 6.6% per year, in 1980-2000, in nominal value, c. 4.25% in real value and c 2.5% in real value per capita. For comparison, real GDP grew by 4.2% in 1980-2000, while real GDP per capita grew by 3.2%.[18] State expenditure per capita, measured in real values, matched state revenue during the early and mid-1980s but began to draw apart during 1990 when expenditure exceeded revenue and public debt built up. In 2000, state revenue per capita stood at €4,800 while state expenditure per capita was €5,520, measured in 2010 Euros. The consolidated fund balance, i.e., the difference between revenue and expenditure, is shown in Figure 9.2 (nominal values).

Gross public debt (all accrued external financial obligations) was low until 1986 but grew steadily from 1987 when the Nationalists came to power after 16 years of uninterrupted Labour government. With it came a drastic change of direction in economic policy, reflecting the contrasting ideological stances of the two political parties. For one thing, Labour policy was to balance the budget and avoid borrowing through strong government intervention and regulation of consumption. The Nationalist policy, on the other hand, was to open the economy and increase government spending through borrowing and deficit budgeting. In 2000, gross public debt stood at 2.155 million Euros, which exceeded 50% of GDP.[19] Gross public debt, measured in real values (€=2010) per capita, is shown in figure 9.1. It grew from €1,151 per capita in 1980 to €7,875 per capita in 2000. Based on a best-fit exponential trend line, it grew on average by 11.9% per year during 1980-2000.

[16] Aaron G. Grech, 2014, 26.
[17] Central Bank of Malta https://www.centralbankmalta.org/economic-time-series
[18] The Central Bank of Malta https://www.centralbankmalta.org/economic-time-series
[19] Aaron G. Grech, 2015, 26.

Figure 9.1: Malta – Gross Public Debt per capita 1980-2000



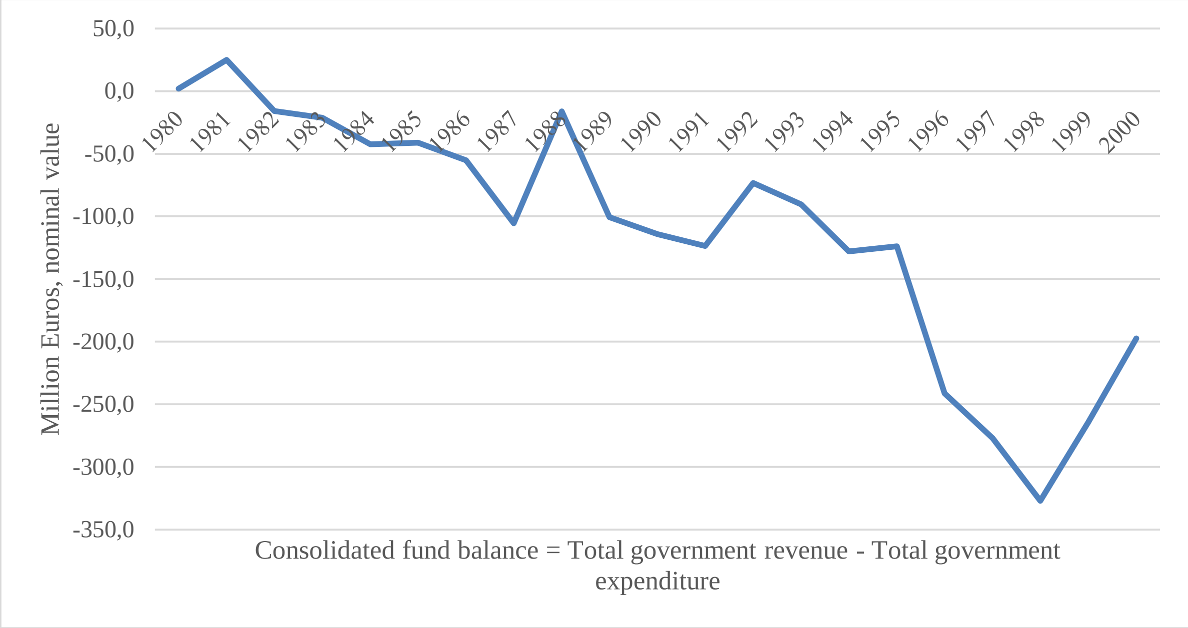
Source: https://www.centralbankmalta.org/economic-time-series

Table 9-4: State Expenditure as % of GDP – Malta

	1980	1990	2000
Personal emoluments	10%	10%	10%
Contributory benefits	5%	6%	7%
Non-contributory benefits	4%	4%	3%
Other current expenditure	10%	10%	10%
Public debts servicing	1%	1%	4%
Capital expenditure	7%	8%	5%
Total:	37%	39%	39%

Source: Aaron G. Grech, The Evolution of the Maltese Economy since Independence, p. 27.

Figure 9.2: Malta – Consolidated Fund Balance 1980-2000



Source: https://www.centralbankmalta.org/economic-time-series

The data in the analysis in Table 9.4 do not include public enterprises, which constituted a significant segment of the states‘ financial activities, but were part of the private sector, which skews the representation in the table. The public enterprises embraced (1) state-owned public corporations and authorities, established by law and requiring parliamentary approval of their annual financial statements; (2) direct government investments in companies of strategic importance (e.g., commercial banks and Air Malta); and (3) investments undertaken through government agencies, notably Malta Development Corporation and Malta Government Investments Ltd. The government of Malta did play a more influential and vigorous fiscal role in the economy than the figures on state expenditures and revenues indicated. The leading public corporations included Enemalta, Telemalta, the Water Services Corporation (WSC), the Maritime Authority, the Housing Authority, and the Transport Authority. They provided essential services and were of national importance. They funded their operating and capital costs through service fees. The Malta government was ultimately responsible for their operating results, but they were not part of the state budget. State subsidies extended to Malta Drydocks and Malta Shipbuilding.[20]

9.2.3 Iceland and Malta compared

Fiscal policy was, and still is, an essential stratagem for managing the two economies due to its ability to affect the total output produced or GDP. The traits and components of the fiscal

[20] International Monetary Fund, Staff Country Reports, Malta – *Recent Economic Developments*, 1997. The subsidies which exceeded 1% of GDP in the 1990s began much earlier.

policies of the two island states were dissimilar. Iceland exhibited two-tier fiscal policies divided between the national government and over 200 financially self-contained local authorities; the cost of public services was to a large extent, borne by taxpayers in Iceland. After the Labour government in the 1970s, all health care in Malta was in government hands, with even the closure of private hospitals. In the early 1980s, the government forced all Church schools, which constituted the bulk of private schools, to remove all fees or face closure. By the 1990s, the Nationalists had parts of the health care and educational institutions run by private or non-governmental parties and paid for by users. Iceland had extensive redistribution and transfer schemes, not only social benefit entitlements and income redistribution policies but also extensive and complicated industrial transfers, as well as transfers and cost-shared operations and investments between the state and local authorities. Large sums of money were collected through levies and taxes and redistributed via these schemes and transfers. Malta was less engaging in redistribution payments than Iceland.

State budgets in Iceland and Malta grew in content, size and scope, and the policy focus changed. The welfare system, health care and education expanded, taxes were reformed, broadened and extended, government borrowing soared, and the stabilisation role of the budget became increasingly important.[21] The quality of fiscal data improved significantly during the latter half of the twentieth century, and the various criteria for collecting, classifying, processing and publishing data were modified regularly and standardised. This was due to growing international cooperation of the national statistical authorities and supranational entities and huge progress in information technology. The time series of fiscal data from 1960-2000 are unsuitable for comparison, as revealed in sections 9.2.1 and 9.2.2 above. This is due to intrinsically dissimilar fiscal structures, state transfers and state fiscal engagements and many grey areas of what exactly constitutes state finances and what does not.

Various studies have shown dissimilarities in the evolution of tax policies in Iceland and Malta,[22] before global harmonisation efforts became effectual in the 1990s and 2000s, mainly influenced by the EC/EU and OECD.[23] Tax policies, compliance and administration were quite

[21] The main trends of the growing welfare system at the end of the study period and at the beginning of the twenty-first century are eloquently explored by Bjarne Hastrup, 2017.

[22] Friðrik Olgeirsson, 2013, examined the evolution of the tax system in Iceland since 1877. Taxes in Iceland are also reviewed in various OECD publications, both the Revenue Statistics referred to above and country reports on Iceland. The paper by Hallgrímur Snorrason, 1985) analyses Iceland's main trends and tax policies from 1945-1982. Unfortunately, Malta is not part of the OECD statistics. A Doctor of Laws thesis by Fabio Imroll 2014 and a dissertation in Master in Accountancy by Anna Sciberras, 2018, trace the history of taxation in Malta elegantly. A Master Dissertation in financial services from the Faculty of Laws by Donna Maries Greaves, 2015, compares modern taxation of holding companies and financial services with Luxembourg, Cyprus and the Netherlands. Two notable publications by Robert Attard, 2005 and 2013, deal with income tax principles in Malta and neither with tax legislation nor administrative and compliance issues.

[23] OECD Revenue Statistics have been published annually since 1999 https://www.oecd-ilibrary.org/taxation/revenue-statistics-1999_rev_stats-1999-en-fr. This annual statistical publication presents a

elementary in the 1950s and 1960s. The tax authorities had only basic methods to audit tax returns and tackle compliance issues and tax avoidance strategies. Taxes on goods and services were significant, i.e., customs and import duties, export levies, excise and sales tax. Taxes on income, profits and capital gains were not as important sources of government revenue compared to later times. Custom duties aimed at protecting domestic production as well as securing state revenue. Tax incentives were offered to foreign investors, especially in Malta. Export levies were issued to fund transfers, reimbursements and indemnities in the Icelandic fisheries.

The last two decades of the twentieth century were marked by improvements in tax collection concurrently with new taxes being issued and increases in tax rates. Digital computing technologies improved the tax administration and brought about more robust traceability for the authorities. New international tax treaties strengthened cross-border taxation. Value-added tax (VAT) replaced sales tax which was quite controversial in Malta; custom duties were lowered to boost international trade, and ‚pay as you earn' was introduced for income taxes. The tax burden, measured as % of GDP, was higher at the end of the century than around 1960.[24] For Iceland, taxes as % of GDP grew from 26.2% in 1965 to 38.1% in 2000.[25] For Malta, taxes as % of GDP grew from c. 25% in the early 1980s to c 28% in 2000.[26] Higher taxes in Iceland, as a proportion of GDP, reflected more expensive public and welfare services and the high costs of large-scale infrastructure investments all over the country, e.g. roads, tunnels, ports, airfields, power lines and telecoms.

9.3 Monetary Policies

Monetary policies are primarily stabilisation policies. In the long-run, money is neutral, and monetary policies focus on maintaining trust in the currency.[27] Through monetary policies, governments manage the quantity and price of money to achieve objectives like price stability, full employment and exchange rate stability. Monetary policy is usually implemented by the central banks – established in Iceland in 1961[28] and in Malta in 1968[29] – while governments determine the broader economic strategy.

unique set of detailed and internationally comparable tax revenue data in a standard format for all OECD countries from 1965 onwards. Comparative tables show revenue data by type of tax in US dollars, as a % of GDP, and for different types of taxes, as a share of total taxation.

[24] See for Iceland OECD Revenue Statistics, published annually since 1999, but including statistics from 1965. For Malta, see calculations by Aaron G. Grech, 2015, p. 24, based on historical statistics published by the Central Bank of Malta https://www.centralbankmalta.org/real-economy-indicators

[25] https://read.oecd-ilibrary.org/taxation/revenue-statistics-2007_rev_stats-2007-en-fr#page78

[26] Grech, 2015, *ibid*.

[27] The objective of maintaining trust in the currency only unfold late in the study period.

[28] Lög um Seðlabanka Íslands nr. 10/1961 [The Central Bank Act no. 10/1961]. Landsbanki had previously operated a central bank division which transferred to the new Central Bank.

[29] The Central Bank of Malta Act established the Central Bank of Malta on 17 April 1968. On 1 May 2004, the bank joined the European System of Central Banks (ESCB), and on 1 Jan. 2008, it became part of the Euro-system.

Monetary policy is a demand-side policy like fiscal policy. It affects aggregate demand only indirectly, while fiscal authorities purchase goods and services directly. Monetary policy cannot be isolated from fiscal or financial stability, and in the case of small open economies, not from foreign exchange policies. The interaction of monetary and foreign exchange policies was required in both Iceland and Malta in order to maintain trust in the ISK and the Lira. Financial stability was generally included in monetary policy during the second half of the twentieth century but grew into a separate policy domain after the turn of the century.

9.3.1 Iceland

The Icelandic króna (ISK) was first issued in 1922 and was at that time of the same value as the Danish krone. In 1927, Landsbanki was assigned the sole right to issue notes and served from that time as a central bank for Iceland, along with its commercial banking activities. Although the government intervened in the economy in the 1930s through fiscal, growth and microeconomic policies, specific monetary policies were not actively pursued until after the Second World War.

In 1957, Parliament passed a new Act, providing for an independent central bank division at Landsbanki, i.e., under separate management and with new instruments for regulating the liquidity of the banking system. In 1961, an autonomous Central Bank was set up, under an act of Parliament, taking over Landsbanki´s central bank division. Article 3 of the Act no. 10/1961 specified the bank´s chief mandate to retain the value of the ISK and to uphold price stability. The bank should, furthermore, maintain an effective and secure financial market, sustain sufficient foreign currency reserves for encouraging free trade with other countries and safeguard the nation´s financial independence and finally endorse unpretentious, economical and secure financial transactions, both domestically and cross-border. The bank was mandated in 1962 to manage and administer borrowings from foreign lenders on behalf of the state, but in consultation with the Ministry of Finance, as well as to administer the State Guarantee Fund.[30] Additionally, the bank issued and administered the State Savings Bonds on behalf of the state after their inauguration in 1964 and the State Bills of Exchange, issued to raise short-term financing for the treasury.[31]

Iceland experienced monetary instability, reflected in high and variable inflation rates, high-interest rates and regular devaluations of the ISK, especially during the decade 1974-1983.[32] Iceland managed to curb inflation in two steps, first to tolerable levels in 1984-1990 and then to acceptable levels in 1991-2000 (Figure 9.5). Interest rates followed the inflation trend

[30] Ríkisábyrgðarsjóður, Act no. 49/1962 [State Guarantee Fund].

[31] https://www.althingi.is/altext/112/s/0872.html

[32] The cause-effect relation of monetary instability has been debated. See Már Guðmundsson and Yngvi Örn Kristinsson, 1997; and an edited volume by Már Guðmundsson et al., 2000.

very much. They were moderate until the 1970s when they increased because of inflation and most long-term loans became indexed in 1979.[33]

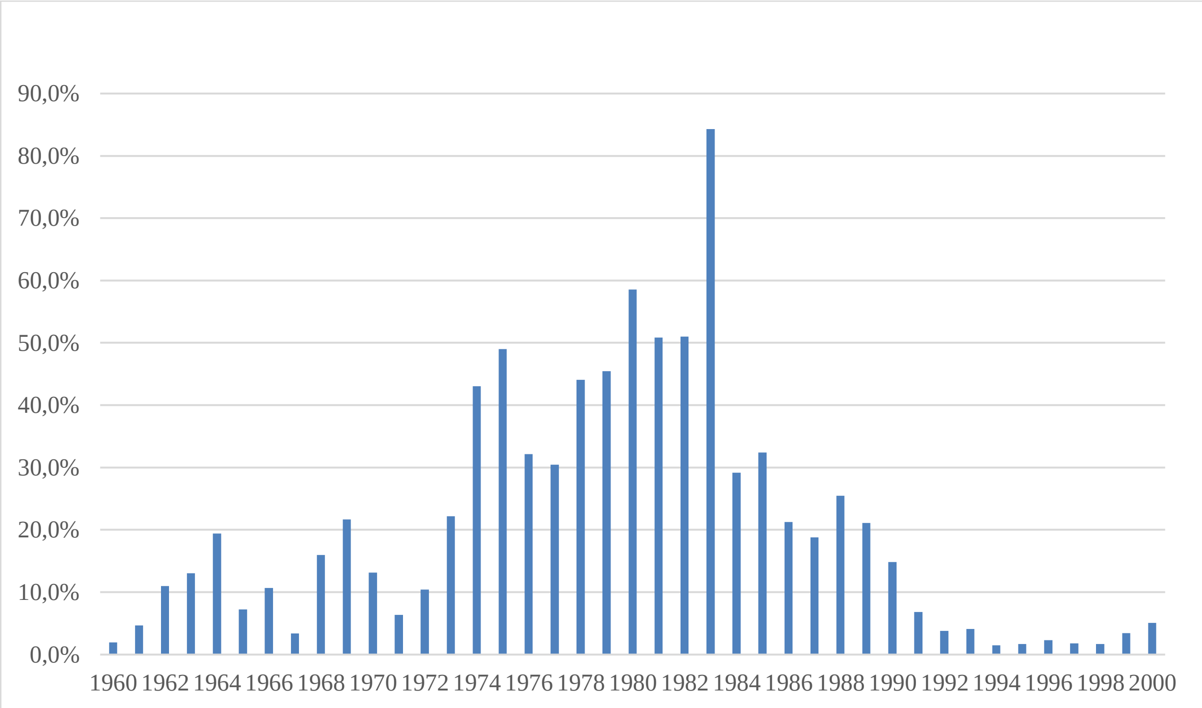
Figures 9.5 and 9.6 show two decades of slack monetary policy in Iceland, i.e. the 1970s and 1980s, marked by hyperinflation and repeated devaluations of the ISK. The first steps were two significant devaluations of the ISK in 1967 and 1968, after a collapse of the herring fishery, which initiated rising inflation. After the Bretton-Woods system collapsed in 1972-1973, floating exchange rates replaced the gold standard. Subsequently, the volcanic eruption in January 1973 in the Vestmanna Islands had severe economic consequences. The first oil shock came in Oc 1973, with relentless fiscal and monetary effects. A government-supported 'over-investment' programme, in a large fleet of new stern-trawlers and new fish plants, based mainly on foreign borrowings, were initiated c. 1970-1972. Trade unions negotiated higher wages for their members to meet escalating domestic costs. The vicious circle had begun, and it went around vindictively for the next 15-20 years until it came down c 1990. Foreign inflation, high-interest rates, economic stagnation in Europe and North America and a second oil shock in 1979 did not help.[34]

Structural changes marked the 1990s, not at least in the financial sector. Iceland faced adverse external shocks during the early 1990s at the same time as it went through a disinflationary process. In the early 1990s, the monetary policy aimed at maintaining low inflation anchored with a nominal exchange rate target, with a narrow band of 2¼ per cent around the target. The band widened to 6% in 1995 and 9% in 2000. The widening in 2000 reflected the challenges for monetary policy posed by an overheating economy with a current account deficit of nearly 10 per cent of GDP. The nominal exchange rate depreciated in 2000 and 2001 by 18-30%, depending on the currency, and inflation rose significantly again. Foreign-currency-denominated debt rose in the late 1990s, both in level terms and as a share of total debt. The debt/equity ratio of businesses and household debt rose sharply in the late 1990s and early 2000s. Iceland's ineffective monetary endeavours of the 1970s and 1980s were finally alleviated in the 1990s.

[33] Lög um stjórn efnahagsmála o.fl. nr. 13/1979 (Ólafslög), The Act authorised banks and lending institutions to apply indexation on loans, plus interest rates, based on the consumer price index (2/3) and the construction price index (1/3).

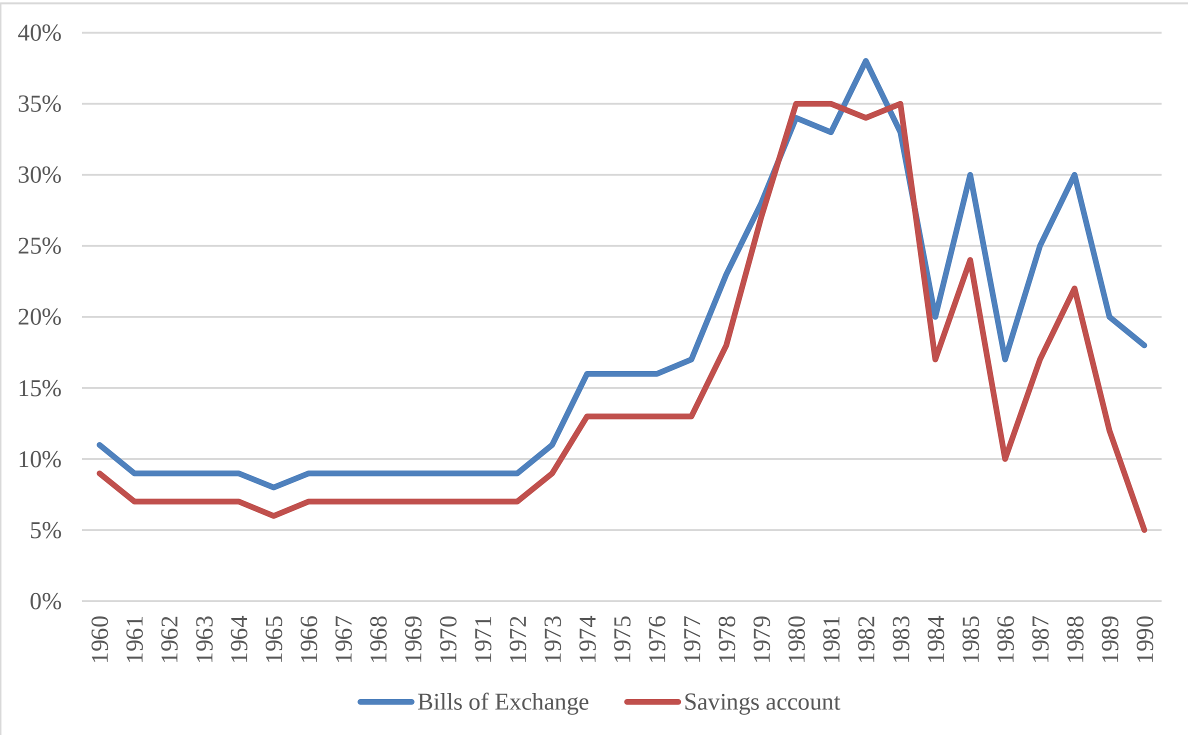
[34] Frederic S. Mishkin, 2003. See also a highly instructive book by *Alan S. Blinder, A Monetary and Fiscal History of the United States*, 1961-2021, Princeton University Press, 2022. Inflation in the US went up from c 3% in 1972 to c 12% in 1974, then down to c 5% in 1976, up to 14% in 1980 before coming down to 2% in 1983. The real price of oil, in constant US dollars, was at a peak in 1980, six times higher than it had been mid-year 1973, before the hike in oil prices.

Figure 9.3: Inflation in Iceland 1960-2000 - CPI



https://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur__visitolur__1_vnv__1_vnv/VIS01005.px

Figure 9.4: Interest Rates at Landsbanki 1960-1990



Source: Hagskinna, *Historical Statistics*, p. 693.

9.3.2 Malta

Malta showed an overall stability in monetary matters during most of the period 1960-2000.[35] The value of the local currency was stable, inflation was under control and interest rates moderate. Figure 9.7 shows inflation in Malta 1960-2000. During these four decades, annual inflation exceeded 10% only twice, i.e., in 1980 and 1981. It exceeded 4% in ten years out of 41. Figure 9.6 shows both deposit and lending rates in Malta between 1970 and 2000. The lending rate was stable, around 8%, and the deposit rate was around 5% for the whole period. The constant rise in deposits was one of the strengths of the Maltese financial sector at the time. It enabled Maltese banks to remain conventional, i.e., they depended on resident deposits to finance their activities which, in turn, focused on standard lending. Maltese banks did opt to maintain low loan-to-deposit ratios, which made them resilient to financial crises.[36]

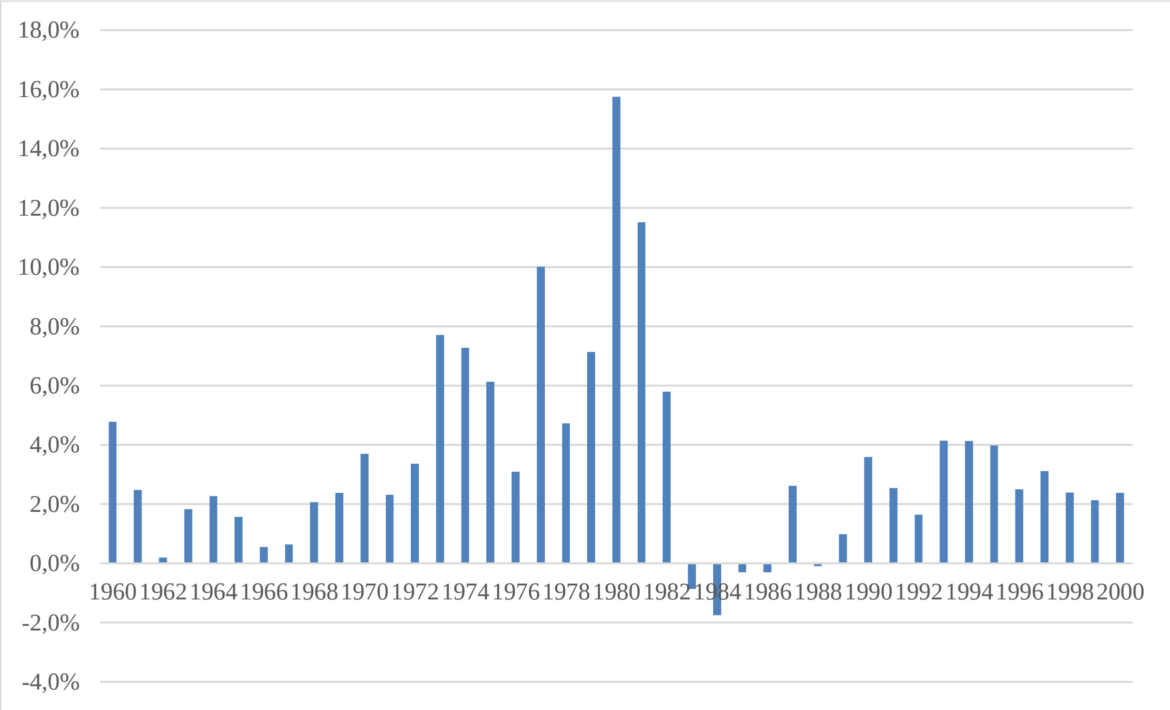
The Central Bank of Malta Act was enacted in November 1967, and the bank was established in April 1968.[37] The bank evolved from an organisation carrying out central banking functions to an institution participating in the Euro-system in 2008. For the first few decades, the bank focused on implementing the exchange rate policy, managing Malta's reserves, supervising the banking system, issuing currency, providing banking services to the government, public sector organisations and the banks. The bank played a pivotal role in modernising the financial services, brought about by new legislation and a revision of existing laws. Before the 1990s, the Central Bank set interest rates in coordination with the Minister for Finance. It set deposit interest rates, but the Minister for Finance set the maximum levels of bank lending rates, depending on the category of the borrower. Interest rates were modified using administrative measures based on the state of the economy. The Central Bank established rates for current, savings and term deposits up to a maximum of 5%.

[35] Emanuel Ellul, 1998, reviews Malta's monetary and exchange rate policies.

[36] Aaron G. Grech, 2015. See also a paper by Joe Falzon, 1994.

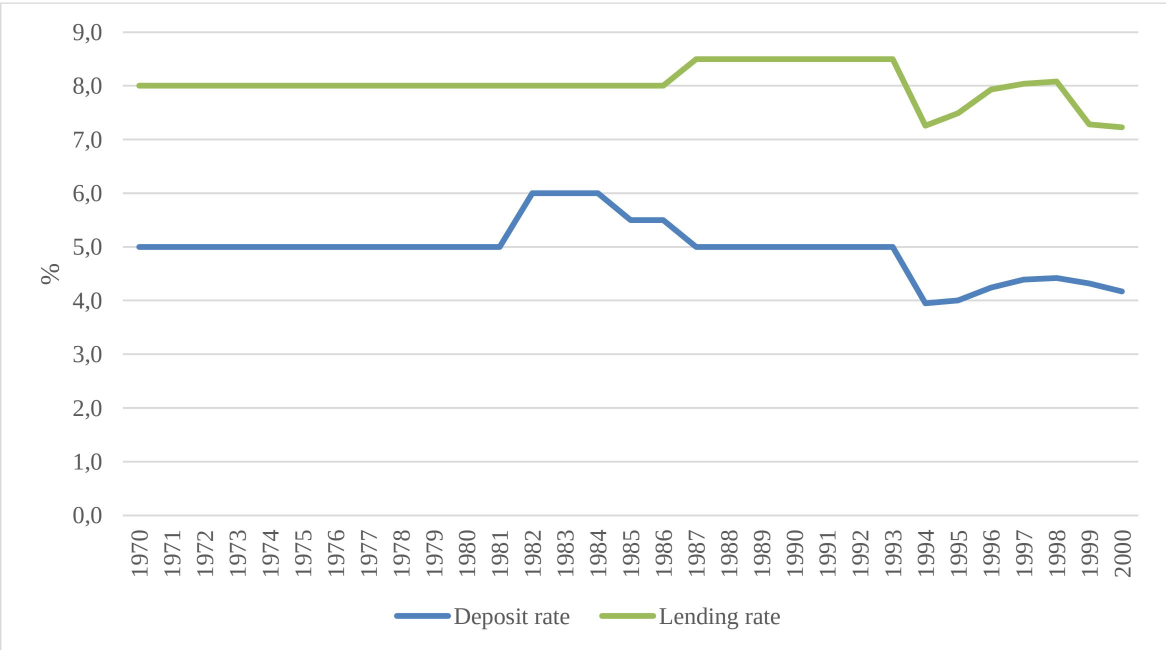
[37] The Central Bank of Malta Act (Chapter 204) was first published by means of Act XXXI of 1967. There have been subsequent amendments to the Act affecting the bank, https://legislation.mt/eli/cap/204/eng/pdf

Figure 9.5: Inflation in Malta 1960–2000 - RPI



Source: Central Bank of Malta, https://www.centralbankmalta.org/economic-time-series

Figure 9.6: Interest Rates in Malta 1970-2000



Source: Central Bank of Malta, https://www.centralbankmalta.org/economic-time-series currency swaps against the Maltese Lira to influence money market activity.[38]

[38] The Central Bank of Malta, *ibid*. p. 83.

By the late 1980s, it had become apparent that the rigid interest rate regime was deterring the growth of the financial sector as interest rates were not allowed to play their apt role in allocating resources.[39] During the 1980s, many business investments were financed from retained profits rather than by the banking system.[40] The following decade was characterised by a shift away from direct controls and towards more market-oriented tools of monetary policy. In 1990, the commercial banks were obliged to open and maintain reserve deposits at the Central Bank, equivalent to 5% of their deposit liabilities. This was complemented by the commencement of stock exchange trading in 1992, whereby market forces began to influence bond prices and, consequently, longer-term interest rates. The liberalisation of interest rates was carried out step by step in the first half of the 1990s as part of the liberalisation process of the financial sector, which included alleviating exchange controls and privatisation of state-owned banks. The bank's role in monetary policy was strengthened by an amendment to the Central Bank of Malta Act in 1994. The bank was authorised to influence or directly determine the level of interest rates.

A rapid evolution of the Maltese economy led to considerable changes in the local financial system. Before the 1990s, the Maltese financial sector was highly regulated by the Ministry for Finance, both regarding interest rates and capital controls. The controls were gradually removed, and the government's role in banking (including direct shareholding) became limited. With the removal of capital controls, the Central Bank could focus its operations on maintaining a credible exchange rate peg, while the liberalisation of the financial sector led to a significant rise in bank lending.[41] Interest rates went downward in 1994 and more permanently in 1998, and credit became more attractive.

Monetary policy played a relatively passive role until the early 1990s.[42] After a more active monetary policy was pursued in the 1990s, it was partly constrained by the fixed exchange rate and the openness of the domestic economy. The advent of active monetary policy coincided with the compendium of new financial legislation enacted in 1994 to elevate domestic legislation to international legislative standards.

The three conventional monetary policy instruments used during the study period were open market operations, standing facilities and reserve requirements. Open market operations were the main tool used to implement monetary policy and involved the purchases and sales of securities by the Central Bank to influence monetary conditions. Given the structural liquidity

[39] Emanuel Ellul, 1998.
[40] ibid.
[41] Aaron G. Grech, *ibid*., 25.
[42] Gérard Adonis, 2011.

surplus of the Maltese banking system, open market operations were intended to absorb excess liquidity.

The mid-1990s were an intriguing era for the supervision of monetary policy because of price pressures in the economy and the relatively high rate of annual monetary growth, partly fuelled by extraordinary growth in credit. As the money market developed further and the banks increased their acquaintance with open markets, the monetary policy became more effective. They contributed to curbing the excessive rates of domestic credit growth and limiting the outflow of external reserves through tighter monetary policy.[43] The intention to join the EU influenced government policy after applying for membership in 1990. Thereafter, Malta needed to fall in line with EU guidelines and practices.

9.3.3 Iceland and Malta compared

The monetary policies of both states developed from an embryonic state around 1960 to a more advanced and extensive policy paradigm over the next few decades. Iceland's monetary policy was futile and pernicious during the 1970s and 1980s, marked by extreme inflation and massive devaluations of the local currency, as is revealed in the next section. Monetary control improved during the 1990s with lower inflation and a more stable currency. Malta had, from the 1960s onwards, employed more prudent and stable monetary policies, perhaps a reflection of a more balanced and diversified economic structure and less volatile economic cycles. Monetary policies were challenging for resource-based nations like Iceland, known for its ‘monomania' political view on the business environment of the fishing industry and fish exports. Prudent fiscal, monetary and foreign exchange policies were overruled by fisheries-driven vested interests, which had overcrowding effects on other sectors and destabilising effects on the national economy.

Iceland borrowed more heavily on international financial markets than Malta and funded its expensive investment plans by foreign loans and was hence exposed to changing values of foreign currencies and soaring interest rates. Economic growth was more capital-intensive in Iceland than in Malta. Icelanders were more courageous than the Maltese in investing abroad. The relatively balanced monetary policies in Malta did probably engender more durable and obedient fiscal policies since these two types of policies are interrelated and their influences reciprocal. Malta's borrowing was local, mainly through issues of government bonds.

[43] The Central Bank of Malta, 2018, 84.

9.4 Foreign Exchange Policies

The International Monetary Fund (IMF) evolved after the war as an institution overseeing a new international monetary system of exchange rates and international payments that enabled nations to purchase goods and services from each other.[44] The IMF's role was to ensure exchange rate stability and to encourage member countries to eliminate exchange restrictions that impeded trade. IMF members approved an arrangement which lasted until 1971, i.e., to keep the value of their currencies fixed to the US dollar, and in the case of the United States, keep the value of the dollar in terms of gold, pegged at rates that could be adjusted to correct for a "fundamental disequilibrium" in the balance of payments, and only with the IMF's consent. This par value arrangement, also known as the Bretton Woods system, prevailed until August 1971, when the US government suspended temporarily the convertibility of the dollar and dollar reserves held by other governments into gold.[45] Attempts to revive the fixed exchange rates failed, and by March 1973, all major currencies had begun to float against each other.

After the breakdown of the Bretton Woods system, IMF members were free to choose any exchange arrangement they wished, except pegging their currency to gold. They could allow the currency to float freely, peg it to another currency or a basket of currencies, adopt another country's currency, participate in a currency bloc or become part of a monetary union. The transition to floating exchange rates proved to be relatively smooth. Flexible exchange rates made it easier for economies to adjust to the first oil shock in Oct. 1973. The oil shocks of the 1970s forced many oil-importing countries to increase borrowings from commercial banks, and the interest rate increases in industrial countries trying to control inflation led to an international debt crisis and painful reforms during the 1980s. The new political map and reforms in Central and Eastern Europe and the former Soviet Union, and their transition to market economies in the 1990s, as well as the Asian financial crisis in 1997, were challenging for the IMF and the international monetary system.

The EEC countries agreed in 1972 to maintain stable exchange rates by preventing fluctuations of more than 2.25% (the European "currency snake"). In March 1979, this system was replaced by the European Monetary System, and the European Currency Unit (ECU) was defined. Finally, on 1 Jan. 1999, the Euro was introduced.

[44] The IMF began operations on 1 March 1947. Iceland was a founding member, but Malta joined in 1968.

[45] https://www.imf.org/external/about/histcoop.htm The US dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods until US President Nixon suspended the dollar's convertibility into gold in August 1971. See also, Alan. S. Blinder, 2022.

9.4.1 Iceland

The first official exchange rate of the Icelandic króna (ISK) was at par with the Danish krone until 1922 when its official exchange rate was first registered. It retained its value more or less until 1939. The value of the US dollar and Sterling against the ISK circa doubled during the Second World War, but recovered only partly after the war, i.e., the US dollar but not the Sterling. Overvalued ISK continued until 1960.[46] Iceland had built up substantial foreign currency reserves during the war. After the war, the country saw massive imports and a growing negative balance of payments caused by a spending spree, over-investments and over-valued currency. The foreign currency reserves were depleted by 1947. As a member of the IMF, Iceland had consented to a fixed currency system, which prevailed until the early 1970s.[47] The Icelandic economy was in the 1950s marked by trade restrictions and rationing. Licences controlled imports; foreign currency was rationed, foreign currency exchange controls limited travel abroad; and loans from domestic banks were hard to get and at interest rates determined by the government rather than the market. Funds and redistributive schemes encouraged over-production in fisheries and farming, which could have been more economical and profitable. The government was constantly engaged in defensive economic mêlées with tools such as direct price controls, subsidies and grants, multiple exchange rates, restrictions and curbs.[48]

At the end of 1959, a new coalition government took office. It introduced new and more liberal economic policies. The policy program, enacted in Feb. 1960, contained a range of provisions on economic matters. The base value of the ISK was devaluated by 57.1% against the USD, which raised the price of the USD by 133% and likewise of other foreign currencies. A significant part of the devaluation was, in effect, a replacement of previous export grants and complicated foreign exchange arrangements, which had favoured fish exporters over others since 1951. The average net effect for fish exporters was evaluated as equivalent to c 20% devaluation. The effects on imports were estimated at a 34% devaluation of the ISK, which raised the prices of imports in general by c 51-52%.[49]

Due to escalating prices, the trade unions demanded higher wages for their members, and a strike followed in 1961. As a result, wages were raised by 10-17%. The ISK was devaluated again by 12%, causing further pay raises in 1962 and 1963. Ban on imports of agricultural goods was maintained, i.e., meat, dairy products and potatoes. High import duties on various

[46] Jóhannes Nordal and Ólafur Tomasson, 1985.

[47] The fixed-rate currency system began to break up in Iceland in 1972 but was finally formally abolished in Dec. 1973 when Parliament amended the Central Bank Act.

[48] Gylfi Zoëga, 2004, 132.

[49] https://fullveldi.data.is/ (Viðreisn, Lög um efnahagsráðstafanir.) See Chapter 9.4 on foreign exchange policies.

manufactured goods continued to protect local industry (import substitution), i.e., the production of clothes, furniture, confectionaries and canned food. Transfer payments were re-introduced in the fisheries, funded by an export levy.[50]

On 24 Nov. 1967, a few days after the UK government's 14% devaluation of the Sterling, the ISK was devaluated by 24.6%. A collapse of the profitable herring fishery in 1967 was a key contributing factor as well. In Nov. 1968, the ISK was devaluated again by 35.2%. Redistributive payments in the fisheries were extended and the sector was compelled to pay a proportion of the ‘devaluation gains’ into redistributive funds used for transfer payments in the fisheries. Import duties were lowered and many other economic measures were introduced.[51]

The breakdown of the Bretton-Woods system had, amongst other developments, a destabilising effect on the monetary policy in the 1970s. Iceland adopted an adjustable peg with respect to the USD, which lasted until 1974. The degree of flexibility of the exchange rate was increased slightly from 1974 to 1983, and the country followed a "managed float" policy aimed at targeting the exchange rate. The exchange policy became more rigid in 1984-1989. Since inflation did not recede, ten small devaluations were concocted. A renewed effort at exchange rate stability was made over 1990-1995, several exchange rate bands were used, and the currency basket was amended a few times. The ISK was devaluated in 1992 and 1993. From 1996 to 2000, the currency was allowed to move freely within the band. The band was once again widened in February 2000 to +/- 9% relative to the basket target. In 2001, the exchange rate target was eliminated and an inflation target was adopted. This regime lasted until the 2008 crisis.[52] Frequent devaluations of the ISK are reflected in Figures 9.7, 9.8 and 9.9, which show changes in the value of the US dollar against the ISK 1960-2000.

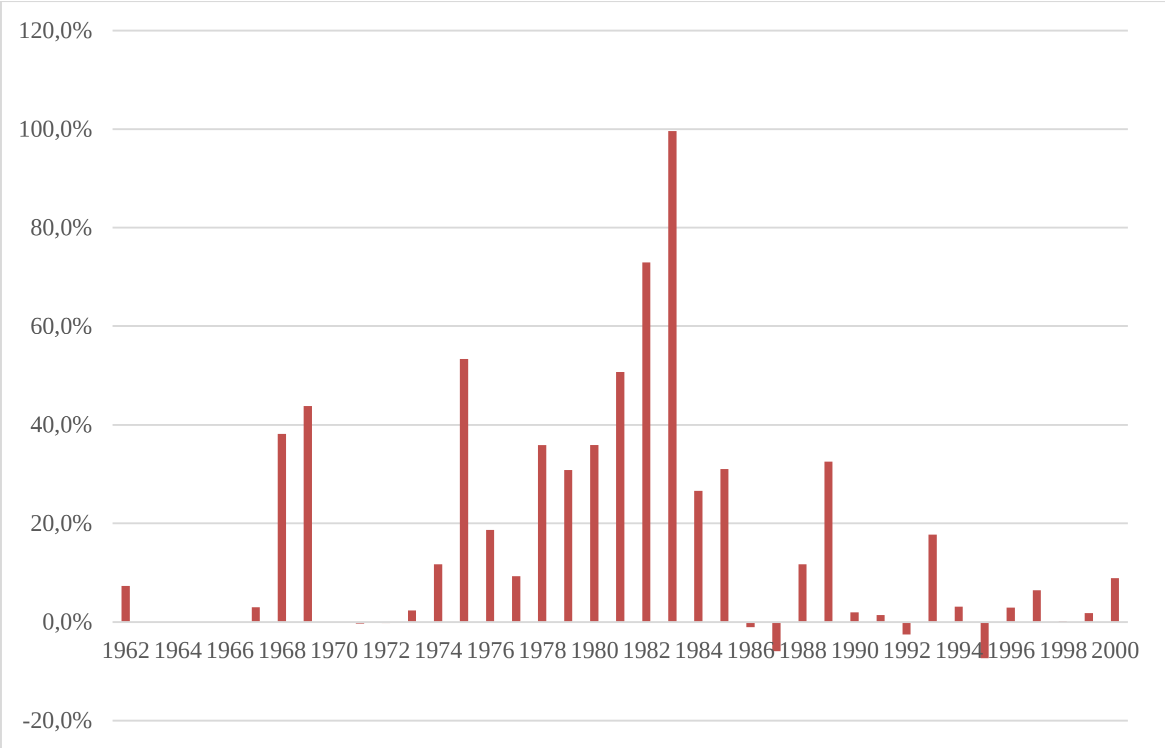
Whatever the foreign currency exchange arrangements were, and whichever European or North American currency the ISK was compared with, the ISK was ponderously devaluated against them all in the period 1961-2000. It lost its value against the US dollar nearly 200 times 1961-2000. The foreign exchange policy was marked by a protective alliance against the effects of lower fish catches and changes in terms of trade of the narrow economic base of fishing and fish processing. When the fisheries faced adversity in times of low catches and declining terms of trade – which would have had widespread economic effects – the government's normal response was to devaluate the ISK, which increased the income of the fisheries sector, measured in ISK, but simultaneously reduced the purchasing power of all wages and foreign input costs.

[50] https://fullveldi.data.is/ (See entries for 1961, 1962 and 1963, e.g., ‘Kjarasamningar á almennum vinnumarkaði’, ‘útflutningsgjald af sjávarafurðum’, ‘gengisfelling krónu’)

[51] https://fullveldi.data.is/ (Various entries in 1967 and 1968)

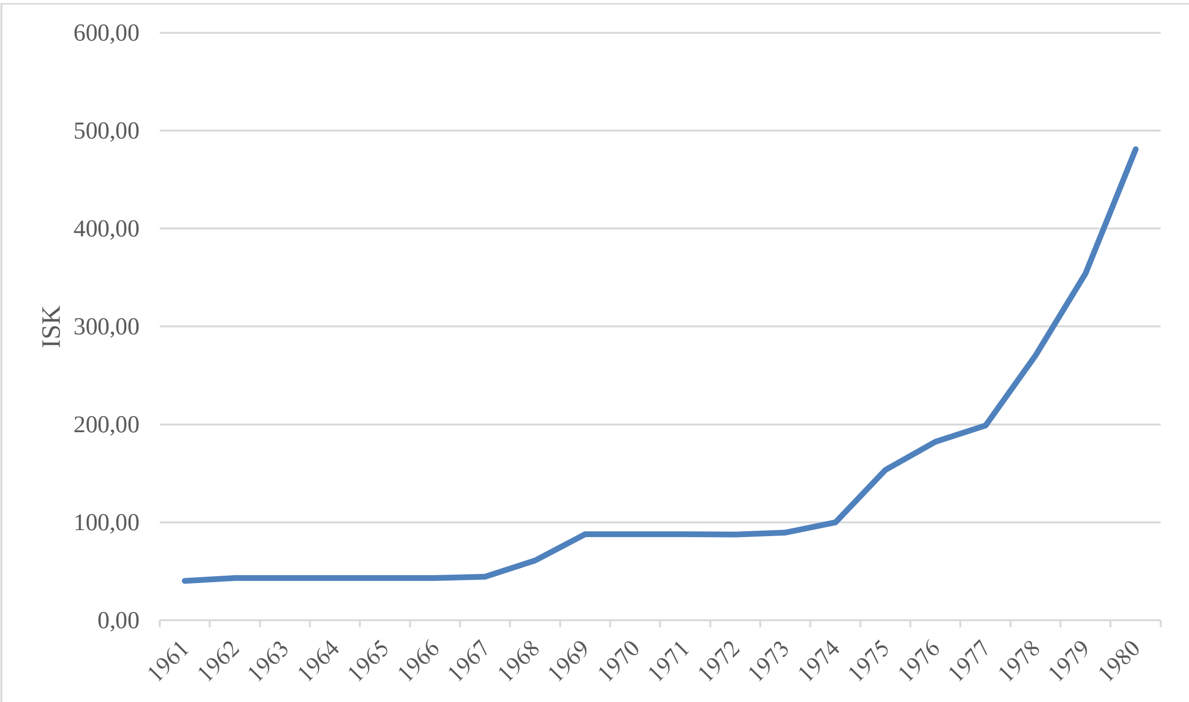
[52] Sebastian Edwards, 2018; Ásgeir Jónsson et. al., 2018.

Figure 9.7: Annual Devaluations of the USD against the ISK 1962-2000



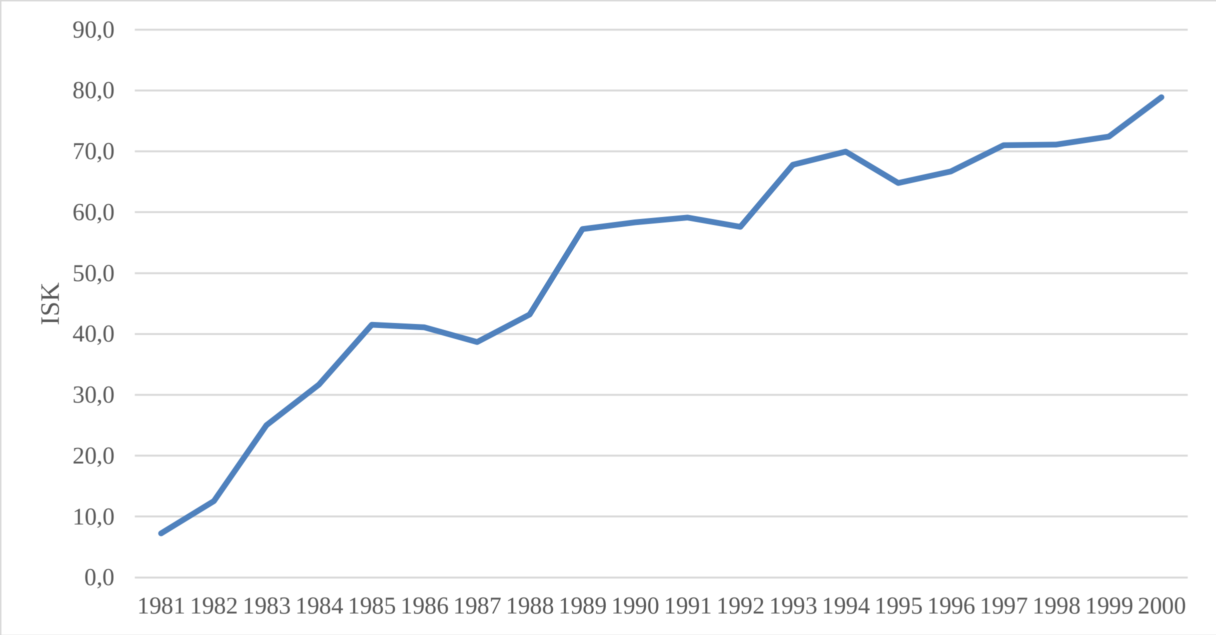
Source: The Central Bank of Iceland, available at: https://www.sedlabanki.is/hagtolur/opinber-gengisskraning/soguleg-gengisskraning/

Figure 9.8: The Exchange Rate of the USD against the ISK 1961-1980 – Annual Average



Source: The Central Bank of Iceland, available at: https://www.sedlabanki.is/hagtolur/opinber-gengisskraning/soguleg-gengisskraning/

Figure 9.9: The Exchange Rate of 1 USD against ISK 1981-2000 – Annual Average



Source: The Central Bank of Iceland, available at: https://www.sedlabanki.is/hagtolur/opinber-gengisskraning/timaradir/ Note that 100 ISK was converted into 1 ISK on 1/1 1981

Real wage costs in the exporting sector were reduced, as their income in ISK rose while wages measured in ISK stood still. Domestic industrial production competing with imported goods benefitted from raising their prices while paying unchanged salaries.[53] However, the trade unions used their power to protect the purchasing power of the wages of their members. This would cause repeated negotiations and strikes, leading to increased wages. The ISK was soon to be devaluated again and the vicious circle of devaluations, inflation and wage increases would continue until 1990 when the association of employers and the trade union signed a 'National Conciliation Accord',[54] which brought about greater stability and lower inflation. To support the Accord, the government declared economic policy objectives relating to, e.g., prices, taxes, subsidies, housing and consumer prices.[55]

9.4.2 Malta

The British Pound was the currency of Malta until 1968 when the Central Bank was founded and began to issue the national currency, the Malta Lira. It was pegged to Stirling until 1972 and a basket of currencies until the late 1970s. The World Bank calculated figures on the real effective exchange rate of the Malta Lira but also published by the Central Bank (Figure 9.10).

[53] Gylfi Zoëga, 2004, 133.

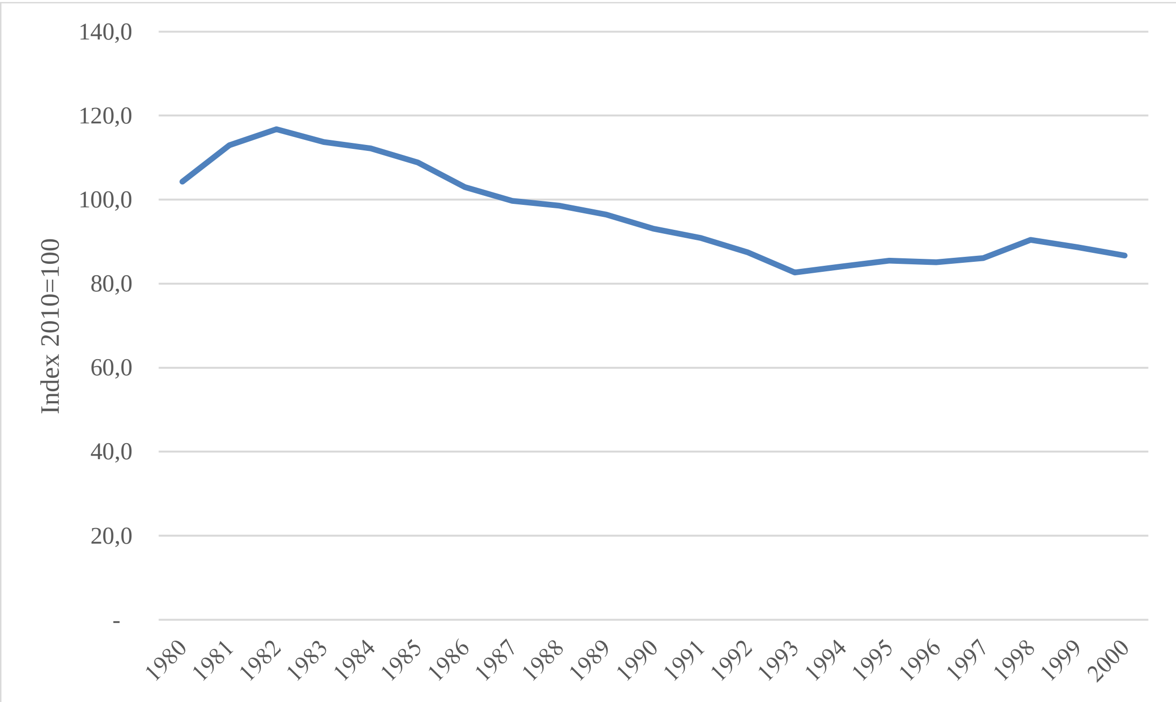
[54] The Icelandic term ‘Þjóðarsátt‘ is translated as National Conciliation Accord.

[55] A BA dissertation in history from the University of Iceland, 2009, by Árni H. Kristjánsson, ‘Þjóðarsáttin 1990‘, narrates the entire negotiating process and explains the politics behind the National Accord.

The effective exchange rate is the nominal effective exchange rate (a measure of the value of the Malta Lira against a weighted average of several foreign currencies) divided by a price deflator or a cost index.[56]

The Malta Lira grew in strength in 1980-1982 but weakened thereafter. From 1982 to 2000, it lost its value against the basket of international currencies by c 26%, but c 17% from 1980 as a base point (Figure 9.10). A dissimilar trend is shown in figure 9.11, where the Malta Lira retained its value against the US dollar between 1981 and 1998 largely, despite year-to-year fluctuations.

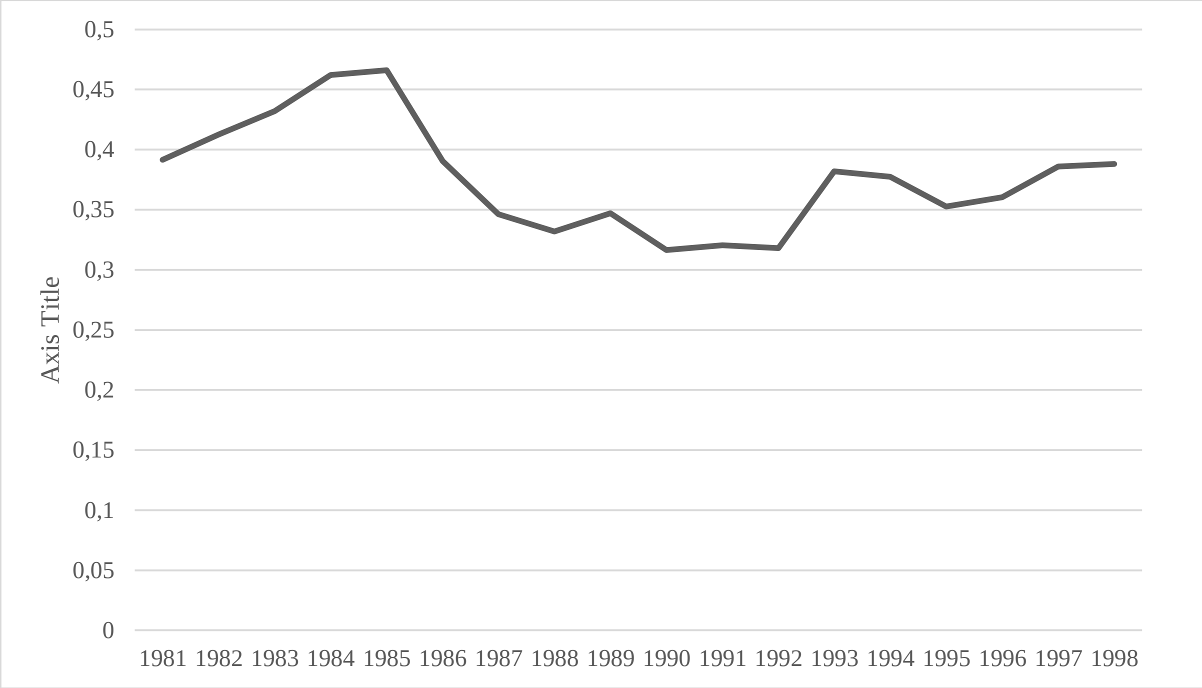
Figure 9.10: Real Effective Exchange Rates – Malta 1980-2000



Source: Central Bank of Malta, https://www.centralbankmalta.org/economic-time-series

[56] The study by E. P. Delia, 1986, considers implementing a more active monetary policy, introducing an export-subsidy scheme and slightly modifying the currency basket of the Malta Lira. Federation of Industries, 1985, published a report prepared by E. Scicluna and J. E. Agius, which reviews Malta's export price competitiveness in 1983-1984 and estimates its impact on Malta's export performance.

Figure 9.11: The Ratio between USD/Lm 1981-1998



Source: Central Bank of Malta, https://www.centralbankmalta.org/economic-time-series

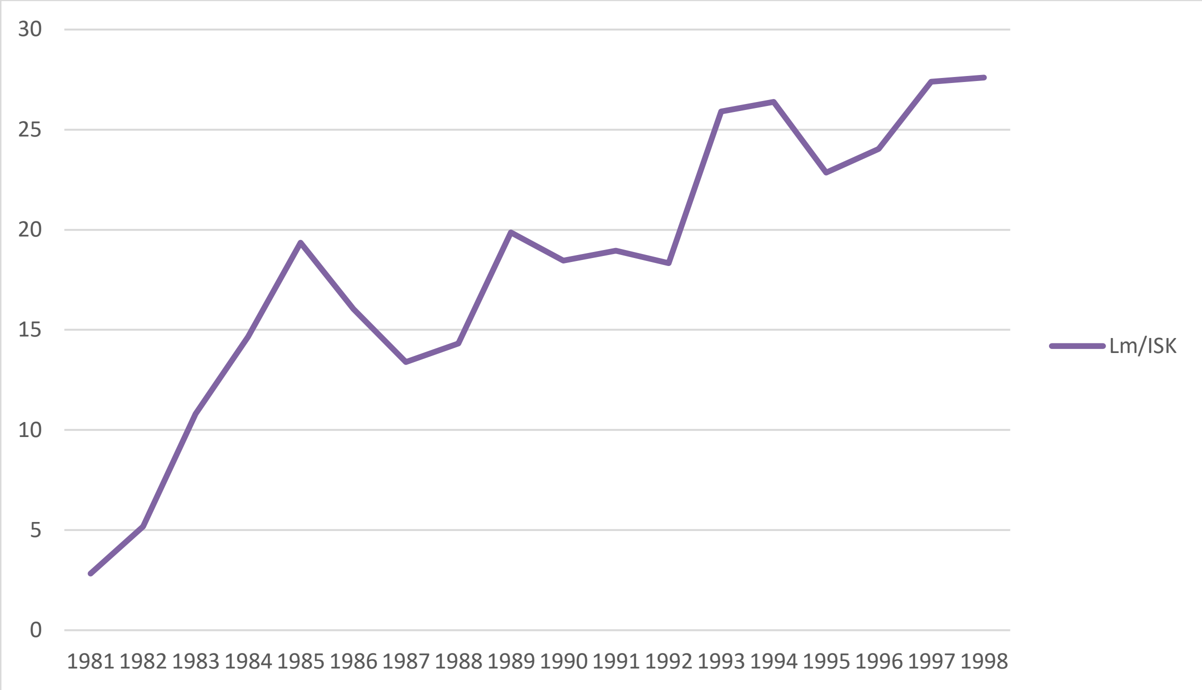
During the last quarter of the twentieth century, the balance of payments was negative in merchandise trade and positive, but with a smaller surplus, in the services trade, resulting in an overall negative trade balance. The bulk of merchandise exports comprised clothing, textiles, electrical machinery and electronics. The most important source of service exports were expenditures in the 1960s by the British forces based in Malta, but later from tourism and transportation. The deficit from the trade in goods and services was partially offset by investment income from abroad. Another source of foreign exchange on the current account was transfers which consisted of remittances and pensions to households and foreign exchange grants to the Maltese government. The inflows and outflows of foreign exchange resulted in a surplus in the overall balance of the current account.[57]

9.4.3 Iceland and Malta compared

Iceland and Malta participated in the same international monetary system which evolved over the second half of the twentieth century. Both relied profoundly on foreign trade in goods and services and encountered dissimilar experiences in international financial integration and foreign exchange policies, in Malta though not until around 1980.

[57] Lino Briguglio, 1988b, 1989 and 1995. In his 1989 paper, he investigates whether a decrease in the external value of the Maltese Lira would improve the Maltese balance of trade. He shows that it cannot be assumed that devaluation reduces trade deficit. This is due to reversal effects associated with increases in domestic prices and induced imports.

Figure 9.12: The Ratio between Lm/ISK 1981-1998



Source: Central Bank of Iceland and Central Bank of Malta

The foreign exchange policies were more eventful and, at times, overbearing in Iceland compared to Malta. While Malta experienced exchange rate stability with its Lira, Iceland was subject to fluctuation and massive devaluations of the ISK. Regarding foreign exchange policies, experiences and circumstances, Iceland and Malta were antithetical. Iceland encountered an unpredictable and volatile history of its distorted foreign exchange policies, with disastrous results – the ISK was not tradable on any foreign exchange markets. The Malta Lira performed much better and retained more or less its value against the US dollar from 1981 to 1998, while the ISK lost its value against the Lira by a factor of 9 (Figure 9.14).

9.5 Synopsis

The main objectives of macroeconomic policies are to support an economic environment which stimulates and sustains growth, full employment and equilibrium in the balance of payments, price stability and retains the value of the currency. Post-independence Malta sustained relatively stable fiscal, monetary and foreign exchange policies compared to Iceland, particularly throughout the 1970s and 1980s when Iceland endured hyperinflation, massive devaluation of the currency and rising foreign debt. Malta's local currency served a more diversified economy, with hardly any pressure of distorting discreet monetary targets in the interest of one industry as Iceland did in the pursuit of its fisheries. In contrast to Iceland, much of Malta’s borrowing was local through issues of government bonds.

Party politics and types of governments formed, affected macroeconomic policy choices. Malta's two-party politicssaw significant changes in political direction in 1971 and 1987. Malta had relatively stable governments in contrast to Iceland, which saw regular changes in its multi-party coalition governments, especially over the period 1971-1995. Iceland tended to adopt compromising but fisheries-driven macroeconomic policies. In the late 1980s and early 1990s, both island states aspired to participate in the expanding European economic cooperation. Malta sought EU membership, while Iceland signed the EEA Agreement. Their public policies were directed towards EU guidelines and harmonisation, which confined their economic, industrial and trade policy choices. Malta was previously at liberty to adopt new policies and Iceland to a certain extent but bound by the EFTA Agreement.

10 GROWTH POLICIES, PRIORITIES AND PLANNING - 1960s AND 1970s

10.1 Outline

One of Western Europe's most striking political and economic trends during the second half of the twentieth century was the government's growing size and reach. In the 1960s and 1970s, European countries endured various restrictions on cross-border trade in goods and services, high customs duties and even barter trade (e.g. with the Soviet Union and Eastern Europe). Foreign exchange markets were highly regulated, and most European states had their own currency. The post-war growth era of the 1950s and 1960s ended abruptly in 1973. The subsequent 1974-1983 era was economically tumultuous and somewhat disorderly in Western Europe, including Iceland and Malta, making long-term economic and industrial planning arduous, while short-term responsive measures became steeped in political reality.

The Maltese economy relied heavily on British defence spending, which subsided in the 1960s and 1970s and ended in 1979. The Labour government, 1971-1987, administered the economy primarily through a command-and-control approach. Icelandic governments in the 1960s to the 1980s, dictated, by and large, the level of production of goods and controlled their distribution and prices, as well as exports. State-owned enterprises grew in number and extent, often by default, as the private sector could not undertake large-scale investments. Both states invested in companies of national strategic importance, i.e. utilities, power, banks, shipping, radio and airlines.

With 5-year planning periods, cross-sectoral development planning was introduced in Malta in the late 1950s, initiated and funded by the British government, embracing the national economy, industries and capital investments, e.g., infrastructure. Development planning became less critical in the 1970s and 1980s as the Labour government had other ideas for promoting growth. Iceland made some indisposed attempts at cross-sectoral planning in the early 1970s, but such attempts were fruitless. The government preferred a rather narrow sectoral-based approach for economic, industrial and capital investment planning and interventions, i.e. in agriculture, fisheries, manufacturing, power and transport.[1]

[1] Ministers in coalition governments tend to adhere to a strict division of responsibilities and avoid sensitive inter-ministerial collaboration. The Prime Minister has no authority over ministers from other coalition parties and can not enforce cross-sectoral cooperation between ministers.

While Iceland prohibited foreign investments, except in power-intensive industries, Malta attracted foreign investments purposely for new economic activities and industrial projects. Iceland favoured foreign loans over foreign equity. Both island states adopted at some stage import-substitution policies - ranging from chocolate to pasta in Malta and biscuits to margarine in Iceland – intended to protect domestic production from foreign competition.

The main challenges facing Iceland in the 1960s and 1970s were the mammoth task of developing the country's infrastructure, the confrontation with the UK and other fishing nations over control of the fishing grounds and the need to maintain access to European seafood markets in an era of growing economic and trade cooperation in Western Europe, which was the drive behind EFTA membership in 1970. Another important task was diversifying the export economy from its excessive dependence on fish exports.

The main challenges for the Maltese economy in the 1960s and 1970s were to develop the economy, attract new industries, increase exports and tackle severe unemployment. Taking over the dilapidated, loss-making dockyards was another major endeavour for newly independent Malta and phasing out British spending and investments on the island.

What was the economic and political rationale for, and the vigour of, growth priorities, policies and planning in the 1960s and 1970s? The chapter will take a political-economic approach by elaborating on Iceland's and Malta's experiences of state planning and intervention, including development plans, state interventions and investments in infrastructure. It will deliberate the economic and political rationale for the upsurge of publicly-owned enterprises, an unequivocal example of interventionist public policies and a key element in the post-independence economic development policies of both island states. Each adopted different approaches to foreign investments, trade, and foreign exchange policies. Their policies reflected the contrasting circumstances of a resource-rich state protecting the exploration of its natural resources and a more open and less protective resource-scarce state in need of foreign investments. Another contrast was between the one-party majority governments in Malta and multi-party coalitions, with its compromising 'middle-of-the-road' policies in Iceland; Malta could exercise and enforce more purposeful and unwavering policies, as decided by the party in power. Iceland adopted comprehensive regional policies and industrial transfer payments, which Malta did not.

10.2 Malta – Planning for Growth and Development

Malta faced a grave economic outlook in the immediate post-war era, as is explained in Chapter 4. After the war, the British began to phase out their military and economic activities, including scaling down the naval dockyards, which had by far too large a workforce for peacetime work. The island was still controlled by the British but with self-government in 1947-1958 and again in 1962-1964.[2] Population growth, hardship and gloomy employment prospects resulted in massive post-war emigration. The British government had begun examining the prospects of the Maltese economy during the war,[3] followed by the Schuster interim report in 1950 and a more fully-fledged report in 1957.[4] A 1955 report by Balogh and Seers, prepared for the Maltese self-government, provided important background information on the Maltese economy in the mid-1950s.[5] They reported on a unique economic situation where the local economy was largely dependent on employment paid for by the UK and on the expenditures of the British armed forces in Malta. Exports were only a small proportion of imports. Malta relied on imported food and suffered from chronic water shortages; meanwhile, the mass emigration had been costly, and hordes of skilled and talented people had left the island, many never to return. They saw the civilian economy as an 'economic fossil'.[6] A development plan for Malta was advised and supported by the British government.

10.2.1 The First Development Plan 1959-1964

The first 5-year development plan was launched on 14 Oct. 1959 for the period 1 April 1959 to 31 March 1964 through a British initiative, as there was no self-government in Malta at the time. The plan was revised in July 1961. The development plan was prepared in co-operation between the Financial Section of the Government in Malta and the Colonial Office and approved by the Secretary of State in August 1959. [7]

The British government contributed £29 million over the five years towards the capital development programme of the plan, the conversion of the Dockyard to civilian use and the encouragement of new industries. The Malta government provided £3m by way of loans.[8] The Colonial Development and Welfare sources provided £19m of new funding in addition to £250k

[2] Joseph M. Pirotta, 1987-2018, narrates meticulously in his massive four-volume publication on Malta's post-war transformation from a British fortress colony to a sovereign state. Fine reference work on post-war Malta.

[3] Report by Mr. N. Macleod, October 1943 (Macleod Report) and Report on the Finances of the Government of Malta, Sept. 1945, by Sir Wilfred Woods (the Woods Report).

[4] George E. Schuster, 1950 and George E. Schuster, W.D. Scott, and Great Britain, 1957.

[5] The Malta self-government appointed Thomas Balogh and Dudley Seers to survey the Malta economy.

[6] Thomas Balogh and Dudley Sears, 1955, 8; Mark Montebello, 2021, 436-456 on the working relationship of Balogh and Sears with Mintoff.

[7] Mintoff resigned as the prime minister of the self-government in Oct. 1958 and the British government took over governing the island until Feb. 1962, when self-government was restored.

[8] Development Plan for the Maltese Islands 1959-1964, Malta Department of Information, 1959; and Review of Development Plan 1959-1964, Malta Department of Information, 1961. A British governor ran Malta at the time.

of an earlier allocation, not yet used.[9] The total funds available amounted to £32.25m. Of this amount, a total of £12m was allocated to projects already in progress, e.g., the harbour project recently started, and £4m was put into a reserve for later use. New spending amounted to £16.25m, of which £6m was assigned to convert the Dockyard to civilian use, £3m for industrial development and £5m for the promotion of tourism. The main reasons for the review plan in July 1961 were cost overruns due to a 15% rise in wages, difficulties in finding a good solution for the dockyards, the need for a larger power station than initially anticipated and changes of emphasis in industrial policies. Industrialists investing in new industries in Malta did, in general, not wish to build their factories but rather rent facilities on the industrial estates. The sum earmarked for factory construction was increased and funds for grants and loans were reduced accordingly.

10.2.2 The Stolper report

In 1962, the new self-government of Malta invited an economic mission from the United Nations to study the economic problems of Malta and to suggest future policies. The mission was led by Professor Wolfgang F. Stolper, an internationally acclaimed American economist. They submitted their comprehensive report on 28 March 1963.[10] The report by Balogh and Seers from 1955, the Schuster and Scott report from 1957, the Stolper report and Malta's first development plan laid the foundations for Malta's growth policy of the 1960s and 1970s. These reports focussed on export-led manufacturing growth, fuelled by foreign investments and technology, with Malta providing a technically trained workforce, tax incentives and facilities in industrial parks.

The Stolper report was written during preparations for independence and with the Nationalist Party in power. It recommended mass emigration as ‘the only feasible solution in the long run’. The report noted that there was already some success in developing alternative sources of employment to reliance on the British Services' spending, which before had accounted for over a quarter of total employment. The report reads like a 260 pages development proposal, listing various thoughts and ideas. The report proposes export growth, profitable investments, lower import duties and increased efficiency of the public service, proposals for a freeport and the Central Bank and the final chapter on monetary and fiscal policies.[11]

[9] See p.7 in the Development Plan for the Maltese Islands 1959-1964.

[10] Wolfgang F. Stolper et. al., 1963.

[11] Stolper was an internationally acclaimed economist from the US but was born in Austria. A Norwegian statistician and an economist from the Economic Commission of Europe in Geneva accompanied him. Joseph M. Pirotta, 2018, vol. IV, 534-46, is highly critical of Stolper’s attitude, his incomprehension of Malta, and his report.

What is noteworthy is the choice by the self-government of high-level foreign experts for an advisory role on a task outside the experts' core competence and level of experience. They discussed ideas about the future international relations of Malta and whether Malta should join the EEC or EFTA or make special arrangements with Italy or the UK. The authors did not adequately understand the old fortress economy, and they wonder how Malta had avoided balance of payment problems despite hardly any exports. For them, Malta was overpopulated at the time and with no commercially exploitable resources.[12]

10.2.3 The Second Development Plan 1964-1969

The Second Development Plan was different from the first plan.[13] It was prepared by the Malta self-government and not by the British representatives on the island. It is stated on p. 2 that the plan is modelled mainly on the advice tendered to the government by the UN Mission in 1963 (The Stolper Report). The recommendations from the Stolper Report, as a direct part of or in relation to the Second Development Plan and listed on p. 3 in the plan, can be summarised as follows:

- Develop an economic structure favourable to the creation of a viable export economy;
- Only maintain employment in economically viable sectors. Curtail grants and interest-free loans. Only attract profitable investments;
- Set up a Development Corporation that embraces all the functions of ‘Aids to industries’;
- Set up a Freeport as an economic opportunity for Malta
- Establish a Central Bank and create a capital market;
- Lower import duties to keep the cost of production and the wage level low and thus keep international competitiveness high.
- Improve productivity in public administration;
- Keep unemployment bearable by increasing the rate of emigration to 10,000 per annum.
- Set up a capital investment program.
- Its final version contained a capital investment plan of £38.4m for the next five years. At its inception, the plan was not fully funded. An agreement was secured with the British government of £51m for the development plan, of which £18.8m had been assigned for the first 3 years of the capital investment plan, with funds for the last 2 years of the plan

[12] On page 1 in chapter III, it is stated that Malta has achieved a reasonably high standard of living. On the next page, Malta is described as relatively poor. In chapter III, on page 15, they present unemployment and immigration as alternatives. They state that emigration would have benefits for Malta. They urge the Maltese government to negotiate immigration quotas with other countries.

[13] Development Plan for the Maltese Islands 1964-69.

to be negotiated. Of the contribution from the British government, 75% were grants and 25% loans. The projects funded by the plan were many, generally in small amounts, and widely spread, including a telephone network, roads, water, port, electricity, industrial development, tourism, agriculture, fisheries, milk marketing, gas, education, health care, housing, sewers and public buildings.

In his assessment of the implementation of the plan at the end of the plan period, John V. Simpson[14] concluded that Malta had experienced an accelerated reduction in defence employment, considerable growth in employment in tourism and industry and an expansion of the construction industry. New settlers were coming to live in Malta and an increasing number of non-Maltese had been buying property in Malta. All these factors exceeded the anticipations in the plan.

A Joint Commission was set up to examine the economic situation, development plans, Malta's potential and the British forces' run-down. It reported to both governments on 18 July 1967 on how to strengthen the industrial base, on additional employment injected and on retraining.[15]

10.2.4 Later development plans

Despite the post-2nd development plan euphoria, development plans from 1969 onwards were less effective than the first two.[16] Economic progress in Malta was affected by other developments and events that took the edge off the plans themselves, such as:

- Malta signed an Association Agreement with the EEC in December 1970, coming into force on 1 April 1971, intending to eliminate trade obstacles between Malta and the EEC.
- In March 1972, a new Agreement was signed with the government of the UK concerning the use of military facilities in Malta.17 The Agreement remained in force until 31 March 1979. According to the Agreement, the UK government was to pay the Malta government c £100m over the continuance of the period. The Agreement was supplemented by bilateral agreements between Malta and some NATO countries, containing £7.5m in financial assistance as grants and interest-free loans.
- The first development plans focused on converting the Dockyard into a commercial business with little success. The closure of the Suez Canal (1967-1975) was an unexpected

[14] John V. Simpson, 1969, 29-36.

[15] Report of the Joint Mission for Malta, 18. July 1967. Presented to Parliament by the Secretary for State. (The Roben's Report).

[16] Development Plan for the Maltese Islands 1969-1974; Outline of Development Plan for Malta 1973-1980; Development Plan for Malta 1973-1980; Malta Guidelines for Progress, Development Plan 1981-85; and Development Plan for Malta, 1986-88.

[17] Agreement between the Government of Malta and the Government of the United Kingdom of Great Britain and Northern Ireland with respect to the Use of Military Facilities in Malta, 27 March 1972.

shock that reduced marine traffic through the Mediterranean and negatively affected the Dockyard's business prospects.

- The UK government-imposed travel expenditure restrictions outside the Sterling Area in 1966, which lasted until 1970. This resulted in the growth of British tourists in Malta, but lifting the ban ended the short-lived tourism and construction boom.
- A new government took office in June 1971 when Mintoff's Labour replaced the Nationalist government. The change-over happened in the middle of the third development plan, 1969-1974. There was an immediate change of political direction, especially in international relations. Mintoff was not a firm believer in future development plans. He exerted various controls on the economy, a shift in direction from the Second Development Plan, resorting to import-substitution policies rather than promoting international trade.

In August 1973, the government published an Outline of Development Plan for Malta 1973-1980. It was a political document claiming that the two previous development plans had failed to achieve economic independence and viability and that their aid policy had failed. The document contained a general description of the government's intentions. On p. 21, it states that the plan takes its primary motivation from the Labour Party's manifesto. The government issued the Development Plan 1973-1980 in Oct. 1974. It states on p. 4 that the Chinese government had provided an interest-free loan of £17m, that the US government had provided a soft loan of USD 5m and that Libya had provided financial assistance.[18] The Development Plan 1973-1980 was a continuation of the Outline Development Plan. It contained policy deliberations, sectoral guidelines for economic progress, discussed objectives and strategies, growth sectors, institutions and infrastructure. It was a policy document outlining strategies and preferences but insubstantial as a planning document. Two further development plans were issued in 1981 and 1986 but were not prominent in Maltese politics and government administration.[19] In the 1980s, development planning was out of fashion and no longer the foremost approach to economic growth strategies in Malta and elsewhere in Western Europe. Overall, the course of economic development in Malta was greatly influenced by the development planning efforts of the British and Maltese governments during the 1960s and 1970s – the 1970s saw an economic recovery in comparison with the 1960s – although explicit causal links cannot be substantiated.

[18] Development Plan for Malta 1973-1980, 7.

[19] Malta Guidelines for Progress, Development Plan 1981-85, Malta Office of the Prime Minister, 1981; Development Plan for Malta, 1986-88, Malta Ministry of Trade and Economic Planning, July 1986.

10.3 Iceland - Planning for Growth and Development

In principle, the traits, components and politics of growth policies and development planning in Iceland were non-identical to Malta. Iceland has been financially independent since 1918 and had a history of government-funded programmes and interventions. Marshall Aid was a development impetus in the early 1950s, with new investments in power production and industrial plants.[20] Furthermore, a massive effort in constructing the airport and the US base at Keflavik in the early 1950s was also a significant stimulus. The government that held office 1959-1971, 'viðreisn' (resurrection), introduced various stabilisation policies and trade liberalisation measures.[21]

A boom in the herring industry c 1961-1967 had such a positive effect on the economy that no extraordinary growth policies except an extension and modification of the country's undeveloped infrastructure were needed. After a short-lived recession in 1968-1969, owing to a collapse of the herring stocks, new development efforts took shape in the 1970s in response to emerging needs. A new coalition government of the Progressive Party and two left-wing parties took office in 1971. On its agenda was a new centralised economic development and planning institution, approved by an Act of Parliament in December 1971.[22] It was managed by three politically appointed commissioners and run by a board of directors appointed by the Parliament. This bold move attempted to co-ordinate and merge national economic planning and development initiatives, regional policy and related investment funds under one roof as a cross-sectoral collaboration. It proved to be an unwieldy repositioning of national economic planning and development efforts, met with resistance and an uncooperative attitude from other government agencies, ministries and politicians.[23]

The development efforts of the 1970s can broadly be grouped into six types of investment programmes, in addition to substantial agricultural support programs:

1. Renewal of the deep-sea trawler fleet with c 100 new stern trawlers, funded by loans from the Fisheries Fund, the Regional Development Fund and bank loans.
2. A capital investment program for several new and upgraded freezing plants.[24]

[20] The Marshall aid for Iceland amounted to USD 29.2 m, which by applying a USD deflator, was c USD 250 m in 2020.

[21] *Economic Conditions in Member and Associated Countries of the O.E.E.C.-Iceland, 1960*, OEEC, Paris, 5-9. The policy document, *Viðreisn*, was published in 1960. The program results are reviewed extensively in Economic Surveys by the OECD, *Iceland*, published in Nov. 1961. See also a book by Gylfi Þ. Gíslason, 1993 and a paper by Jóhannes Nordal, 1981.

[22] Act nr. 93/1971 Framkvæmdastofnun ríkisins.

[23] This opinion is based on the author's experience. He worked there as a student intermittently from 1974-1977 and full-time as a development planner from 1979-1981. The institute began breaking up in 1974 and closed 1985.

[24] Framkvæmdastofnun ríkisins [Economic Development Institute], Hraðfrystihúsaáætlun, 1974.

3. A capital investment program rebuilding the fishing town of Vestmanna Islands after the volcanic eruption in 1973 caused massive damage to houses, commercial buildings and infrastructure and temporarily displaced five thousand people. The state was the leading funder of the rebuilding program but was in close cooperation with the local authority.[25]

4. The government initiated in the mid-1970s a programme of new geothermal projects. The objective was to explore new geothermal sources and replace oil as the primary mode of power for heating houses.

5. A program of harnessing new hydro-power projects to attract foreign investments in power-intensive industries. The National Power Company, the owner of the power projects, and the Central Bank led the program jointly. The National Power Company funded the investments primarily through foreign loans.[26]

6. The 1970s saw significant state investments in infrastructure, including roads, harbours, airports, electrical power lines, telecoms, school buildings and hospitals.

Around 1980, the government was heavily in debt after the massive investments of the 1970s. The economy suffered in the early 1980s and the government devaluated the ISK repeatedly. Inflation rose to extreme levels.[27]

All in all, Iceland saw sustained but variable economic progress over the 1960s and the 1970s. The government's approach to planning included excessive political control of investment loans, subsidies and grants. Generally, a short-term view prevailed with plans prepared in response to crisis rather than reflecting long-term strategic proactive thinking. Iceland did not have the parent-guardian discipline and financing that Malta had in the development planning of the 1960s and 1970s. Iceland's approach needed to be more disciplined, flexible, and ad hoc. On the negative side, as was explained in Chapter 9, Iceland relapsed its monetary, fiscal and foreign exchange policies in the 1970s, which turned out to become an economically tumultuous decade.

Iceland had an undeveloped infrastructure. The road network consisted of gravel roads, most used during summer only. Hardly any road tunnels had been built, and several small rivers were unbridged. Many small harbours and landing places existed along the coast, but only a few could accommodate larger ships. Many needed much better breakwaters. Some places had landing strips for small aeroplanes and seaplanes served many communities. Capital investment plans for the transport and telecommunications infrastructure were part of the annual state

[25] Viðlagasjóður, 1977. [Report of the Rescue and Resettlement Fund for Vestman Islands]. Guðjón Ármann Eyjólfsson, 1973. Some foreign aid was received as well.
[26] Jóhannes Nordal, 1979a; 1980.
[27] See three articles by the Director of the Central Bank, Mr. Jóhannes Nordal, 1981, 1982 and 1985.

budget, proposed by the Ministry for Transport and debated in Parliament. However, developing the infrastructure was a colossal task that took decades to build to modern standards.

The power infrastructure, i.e., electricity and geothermal, was controlled by the state and the local authorities, which owned the power companies. They funded their capital investments mainly by foreign loans and sold the power to users. The power sector saw massive capital investments in the 1970s, as is examined in section 10.5.2. The local authorities were responsible for water works and sewage, which they funded from their budget but charged users. The state provided subsidies and financial support to power projects and utilities in different forms and for different purposes, i.e., state guarantees for colossal capital investment loans, power lines in sparsely populated areas and subsidised electricity costs.

The role of government in the modernisation and development of infrastructure in Iceland during the second half of the twentieth century was decisive and pivotal. It was indeed crucial for the development of the fishing industry, the power-intensive industries, tourism and other key sectors as well as of essential services like health care and education.

10.4 Malta – Growth Policies and Business Sectors

The central policies promoting the growth of business sectors in the 1960s and 1970s focused on manufacturing for exports and the promotion and support of tourism. The imposing growth of manufacturing in Malta in the 1960s and 1970s was largely based on export-led foreign direct investments, foreign technology and contributions from the Malta government, e.g., in the form of ready-made industrial buildings, tax concessions and other financial incentives. Malta already had some history of industrialisation, albeit one directed towards the provision of dockyard services (primarily naval repair) rather than the production of goods. The British state owned the naval dockyards. Like most defence-related activities, these did not produce a surplus, their role being to serve Britain's strategic reasons. In their heyday, they provided massive employment, trained thousands of men in industrial and technical skills and supported significant urban growth, especially in the Three Cities and adjacent communities around the Grand harbour.[28]

It was evident soon after the 1956 Suez Canal debacle that Britain would not maintain the same military presence in the Mediterranean as in the past. The British government had already begun to lay off employees in the dockyards in significant numbers in the 1950s and 1960s. It was clear for the Maltese self-governments in the 1950s and early 1960s, and the government after independence in 1964, that other types of industries were needed to provide employment for displaced dockyard workers and to secure future economic growth; otherwise,

[28] Godfrey Baldacchino, 1988.

those looking for work were encouraged to emigrate. Development plans, as noted earlier in the chapter, advised export-led manufacturing.[29] Malta had a small domestic market and was far from the UK, the first large export market for the manufacturing industries was established in the 1960s.[30]

The government built the following industrial estates: Attard Industrial Estate, Bulebel Industrial Estate, Ħal Far Industrial Estate, Kordin Industrial Estate, Luqa Industrial Estate, Marsa Industrial Estate, San Ġwann Industrial Estate, Mosta Technopark and Xewkija Industrial Estate in Gozo (Għawdex). The government did also make efforts to improve the island's infrastructure, as previously mentioned. During the last quarter of the twentieth century, Malta's most significant industrial sectors were shipbuilding and repair, construction, electronics, pharmaceuticals, textiles, food and beverage and various small and medium-scale manufacturing. Many of the firms were on the industrial estates.

The first steps in providing financial support for manufacturing growth in Malta were managed by the Aids to Industries Boards, based on the Aids to Industries Ordinance of 1959. They were initially in the form of grants but later more in the form of interest-free loans. The Malta Development Corporation set up in 1967, became responsible for implementing the government's industrial development policy.[31] It promoted Malta abroad, received enquiries and applications from potential foreign investors and supported them once their proposals were approved. By 1970, the government had built 96 factories on the industrial estates.[32]

The Maltese government enticed foreign manufacturing companies in the 1960s and 1970s to set up production plants in Malta for exports and to take advantage of the skilled local workforce looking for work, as well as competitive salaries, tax concessions and various support measures.[33] Several foreign companies came and built up their specialised production for exports, and quite a few stayed in the long term.[34] Most have since advanced technologically, increased their production and made productivity gains. All in all, Malta experienced a sizeable level of export-led industrialisation driven by foreign direct investments and foreign

[29] There is extensive literature on industrial policies and the manufacturing sector in the 1960s and 1970s, including two Ph. D theses, i.e., by Mario Brincat, 2008 and Joseph Muscat (prime minister 2013-2020), 2007. See also papers by Mario Brincat, 2009 and Josef Bonnici, 2000. A paper by Luke Georghiou, 2014, discusses the specialisation strategy in Malta in the context of a micro-economy with an industrial structure. Other papers on manufacturing include Huw Jones, 1971; Richard Pomfret, 1982; Philip Beattie, 2004.

[30] Mario Brincat, 2009, 36.

[31] Mario Brincat, 2017, outlines the first years of the Malta Development Corporation.

[32] Edward J. Spiteri, 1997, 140-144; B.S. Young, 1963.

[33] See an informative Doctor of Laws (LL.D.) thesis on tax incentives provided by the Maltese government in support of industrial growth by Sara Vella Bonnici, 2013.

[34] Examples of companies include ST Microelectronics, various pharmaceutical companies, Toly Products, Playmobile, Carlo Gavazzi, De La Rue, Cardinal Health and Crane Currency.

technology.[35] The industrial growth was sufficient to replace jobs lost through the run-down of British and NATO military bases and the down-scaling of the dockyards, making further mass emigration unnecessary and funding the growth of the welfare state, health care, public education and infrastructure.

In the 1960s, the economic strategy aimed at gradually diversifying the Maltese economy away from its reliance on the British military presence. The government saw tourism as a significant prospect for economic growth and employment. Tourism development in Malta started in the late 1950s, with the government initiating a programme of capital spending on improved access to beaches, along with promotion and advertising. Initiatives, such as setting up the Malta Government Tourist Board in 1958, led to moderate increases in the number of tourist arrivals. However, although more costly, the adoption of grants to encourage hotel developments in the mid-1960s was quite successful.[36]

Tourism in Malta grew mainly through the initiatives of private enterprises supported by the government. The sector initially benefitted from solid British ties with the island, and British tourists dominated the scene. The government helped with planning and development permits, but finding suitable sites for hotel developments was challenging. Interestingly, Malta had neither sandy beaches nor golf courses to speak of and had to attract tourists seeking the favourable climate, entertainment, hotels, pubs, restaurants and heritage.[37]

The government's most significant step in developing tourism in Malta was in March 1973 when Air Malta was founded and registered as a limited liability company. It was granted an Air Service License valid for ten years starting from 1 April 1973. The company began scheduled services a year later to the UK, France, Germany, Italy and Libya.

10.5 Iceland - Growth Policies and Business Sectors

The critical growth policies addressing business sectors in Iceland in the 1960s and 1970s favoured the fishing industry and power-intensive manufacturing. Agricultural policies carried a solid political clout but revolved around government intervention, subsidies and production and marketing controls. Regional policies became politically significant in the 1970s, offering additional incentives and support for sparsely populated areas where the fishing industry was promi-

[35] Termed ELIFIT by Leslie Sklair, 1991, i.e., export-led industrialisation fuelled by foreign investment and technology.

[36] Tourism was seen as a potential growth sector in the early development plans, e.g., on pp. 37-39 in the first plan, 1959. Papers on the early phases of tourism growth in Malta include Douglas G. Lockhart and Susan E. Aston, 1991; Douglas G. Lockhart, 1997; Ian P. Cassar, Kevin Vella and Sean Buttigieg, 2016 and Leslie Vella, 2019.

[37] The early waves of tourism were package tourists, attracted by the sun and the sea, and some sandy beaches, i.e. Mellieha and Golden Bay. The early arrivals were primarily British. The ability of the Maltese to speak English was an attraction, as was the general familiarity with Malta by the British. The pull of heritage was initially limited.

nent. Regional policies were neither involved in infrastructure, power-intensive industries, nor agriculture.

10.5.1 The fishing industry

The fishing industry was Iceland's most important economic activity during the second half of the twentieth century and the country's main source of export income.[38] Technological transformations and huge government-funded investments shaped the advancement and growth of the industry in the post-war period, encompassing modernisation of the fleet, fishing gear, processing plants and export marketing strategies. The industry's economics were controlled and regulated by complicated transfer and redistributive schemes from the 1950s until the 1990s, based on income from export levies on fish products and ‘devaluation gains’.[39]

Policies addressing the fishing industry in the post-war period and until the late 1970s focused mainly on controlling, supporting and intervening in investments, operations and exporting activities. Another policy focus of even greater importance was Iceland's cooperation with other fishing nations of the Northeast Atlantic and the drive to extend the fishing limits. The lack of total control over the fishing grounds until 1976 was a severe weakness that limited the scope of resource management policies that the government could effectively pursue and affected hence growth prospects and the industry's productivity.

An important step was taken in 1948 when the Parliament enacted the Continental Shelf Act.[40] The Act contained provisions for the government to introduce various protective measures such as closed areas, closed seasons, fishing gear restrictions and the minimum size of fish caught. Agreements with foreign nations fishing in Icelandic waters included provisions to ensure they respected the protective measures. The extensions of the fishing limit in 1952 to 4 miles, in 1958 to 12 miles, in 1972 to 50 miles and in 1975 to 200 miles were all unilateral.[41] Britain opposed the extension of the fishing limits and sent naval vessels to protect their trawlers in Icelandic waters. The British government retaliated with an import embargo on Icelandic fish entering the UK.[42]

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[38] The following books extensively address and outline the history of the Icelandic seafood industry during the twentieth century: Sigfus Jónsson, 1984 and Ragnar Árnason, 1994. See also papers on the economic importance of the Icelandic fishing industry by Agnarsson and Arnason, 2003; Arnason and Agnarsson, 2005 and Stefán Gunnlaugsson and Hörður Sævaldsson, 2016.

[39] The system was restructured and simplified by an act of Parliament Act. Nr. 5 1976, but was still quite extensive until the 1990s; new intervention measures and transfer payments were added in the late 1980s.

[40] Landgrunnslög nr. 44/1948.

[41] These are nautical miles.

[42] Ph D thesis by Guðni Jóhannesson, 2003; Guðmundur J. Guðmundsson, 2006.

The government led a renewal programme of the deep-sea trawler fleet in the 1970s, with c 100 new stern trawlers financed by loans from the Fisheries Fund, the Regional Development Fund and bank loans; the funds and the banks were, in turn, funded by foreign loans. Foreign investments in the fishing industry were prohibited. The investment program reflected the desire of most coastal villages to be ‘allocated’ at least one trawler, a wish usually supported by their local MPs. By 1977, the trawler fleet had reached over-capacity, and the trawlers had become subject to various measures of restricted fishing effort. By 1981 they had to abstain from catching cod for 150 days a year.[43] The leading fish stocks were already showing signs of over-exploitation.

In addition, the government, in cooperation with the industry, instigated a capital investment program for new freezing plants and an upgrade and extension of existing plants, a plan prepared by The Economic Development Institute in 1974. The Fisheries Fund and the Regional Development Fund were the primary funders of the plan.[44]

An export levy financed the transfer and redistribution schemes. The levy was in 1950 set at 2% of the fob value of fish exports. After the hike in oil prices in October 1973 and the consequent inflation, devaluations and interest rate rise, the export levy had risen to 16% towards the end of 1975.[45] It was lowered to 6% on all product groups by an Act of Parliament in 1976.[46] Over half of the income from the export levy was allocated to the Catch Equalisation Fund, 20% to pay for insurance of fishing vessels, 18% to the Fisheries Fund, and the rest for various associations, inspection and research.[47]

A levy based on 'devaluation gains' financed another transfer scheme. On the day of a devaluation, all products that had been cleared for export, but payments had not yet been received, were subject to a levy of 50% of the 'devaluation gain'. The income from the levy subsidised certain types of vessels or fish plants affected by low catches or operational difficulties.

10.5.2 The power sector

The exploitation of the rich geothermal and hydro-power resources began unhurriedly on a small scale early in the twentieth century. The chief sources of the harnessed power were either geothermal (boreholes) or hydro-power (dams and waterfalls). Hydro-power produces electricity while geothermal power supplies hot water or steam to district heating systems and/or turbines

[43] Sigfús Jónsson, 1984, 146-147 and Elías Björnsson, 1990.
[44] Framkvæmdastofnun ríkisins, Hraðfrystihúsaáætlun, 1974.
[45] The export levy varied between product groups but was, on average, 16%. See Sigfús Jónsson, 1984, 254-258.
[46] Act Nr. 5 1976
[47] These percentages are from the 1970s, but they kept changing.

producing electricity. The largest electricity users were, and still are, the power-intensive industries. These two energy sources are unalike. Geothermal water for heating or other uses is pumped through a local distribution system built from the geothermal resource to settlements nearby. Electricity is, however, distributed long distances over the national grid from the power production site. Electricity was unavailable for many small towns and rural areas until the 1950s and remote farms until the 1960s. The first large-scale geothermal system emerged in Reykjavík during the Second World War.

Deliberations of large-scale hydro-power projects and associated power-intensive industries evolved in the early 1960s, initiated by the government. Negotiations with the Swiss aluminium company Alusuisse, were concluded by an agreement to build and operate an aluminium plant in Straumsvík, near Reykjavík. The state and the City of Reykjavík jointly formed the National Power Company in 1965 to undertake major electrical power projects.[48] Construction of the aluminium plant at Straumsvík began in 1966, and production commenced in 1969.[49] The National Power Company developed the hydro-power project at Búrfell and built the transmission lines to supply the aluminium plant. In 1970, the first full year of aluminium production, its export value was 5.3 m USD.[50] Other hydro-power projects were Sigalda (150 MW) and Hrauneyjafoss (210 MW), which began production in 1978 and 1981 respectively.[51] A ferrosilicon plant was built in the late 1970s, with 1979 as the first full year of production.[52]

Government policies for electrical power production, distribution and sales in the 1960s and 1970s were characterised by full public ownership, i.e. the state and the local authorities. Investments were funded mainly by foreign loans and Marshall Aid in the 1950s. The geothermal power systems for space heating were in the 1960s and 1970s almost exclusively developed and owned by local authorities, funded by foreign loans with a state guarantee. The state and local authorities developed a geothermal power plant producing electricity, i.e. Svartsengi and Krafla. The state and the National Power Company negotiated terms with foreign companies in power-intensive industries, e.g. aluminium, for their investment projects in Iceland, including the sale of electricity, taxes, planning permits and various conditions. From around 1970

[48] Act Nr. 59/1965. https://www.althingi.is/thingstorf/thingmalalistar-eftir-thingum/ferill/?ltg=85&mnr=201

[49] The aluminium plant has been extended and upgraded a few times. It is currently owned by Rio Tinto. See https://www.riotinto.is/.

[50] Jóhannes Nordal, 1980.

[51] The power plants of Búrfell, Sigalda and Hrauneyjafoss are all in the same river system of Þjórsá and Tungnaá.

[52] The plant is currently owned by Elkem. See https://www.elkem.is/. It was initially established as a joint venture between the Icelandic government and the US corporation Union Carbide. The state remained a significant shareholder until the early 1990s.

onwards, the new large-scale power projects also offered surplus electricity for businesses and homes cost-effectively, which was advantageous for families and firms.

A program involving new geothermal projects for different communities in Iceland was initiated in 1974-1975, mainly to replace oil as the primary power source for heating houses in several communities.[53] The first step entailed drilling exploratory boreholes before locating the geothermal heat source and hence, harnessing the energy. The projects were capital-intensive, including distribution networks, funded by foreign loans with a state guarantee.[54] They proved profitable and valuable in the long run but were debt-ridden for the first 10-20 years.[55]

10.5.3 Agriculture

Agriculture had its ministry and various intervention measures, including investment support, subsidies, production control, marketing and advisory services. It carried firm political clout, e.g. due to its long history and geographic distribution throughout the island. Agriculture received more significant subsidies from the state treasury and was under stricter government control than any other economic sector during the post-war period. Production, supply, prices and market interventions were widespread, involving the government, the co-operatives (dairy factories and abattoirs), the farmers' union and the Progressive Party, which many farmers supported. Imports of agricultural goods such as meat, dairy products and potatoes were prohibited. Export subsidies, which lasted for decades, were a ‘political solution’ to the over-production of lamb meat. Based on the optimistic view, foreign markets would pay a premium price for Icelandic free-ranging lamb.

Government support for agriculture had a wide public backing, owing to factors like food security, generally good product quality, rural family roots and rural policy patronage. Consumers had by the late twentieth century begun to contest various market restrictions, lack of choices and high prices of agricultural goods, despite sustained over-production. Economic analysis of agriculture showed that its share in GDP declined during the study period.[56] The post-war period was marked by considerable farm abandonment and outmigration from the farming districts, especially from the remote ones. Production grew and became more

[53] The National Energy Institute published in 1981 an overview report and a planning document on the district heating systems [Orkustofnun, Húshitunaráætlun I, 1981]

[54] Þjóðhagsstofnun, Jarðvarmi og hitaveitur, Report 1984, 128 bls. [National Economic Institute, Report on geothermal power and local district heating systems. English summary on pp. 123-125]

[55] The author was the town manager of Akureyri 1986-1990. The local authority owned the district heating system, which was inaugurated in 1977. In 1987 the capital loans were refinanced through City Bank of London around USD 32 million, a heavy burden for a town of 15 thousand people — similar debt levels were in Akranes and the Vestmanna Islands.

[56] Report by the National Economic Institute on agriculture, see Þjóðhagsstofnun, 1992.

concentrated on fewer and larger farms, more technically advanced and market-oriented, i.e., vegetables, chicken, pork, beef and new dairy products.[57] Farming in Iceland is quite challenging due to the inhospitable climate. The role of the state in agricultural development during the second half of the twentieth century – land improvements, investments in buildings and machinery, production subsidies, market manipulation and price control - was extensive and quite costly.

10.6 Commercial Enterprises held by the Public Sector[58]

Over the 3-4 decades following the Second World War, many states and public sector entities in Western Europe invested in commercial activities which were added to their role of providing public services and physical infrastructure. Investments were made in e.g., airlines, shipping, ferries, banks, power companies, shipyards, mining companies, fisheries, manufacturing and tourism. The main motives behind such investments varied, including grave unemployment, economic recession, bankruptcies and shortage of private capital for large-scale projects. Additionally, there were run-down industries, which were economically and politically important, in need of capital injection and restructuring.

One significant factor behind state investments in the economy was the strength and influence of left-wing parties in Western Europe during the first 2-3 decades after the Second World War. Excluding the two-party politics of the UK, quite a few Western European countries had coalition governments during the 1950s and 1960s, many with socialist, social-democratic and labour parties being influential in imposing their political ideologies. Hefty state investments in economic activities in Western Europe during the first decades of the post-war era tended to carry on over the 1970s and 1980s, after which governments began to divest their state holdings as divestments and privatisation became more pervasive.

10.6.1 Malta

Growing government entanglement in economic activities and business operations, as well as the upsurge of state holdings in commercial enterprises in post-independence Malta, may be appropriately explored via four different paths, as follows:

1. The policies of the Nationalist government 1964-1971 were characterised by development plans (which began in 1959), the expansion of industrial estates and

[57] See a set of four volumes on the history of agriculture in Iceland by Árni Daníel Júliusson and Jónas Jónsson, 2013

[58] Includes enterprises held by the state, local authorities and other public sector entities.

incentives aimed at attracting foreign direct investments for export-based manufacturing (narrated in 11.2).

2. Expanding state investments in economic activities during the Labour reign 1971-1987, e.g., taking over previously British-owned and controlled services.
3. The colossal state involvement and financial commitments in the dockyards for decades after the British government took them over in the 1960s.
4. The change of policy towards lesser state involvement in economic activities, divestments and privatisation during the Nationalist governments, beginning in 1987 (Chapter 11).

The Labour policies of 1971-1987 were a subtle approach by the government to generating employment and building up essential services where a private sector initiative was not forthcoming. High tariffs, a small local market, a weak private sector and large-scale moribund British government operations marked the business environment in Malta in the 1970s. The undertone of the island state's residents and community groups were requests to the government for more jobs, economic growth and an improved standard of living. State investments in the economy from 1971-1987 were mainly through three different avenues:

a) Specific acts of Parliament. Such corporations included Malta Drydocks (take-over), Enemalta Ltd. (electricity) and Telemalta Ltd. (telecommunications).
b) State shareholdings in companies where the treasury held the shares. Companies included Air Malta and a few banks.[59]
c) Investments held by Malta Development Corporation (MDC), on behalf of the government, as shares in various commercial businesses. In 1987, the MDC held shares in c 25 companies, of which seven companies were 100% owned and seven less than 50%.

The state became engaged in producing and distributing electricity, air and sea transport, telecommunications and banking. In the early 1970s, some companies were owned by foreign investors, but the government sought their nationalisation. Examples included Mid-Med Bank Ltd., which was previously Barclays Bank Ltd., and Telemalta Ltd., which was previously Cable and Wireless Ltd. Full or partial nationalisation of previously owned Maltese enterprises was carried out. Bank of Valletta took over the National Bank. Gozo Channel was formed as a joint venture with private operators, with the state holding majority shares. New enterprises set up by the government included Air Malta, Sea Malta, Lohombus Corporation, the Investment Finance Bank, Malta Counter Trade Co., Medigrain, Belt il-Hazna Containers, Industrial Warehousing

[59] The shareholding in Dec. 1992 was: Air Malta Ltd. (96.4%), Malta Counter Trade Co. Ltd. (90%), Lombard Banka (Malta) Ltd. (72.3%), Mid-Med Bank Ltd. (66.66%), Malta Shipbuilding Co. Ltd. (61%), Mediterranean Oilfield Services Co. Ltd. (55%), Bank of Valletta Ltd. (51.2%), Maltese Libyan Arab Fishing Co. Ltd. (50%), Libyan Arab Maltese Holding Co. Ltd. (49%) and Investment Finance Bank Ltd. (37.05%). Information provided by Edward Scicluna, 1993, 15.

Services and Middle Sea Insurance Co. Ltd. These companies operated within a protected market structure, or some even as monopolies, and were hence profitable. Other state investments were related to the government's take-over of foreign-owned manufacturing companies ceasing operations due to operating difficulties. Malta Development Corporation bought some bankrupt foreign-owned subsidiaries and turned them into parastatal companies or worker co-operatives, mainly to save jobs.[60]

Malta had a few examples of joint ventures with foreign government investment agencies, e.g., from Libya, China and Czechoslovakia, or private companies from the UK, France and Switzerland. The state made some investments in export manufacturing, intending to create jobs and as an alternative to further inward foreign direct investments. The experience was mixed, and some initiatives - such as the maligned chocolate factory - ended in liquidation. Lessons learned from such investments were that government businesses thrived best in monopolistic situations but succumbed when they entered competitive foreign markets.[61] At the end of 1987, 40 parastatal companies had either ceased operations or were in liquidation.[62]

Around the time of independence, it was quite clear that the Malta Dockyard was a run-down and outmoded gargantuan establishment – loss-making and over-staffed – of huge importance to the island economy, politically sensitive, facing bleak business prospects, requiring massive new investments and a new business strategy for future survival. Earlier on, the British government had concluded that owing to changes in its defence policy, it could no longer justify the operation of the Dockyard, employing c 9,000 people.

In 1959, the British government leased the Dockyard to C H Bailey (Malta) Ltd., a subsidiary of a British civilian firm of ship repairers and marine engineers. In 1961, Bailey was assigned the work of developing the Dockyard further. Differences arose between Bailey and the British government in 1963. Swan Hunter Association was brought in a year later as a managing agent of the development work on the Dockyard. After the Maltese government dispossessed Bailey following the wholesale nationalisation of the Dockyard in 1968, the Dockyard was closed as a naval base and the Royal Navy withdrew entirely in 1979. An elected workers' council managed the Dockyard between 1975 and 1997 with the main task of repairing

[60] Examples: Phoenix Textiles, Blue Bell (Gozo), Dragonara Hotel& Casino, and Hotel Veranda. A book by Mario Brincat, 2017, outlines the first years of the Malta Development Corporation in the late 1960s and 1970s.

[61] Edward Scicluna, 1993, 19.

[62] 35 companies were owned directly by the state and 5 by Malta Development Corporation Funds. The shares of 14 of these companies were 100% held by the state or the MDC. Examples include Handtools (Malta) Ltd., Malta Decorative Glass Ltd., Malta Rattan Co. Ltd., Marsa Water Fittings Co. Ltd., Mdina Carpets Ltd., Mdina Crafts Ltd., Mosta Spinning and Weaving Mill Ltd., Malta National Handtools Ltd. and John Baker (Malta) Ltd.

civilian ships. The burden of liability for the Dockyard was, in essence, shifted to the Maltese government.

10.6.2 Iceland

The preponderant investments in state- and community-held enterprises in the 1960s and 1970s took many different forms: Through the state directly, state institutions, state-owned investment funds or state-held enterprises; through one or more local authorities, sometimes in partnership with the state or a local co-operative; and through the many community-owned co-operatives and the Federation of Co-operatives (SÍS) which held large-scale and extensive business investments in Iceland and abroad. It can be categorically stated that the state, local authorities, co-operatives and other community-owned entities were dominant in Icelandic business investments during the post-war era and until the 1990s. Their objectives were job creation, support of isolated communities and capital-intensive projects, often in monopolistic and government-controlled markets, e.g., banks, energy, water services, harbours, dairy factories, abattoirs and fishing companies. The slowly growing private sector had by the 1970s and 1980s begun to complain about a lack of business opportunities as the state already controlled many lucrative businesses, along with local authorities and co-operatives.

State-owned enterprises emerged in the late nineteenth and early twentieth century.[63] The first state-owned bank, Landsbanki, began operation in 1886. The government set up the Fisheries Fund in 1905 and two new banks in 1930. The first state-owned industrial production, the State Herring Factories (SR), began operation in 1930. The first factory, built at Siglufjörður, was a reduction plant, producing fish oil and fish meal from herring. The company was for decades the largest producer of fish meal and oil in Iceland from pelagic species, but was privatised in the early 1990s.

A few local authorities set up deep-sea trawling companies in the post-war period, the largest ones being Reykjavik (BÚR) and Akureyri (ÚA),[64] while Hafnarfjörður (BÚH) had established one in 1931. They built fish plants as well. Some smaller local authorities invested in deep-sea trawlers and fish plants, often in cooperation with private investors and/or the local co-

[63] Guðmundur Jónsson, 1983 and 1992. The finances of Iceland were separated from Denmark in 1871 when the Icelandic treasury was founded. The Danish king granted Iceland a constitution in 1874, whereby the Parliament (Althingi) obtained legislative power in financial matters. The Icelandic treasury funded the first government-held commercial enterprises, and it is probably not appropriate to use the term ‘state-owned’ for Iceland until after 1918.

[64] The ÚA trawling company was established as a community-wide privately funded venture in 1945 to secure an allocation to Akureyri of deep-sea trawlers from the government investment programme. The local authority was one of the shareholders. It later invested heavily in the company to keep it afloat and held c 77% of the shares. The local authority privatised the company in the late 1990s.

operatives.[65] Each local council had its development agenda, but most investment loans were funded through state investment funds or state-owned banks. Fishing companies, owned partly or wholly by local governments and/or local co-operatives, invested heavily in trawlers and fish plants during the 1970s. By the year 2000, most local authorities had sold their shares in the fishing companies and many of the co-operatives had been closed.

The Marshall Aid Program augmented state investments in industries and power companies. The state used the Marshall Aid to build a fish plant and a fertiliser factory in Reykjavik and became a part-owner in two hydro-power projects with the Reykjavík and Akureyri local authorities. The state built a cement factory in Akranes which opened in 1957.[66]

Iceland had two international airlines, which merged in 1973 under the Icelandair brand. The state had become involved in commercial aviation in the 1960s through small equity, loans and loan guarantees for the airline serving the domestic routes. The merger in 1973 was initiated and spearheaded by the state, which later divested its minority shares in the company.

A profile or cross-section of state-owned enterprises in the 1960s and 1970s showed a portfolio of various companies. The state was a lead investor, developer, producer, distributor and controller in the electrical power sector, and the local authorities in the geothermal sector. The state dominated the banking sector as the sole owner of two out of three of the largest banks and as the owner of the most significant investment funds. Community-owned local savings banks were quite common. The state owned the national broadcasting company, telephone and postal services, and the aviation authority. The state was also an investor in industrial production. In addition to a fertiliser plant, cement factory and fish plants, the state was a 51% owner of a geothermal-driven silica plant at Lake Mývatn at its foundation in 1966. The factory closed in 2004. The state became in 1975 a significant shareholder in a power-intensive manufacturing plant producing silicon products in cooperation with the US corporation Union Carbide. It remained a significant shareholder until the early 1990s. Icelandic Prime Contractors (IAV), founded in 1954, were the main contractors working for the US government at the NATO base in Keflavik. The state was the largest shareholder, with 52% holding in 1997, when privatisation of the shares began. The list of state-held investments in enterprises contained many more businesses, but the largest ones are mentioned above.

A similar profile of local authorities' involvement in companies funded mainly by user fees or service charges and not by taxes, included water works, sewage, geothermal district heating, distribution and sale of electricity, ports and public bus services. The local authorities

[65] Þorleifur Óskarsson, 1987.
[66] Gunnar Ágúst Gunnarsson, 1996.

could, in some instances, be indirect owners through shares held by their subsidiary companies, e.g., their port authority or power company. Some companies owned by the co-operatives ended in private hands during the 1990s, and others were closed, but a small number of co-operatives survived and retained their business.

10.7 Synopsis

Western governments grew considerably in size, scope and power over the 1960s and 1970s, Iceland and Malta included. Both embraced economic and industrial policies and planning, as well as capital investments in infrastructure and commercial enterprises, with different attributes in each island state. Malta was at a less-advanced stage of economic development than Iceland and embraced cross-sectoral plans and programmes, which Iceland did not, as it adhered to sectoral-based policies and planning. The Icelandic economy flourished in the 1960s while it still had an undeveloped rudimentary infrastructure.

Malta had its political power centred at the state level, with problems and legacies inherited from, or related to, British rule in the past (e.g., Dockyard and the first development plan) and funding coming mainly from Britain until the 1970s. Industrial growth efforts focussed on manufacturing and tourism. The number and scope of state-held enterprises grew from the 1960s to the 1980s under different investment motives. Some investments were unequivocal and purposeful, e.g., the industrial estates and utilities, others of national importance like Air Malta, Enemalta and the dockyards.

The development strategies and political priorities in Iceland focused on the fisheries but with additional emphasis on power production and power-intensive industries. With its solid political clout, farming was addressed through incentives, subsidies, marketing and production control. Due to the country's size and powerful rural votes, capital investments had a weighty regional focus. Ambitious growth policies, plans, and politically-controlled investment funding gave rise to over-investments in fishing vessels and fish plants in the 1970s. State-owned enterprises grew in numbers in the 1950s and 1960s, often by default, as the private sector was unable to undertake large-scale investments.

Characteristics of the period from the 1950s to the 1970s were various restrictions in cross-border trade in goods and services, high customs duties and even barter trade. Foreign exchange markets were highly regulated and unwieldy to trade on; most states had their own currencies. The years 1974-1983 were economically tumultuous and somewhat disorderly in the Western world, which made long-term planning an arduous task, while short-term responsive economic measures became steeped in political reality. The rebound of growth policies came in the 1980s and 1990s, but with changes in emphasis based on new political ideas and economic thoughts, as will be explored in Chapter 11.

11 GROWTH POLICIES, PRIORITIES AND PLANNING - 1980s AND 1990s

11.1 Outline

Political and economic winds of change began to blow in Europe, North America and further afield during the 1980s and more forcefully in the 1990s. New waves closing in on Iceland and Malta involved a retrogression of the previously pervasive government control and intervention policies and the rise of neo-liberal attitudes, in addition to the privatisation of state-owned assets, outsourcing of public services and demand for structural reforms. Political and legislative changes emphasised greater competition, growing market efficiencies, the right to information, more open administrative procedures and less direct government control. Globalisation was rising; the Iron Curtain fell, and Europe saw new developments and an extension of economic cooperation to many new countries. Monetarism rose to prominence at the cost of conventional Keynesian fiscal demand policies. Some structural reforms were unveiled with Iceland joining the EEA in 1994 and in Malta after an application to join the European Community was first submitted in 1990, and preparations for EC membership began. Through technological advances and productivity gains, fewer people worked in agriculture, fisheries and manufacturing than before, while the number of service jobs escalated. The quaternary sector of the economy emerged in the 1980s and 1990s as a prelude to its significant role in the twenty-first century, associated with the growth of intellectual pursuits and the expanding knowledge-based economy.

The chapter will reflect upon how both island states moved forward purposefully from the mid-1980s after a slack economic performance in the early-1980s.[1] The deliberation in the chapter will be both eclectic and discerning and show advancements and shifts in policy approaches, reflecting new political and economic headways made during the 1980s and 1990s. The dialogue and review in the chapter seek to be insightful and the archetypal policies and programmes selected for review will provide a good representative coverage of government policies and the political economy conundrums of the 1980s and 1990s.

[1] Iceland had another period of weak economic performance from 1988 to 1993, while the Maltese economy flourished.

11.2 New Wave - Competition, Deregulation and Structural Reforms

11.2.1 Malta

Structural reforms and supply-side policies gained momentum in Malta in the 1990s. The government at the time envisaged its role as creating an environment where free enterprise and competition would flourish.[2] The new policy emphasis enhanced deregulation, a greater role role of the private sector and an economy open to external competition, with early policy instruments involving tax reforms, the elimination of price and import controls and a partial deregulation of financial markets. The government retained a significant presence in the national economy through direct control of resources (c 40% of workers were in the early 1990s still employed by the public sector in one form or another) and through an active industrial policy. However, it simultaneously implemented a privatisation policy, as elaborated in section 11.3.[3] The IMF reported in 1999 argued that, despite advances during the 1990s, the government had evaded critical structural shortcomings.[4] The leading retail banks were privatised partially in 1999, interest rates liberalised and monetary policy shifted towards indirect instruments. VAT was introduced in 1995. The IMF Report in 1999, in line with earlier IMF reports, addressed the ongoing problem of overstaffing in the public sector. It also pointed to a reluctance to move beyond hiring freezes to curb overstaffing in persistently loss-making public enterprises. Another issue of concern was unchanged water and electricity rates since the early 1980s. The public sector wage bill absorbed nearly 12% of GDP, and public enterprises a further 4-5% of GDP in subsidies and an unremitting flow of state-guaranteed credit, the due balance of which stood at 37% of GDP by the end of 1998.[5] Following a change of administration in 1996, the new Labour government withdrew Malta's EU application and refashioned the two-year-old VAT system. Fiscal imbalances and policy uncertainties resulted in the downgrading of Malta's credit ratings.[6]

After the Nationalists returned to power in 1998 and reinvigorated the application for EU membership, public policy initiatives and amendments focused on preparations for meeting EU accession requirements over the next few years. Like other applicant states, Malta was obliged to have a well-functioning market economy with liberalised trade, an enforceable legal system

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[2] Nadia Farrugia, 2004. The PN government was in power 1987-1996 and 1998-2013.

[3] IMF, Malta—Recent Economic Developments, Staff Country Report No. 95/52, Washington DC, IMF, 1995, 1.

[4] IMF, Malta: 1999 Article IV Consultation—Staff Report, Washington DC, IMF, 1999.

[5] *Ibid*., p. 2.

[6] The Labour government covertly held preliminary talks with EFTA about a trade agreement or even possible membership. In a private conversation, the Secretary General of EFTA, Mr. Kjartan Jóhannsson, from Iceland, told the author that he visited Malta and met with government representatives.

and respected property rights. Macroeconomic stability and fiscal deficits within limits were required and a well-developed financial sector, as well as the absence of significant barriers to market entry and exit. As a part of the EU accession process, Malta had to update and enhance company law, competition policy, tax policy, consumer and health protection, financial control and policies in agriculture, fisheries, industry, energy, environment, telecom and IT, transport, education, research and culture – an epic task to achieve over just a few years.[7]

The reforms enacted in the late 1980s and the 1990s, aiming at reducing the state's role in producing goods and services, caused changes in state revenue sources. Non-tax revenue as a proportion of GDP fell from c 10.5% in the mid-1980s to c 4.2% in the early 2000s. The decline in non-tax revenue reflected reduced profits from public sector corporations, dividends from investments and profits of the Central Bank. Income from public sector enterprises increased in 1988-1994 but declined in the following years. The decline reflected both the privatisation of profitable enterprises and growing inefficiencies in state-owned enterprises; some even had to be subsidised.[8]

Shifts in tax policy in the mid-1990s by taxing personal income less and consumption more, broadened the tax base and created wider channels of tax revenue. Thus, in the period up to EU accession, the rise in tax revenue was driven by indirect taxes, reflecting decidedly the implementation of VAT, which replaced customs duties. Tax revenue did also rise due to a period of strong economic growth. After Malta joined the EU in 2004, higher direct tax revenue was mainly a result of higher corporate tax receipts due to a substantial growth of the services sector. Meanwhile, the effective tax on personal income decreased gradually, contributing to increased labour participation in Malta and a significant increase in female participation.[9]

Before the 1990s, the financial sector was highly regulated by the Minister for Finance, both in terms of interest rates and capital controls.[10] The government gradually eliminated the controls, and its role in the banking sector, including severely reducing direct shareholding. The Central Bank, after the removal of capital controls, focussed its operations on maintaining a trustworthy currency peg. At the same time, liberalisation of the economic and financial sector resulted in a rise in bank lending.[11] Personal credit grew considerably; it constituted less than

[7] Regular Report of the Commission of European Communities on Malta's Progress towards Accession. Another document reflects the early stages of the accession process, European Commission, Commission Opinion on Malta's Application for Membership, Bulletin of the European Communities, Supplement 4 of 1993, available on the website: https://ec.europa.eu/commission/presscorner/detail/en/DOC_93_4

[8] The Central Bank of Malta, 2018, 67. See also the report Value 2000: Focusing Resources for Superior Competition, 1998, published by the Ministry of Finance and Commerce - Forum for a Better Economy.

[9] *Ibid.*, 68.

[10] Paul V. Azzopardi and Lino Briguglio, 1993 and Joe Falzon, 1994.

[11] The Central Bank of Malta, 2018, 73.

7% of total bank lending in 1990, as banks' business lending grew. Mortgage credit did also grow significantly.[12]

Trading on the Malta Stock Exchange, beginning in 1992, enhanced the development of a capital market. It broadened the range of financial products available to creditors and increased the sources of available finance to debtors. Activity on the stock exchange remained low-key by international comparison. The number of listed companies on the Stock Exchange grew slowly during the 1990s, owing to the small size of the Maltese economy and the high proliferation of family-owned businesses that resisted going public as they preferred to retain control of their companies. Their preference was to fund business growth through bank credit.[13] Parliament enacted a new Central Bank Act in 1994. It entrusted the bank with a greater autonomy in monetary policy. The government began to liberalise exchange rates in 2000, aiming to remove all controls on capital movements in preparation for EU membership (2004) and the monetary union (2008). In 2002, the bank's regulatory and supervisory role was transferred to the newly established Malta Financial Services Authority (MFSA).[14]

The 2002 Report by the European Commission on Malta's progress towards EU accession listed several pending issues.[15] The report urged attention to agricultural restructuring policies associated with removing levies and transferring marketing responsibilities from the state to the farmers. The report pointed out that implementing the Common Agricultural Policy (CAP) would require reinforcing the institutional and administrative capacity within the sector. The report alluded to the need for Malta to focus on legislation required in fisheries resource management, inspection and control, vessel registration and market policy, and reinforcing the sector's institutional capacity. The report remarked that substantial legislative alignments were urgently needed for VAT.[16] The report stated that Malta needed to focus on the whole and timely transposition of the Electricity Directive and the remaining *acquis*[17] related to energy efficiency and, amongst other issues, finalising the restructuring of Enemalta.[18] On industrial policy, the report urged Malta to conclude its industrial strategy, privatisation programme and the restructuring of the shipbuilding sector.[19] The report stated that the telecommunications law of 1997 was not in line with the *acquis* as Maltacom had a monopoly on most services. It

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[12] *Ibid*., 76.
[13] *Ibid*., 89 and David A. Pullicino and Saliba R. G., 2002
[14] Paul Caruana Galizia, 2017, 315.
[15] EC Commission, 2002 Regular Report on Malta's Progress towards Accession, Brussels, 9.10.2002.
[16] *Ibid*., 57-62.
[17] Acquis means the body of common rights and obligations binding on all EU countries as EU member states.
[18] EC Commission, 2002, *ibid*., 72.
[19] *Ibid*. 74.

emphasised that Malta needed to adopt a regulatory framework conforming to the *acquis* and that a tariff rebalancing scheme based on cost orientation was required. Malta needed to focus on a complete opening of the telecom market by January 2003 and bring the regulatory framework in line with the new *acquis*.[20] It was clear from the EC Report of 2002 that, despite pervasive efforts in liberalising the economy and restructuring economic policies, the EU still required pending issues in preparation for Malta's full membership.

11.2.2 Iceland

The 1980s began with the economy in doldrums, manifested by high inflation[21] and massive devaluations of the ISK,[22] fiscal deficits, low productivity growth and stagnation of the fishing industry owing to overinvestments in fleet and plant and restrictions of fishing efforts due to overfishing. This unwieldy and delicate situation was probably a necessary prelude for the political approval of a new fisheries management reform in 1983, effective from 1 Jan 1984; this new regime, as amended over the next few years, transformed the fishing industry for the better.

A new centrist-left-wing coalition took office in September 1988 and stayed until April 1991. Under current economic woes and financial difficulties of the export sectors, particularly the fisheries, an interim act on economic policy measures was set by the new coalition. The Act consisted of various economic and financial measures addressing rising living costs, high-interest rates and collective wage agreements.[23] A key measure of the Act was a new fund, the Employment Support Fund for Export Activities (ESFEA).[24] Its principal role was to provide loans to companies involved in export production, mainly seafood, enabling them to reorganise, rationalise and improve productivity in their operations, as well as to convert short-term debts into long-term loans. New and more extensive transfer payment schedules of the Price Equalisation Fund for the Fish Plants[25] were also introduced. These and other intervening measures continued until the late-1990s.[26] Their main objectives were to support the rationalisation process in the fishing industry, i.e. the reduction of over-sized capacity in both

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[20] *Ibid*., 80.

[21] The inflation rate 1980-1981 was 50%, 1981-1982 51% and 1982-1983 86%.

[22] 1 USD was worth 6.24 ISK at the beginning of 1980 and 28.67 ISK at the end of 1983.

[23] The government can set an interim act, signed by the President when the Parliament is not sitting, and extraordinary measures or interventions are required. The Parliament must approve the interim Act once it is back in sitting.

[24] Atvinnutryggingarsjóður útflutningsgreina. The fund was transferred to the Regional Development Institute on 1 Jan. 1991 and amalgamated into their portfolio of support programmes. The National Audit Office issued two reports on the activities of the fund, in 1990 and 1991 https://rikisendurskodun.is/skyrslur/nanar?id=897 and https://rikisendurskodun.is/skyrslur/nanar?id=891

[25] Verðjöfnunarsjóður fiskiðnaðarins.

[26] Additional support programmes included the Rationalisation Fund for the fishing industry (Hagræðingarsjóður sjávarútvegsins, Act no. 40/1990 and the Development Fund for the Fishing Industry (Þróunarsjóður sjávarútvegs, Act no. 92/1994.) All these programmes are on the website https://fullveldi.sedlabanki.is/.

fleet and plants, by buying up obsolete fish plants, supporting the decommissioning of fishing vessels and participating in the refinancing of heavily-indebted companies. It was, in essence, a government-supported transition process from the debt-ridden, heavily controlled community-based industry, marked by over-investments and inefficient operations of the 1970s and early- and mid-1980s to the open-market, competitive industry of the 1990s and onwards, with individual transferrable quotas, consolidation of companies, profitable operations and lower debts. On the negative side, job losses and depopulation of fishing communities and, hence the political pressure to help the communities to adapt to structural changes.

The economically most significant reforms, beginning in the mid-1980s and reaching their pinnacle in the 1990s, were, in addition to the fisheries management reform, various liberal and structural reforms associated directly or indirectly with Iceland joining the European Economic Area (EEA) in 1994. A coalition of the Independence Party and the Social Democrats took office in April 1991. It issued a key policy document in 1991,[27] outlining its manifesto, which included privatisation, structural reforms and membership of the EEA.[28] The governments of the 1980s and 1990s laid a greater emphasis on education, health, welfare and social services than before, and these types of public services grew at unprecedented levels.[29]

The OECD Economic Survey of Iceland of 2003 summarised elegantly the impact of policy changes felt during the 1990s and specific weaknesses in government policies at the beginning of the twenty-first century. The Survey maintained that a policy shift towards increased financial stability and market liberalisation in the early 1990s contributed to a solid growth of the Icelandic economy after 1995. Iceland improved its relative position amongst the OECD countries, measured in per capita income (at purchasing power parities) from 1995 until 2002. The Survey argued that reduced inflation, fiscal consolidation and structural reforms paid off. Financial-market liberalisation and privatisation also nurtured entrepreneurship, investment and growth. In 2003, the OECD argued that government policies were to blame for reported distortions and weaknesses involving the housing, energy and agricultural sectors. It maintained that, though state support to agriculture had fallen, additional liberalisation would yield sizeable gains for consumers. In fisheries, the OECD observed that, with the rapid emergence of quota trading the fleet was in the process of being rationalised without state subsidies. It maintained that social spending reforms should focus on getting better value for money and that the financial-market reforms had proved to be effective, and that privatisation had been a success; a

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[27] Ríkisstjórnin, *Velferð á varanlegum grunni*, 1991, 7.

[28] The OECD Economic Survey of Iceland 1999 provides an overview of the progress in liberalising the Icelandic economy during the 1990s, i.e., progress in liberalising the economy 78-86 and other structural adjustments 86-91.

[29] OECD surveys of Iceland 1980, 1982, 1984, 1985, 1987, 1989 and 1990 provide an all-inclusive review of the Icelandic economy during the 1980s and critical remarks on the economic policies.

view not shared by public opinion in Iceland, especially after the banking crisis of 2008. Overall, the widespread structural reforms so prominent in the 1990s continued after the turn of the century, especially within the private sector (agriculture, fisheries, food processing, telecoms and financial services). Meanwhile, the public sector kept expanding, e.g., health care, social services, welfare, education and public administration.

Agriculture had been under excessive state control for decades, where the government, in cooperation with the farmers' union and various agricultural institutions, administered prices, production targets, subsidies, common marketing policies, loans and grants. In the 1990s, milk production became subject to a quota that producers could trade and dairy factories were merged. Productivity growth in dairy production began slowly in the 1980s and 1990s and continued after the turn of the century. Pork and chicken farms expanded in large, technically advanced farm buildings. In the 1990s, subsidies changed from market price support to direct payments to farmers and breeders.

Financial markets began to advance towards greater competition and liberalisation in the 1990s. The Icelandic Stock Exchange traded first with bonds in 1986 and stocks in 1990. The Parliament passed legislation in 1998 that turned the Icelandic Stock Exchange into a limited liability company. The Financial Services Authority was established by law in 1998 and began operation in 1999.[30] In 2002, Parliament passed a new consolidating legislation on financial services.[31] The size of the stock market grew significantly in the 1990s, with increases in market capitalisation and in the number of listed firms. In 1998, market capitalisation as a percentage of GDP was almost 40%.[32] State-owned banks were privatised, as is expounded later in the chapter.

During the study period, Iceland's labour market was one of the most responsive to aggregate demand pressures within the OECD club.[33] It remained strongly unionised, as was reviewed in Chapter 5. No significant steps were taken in deregulating the labour market. Since the Competition Act was first passed by Parliament in 1993 and the Competition Authority established,[34] Iceland has pursued a policy that promotes competition. In the 1990s, the Competition Authority proposed competition in markets which had until then been supplied by state-owned monopolies, e.g., in electricity and telecommunications. The Authority also pursued an active agenda in antitrust enforcement and even ran cases against state-owned enterprises.

[30] Lög um opinbert eftirlit með fjármálastarfsemi nr. 87/1998 [Act on the public supervision of financial activities]
[31] Lög 161/2002 um fjármálafyrirtæki [Financial Services Act]
[32] OECD, Economic Survey of Iceland, 1999, 80-81.
[33] OECD, Economic Survey of Iceland, 1999, 81.
[34] Samkeppnislög nr. 8/1993. [The Competition Act]

In the late 1990s, the Icelandic government began to pursue efforts to enhance competition in the market for electricity. The restructuring of European electricity markets was on the agenda, and an EC Directive came into force in Dec. 1996.[35] The main drive behind the directive was the EC's conviction that liberalisation, price deregulation and privatisation would lead to competition in the production and supply of electricity and result in lower prices.

The Icelandic state radio had a monopoly on the operation of radio and television until 1985. Competitive stations emerged in 1986, but the competition was uneven, as state-funded radio dominated the market. The telecommunications sector in Iceland evolved rapidly from the 1990s due to significant technological advancements and the introduction of competitive stations to a previously monopolistic market. State-owned Iceland Telecom (Síminn) faced its first competition in 1998 when another company began to offer mobile telephony services. Later that same year, another company began to offer international services over the internet. It took Iceland a few years to reform the market and introduce new legislation in 2003.[36] The partial privatisation of Iceland Telecom began in 2001.[37] Preparations for the sale of the entire company, i.e., 98.8% of the shares, began in 2004, and the sale was concluded in August 2005.[38]

Another notable structural reform in the 1990s was the widespread merging of local authorities through a slow and convoluted process associated with the devolution of responsibilities to local authorities and reforms of local government finances. Iceland had c 200 local authorities in 1990, and their number had been reduced to 124 by 2000.[39] By then, local government had progressed into fewer and larger units, which could provide better and more extensive public services. Local councils were assigned a more significant role in public services with a state transfer of new responsibilities in education and social services. Other notable structural reforms of the 1990s and 2000s were mergers and structural changes in public hospitals, universities and R&D institutions.

The tax system in Iceland underwent modifications and structural changes parallel to the tax systems in the Nordic countries and elsewhere in Western Europe. A new Income Tax Act no. 45/1987 introduced pay-as-you-earn income tax for individuals who had previously settled their income tax the following year after the tax return submission. Another meaningful change

[35] Directive 96/92/EC 1996(EC), Directive for a common electricity market.

[36] Lög um fjarskipti nr. 81/2003 [Telecommunication's Act].

[37] Framkvæmdanefnd um einkavæðingu, Sala hlutabréfa ríkisins í Landssíma Íslands hf. Skýrsla, apríl 2005. [Report of the Privatisation Commission, April, 2005]

[38] Framkvæmdanefnd um einkavæðingu. Sala á 98,8% hlut ríkisins í Landssíma Íslands hf. Skýrsla, október 2005. [Report of the Privatisation Commission, Oct. 2005]

[39] The process continued, and by 2020, there were 72 local authorities. The author was the chairman of a task force on local government reform 1991-1994, appointed by the minister for local government.

was the introduction of VAT by Act no. 50/1988, to be introduced on 1. Jan 1990. VAT replaced sales tax, first issued in 1945. A new Act no. 4/1995 restructured their tax base and increased the tax income of local authorities as they had taken over new functions from the state. A particular company tax previously paid to local authorities was no longer issued.

11.3 State-held Assets - Privatisation and Divestments

11.3.1 Malta

The change of government in 1987 turned the tide in Maltese politics. The new Nationalist government had earlier when in opposition, criticised the Labour government's business investments, especially their use of public funds in supporting lame-duck businesses and of the conflicting role of Malta Development Corporation (MDC) as a promoter of new investments and as concurrently being itself an active investor in businesses. The new Nationalist government decided on the following strategy:

1. The state will discontinue further investments in commercial companies.
2. The government will divest MDC from its role as an agent for state-held shares.
3. Private companies in financial difficulties and owned by the state will be sold.
4. Management of shares in sensitive companies will be transferred to the state.[40]
5. Malta Government Investment Ltd. (MGI) will be established. Its purpose will be to hold most of the remaining shares on behalf of the government, previously held by MDC.
6. Malta Investment Management Company will be set up to direct and monitor investments held by MGI.

Despite its divestment intentions, the Nationalist government made further state investments in companies, both of national interest and which were commercially important. During its first five years in office, a total of 17 new companies were set up, of which 12 involved full state ownership.[41] Malta Freeport was set up in 1988 as a trans-shipment hub in the Mediterranean region. It has experienced remarkable growth and become, in recent years, one of

[40] The list includes: Air Malta, Malta Counter Trade, Lombard Bank, Mid-Med Bank, Mediterranean Oilfield Services, Bank of Valletta, Maltese Libyan Arab Fishing, Libyan Arab Maltese Holding, Investment Finance Bank, Lohombus Corporation, Middle Sea Insurance, Malta Shipbuilding Co and Melita Bank Intl.

[41] A list of fully-owned state companies established 1987-1992 is as follows: Malta Freeport Corporation, Malta Government Investment Co., Malta International Airport Co., Malta Investment Management Co., Master Antenna Ltd., Public Broadcasting Services Ltd., Malta Export Trade Corporation, Management Systems Unit Ltd., Kordin Grain Terminal Ltd., Malta Export Credit Guarantee, Overseas Projects Ltd. and Malta Foundry Ltd. Information provided by Edward Scicluna, 1993, 16.

the largest trans-shipment and logistics centres in the Mediterranean region. Most of the Freeport's container traffic has been trans-shipment business.

The Nationalist government took the first privatisation steps in Malta during its spell in power 1987-1996 as 22 privatisation cases were reported.[42] The number was probably overstated as it included government departments which had been transformed into agencies, authorities or corporations but remained wholly state-owned and administered.[43] The list included the Post Office, which in 1995 became Posta Limited, the Water Works Department, which was reorganised as the Water Services Corporation and the Ports Department, which was placed under the Maritime Authority. In a few cases, new agencies were set up, taking over some of the duties previously performed by state departments, while the departments themselves were retained. The Department of Labour stayed virtually untouched even though many of its responsibilities had been hived off to the Employment and Training Corporation.[44] Examples of significant privatisations included the sale of Pharmamed (a pharmaceutical company) to a foreign buyer, 60% of the shares in Lombard Bank held by the state, Bank of Valletta, in with the state retained 25% of the shares, and a small portion of the state shares in Mid-Med Bank. With the sale of the shares, the government sought to meet the private sector's demand for a more liberal and competitive financial market and earn revenue for the treasury.

The Nationalist government liquidated c 40 state-held companies during its rule in 1987-1996.[45] Most had been insolvent, but the state had intervened and hoped to find a new buyer. No employees were made redundant; they were merely transferred to other public sector corporations.[46] After the Labour Party returned to power in 1996, it hesitantly embraced privatisation, probably for a much-needed source of government revenue. The Party's solid relationship with the trade unions, especially its old ally, the General Workers' Union, which opposed privatisation, made it hard for the Labour government to undertake such projects. The Labour government offered 40% of the shares in Maltcom for sale. It commissioned reports on the workings of the dockyard[47] and pushed for an act of parliament which dismantled the self-management system of the previous 22 years. It took over the dockyard in 1997 by establishing a new council with government-appointed representatives in majority. The dockyard's history from 1997 until

[42] Government White Paper - Privatisation: A strategy for the future, 1999.
[43] Godfrey A. Pirotta, 2001, 3.
[44] Godfrey A. Pirotta, *ibid*.
[45] A list is provided by Edward Scicluna, 1993, 13.
[46] Godfrey A. Pirotta, *ibid*.
[47] See the Report by Appledore Engineering Inc., *Malta Drydocks efficiency review: report and recommendations*, 4 July 1997, commissioned by the Maltese Government and the report by Godfrey Baldacchino, published in Maltese in 1997, on Worker Participation and Self-Management at Malta Drydocks (1975-1997). The latter report was commissioned by the Malta Drydocks Task Force (Chaired by Deputy Prime Minister George Abela).

2010 was marked by operating problems and massive losses, despite structural changes and advice from foreign consultants.[48]

After the Nationalist government returned to power in 1998, it declared its commitment to more extensive privatisation in a White Paper published in 1999 and set up a Privatisation Unit in 2000. This new policy emphasis was principally in response to a sizable public deficit and Malta's bid to join the EU. The first paragraph of the White Paper stated that:[49]

The government is committed to privatising public enterprises. However, it is mindful that particular features and characteristics of Malta's society and economy must be factored into a privatisation programme. It also wishes to address the common concerns over competition, concentration of ownership and employment.

These intended reforms were inspired by privatisation in other countries, mainly the UK. The government claimed that the reforms would reduce political interference, increase flexibility in human resource management and bring about a greater degree of accountability and efficiency. Employees who did not wish to be transferred to the new privatised entities were absorbed into the general service grades of the public service. Ultimately, public service jobs grew in numbers, an outcome which was not originally intended. The government sold its shares in Mid-Med Bank to HSBC in 1999. The sale was controversial. Some critics claimed that the bank had been sold quickly as the government needed to strengthen its balance sheet to meet the required financial targets concerning the EU application. Others were concerned about the exposure of a small state like Malta to the dominating influence of a financial giant like HSBC.

The general mandate of the Privatisation Unit was to conduct privatisation as prescribed by the government, correctly and efficiently. The Unit was also mandated to attain the best terms and conditions financially and in terms of value added to the national economy. The mandate to carry out any privatisation was always a government decision, and the Privatisation Unit had to adhere to government direction as to which entities it should privatise. The privatisation programme had been intensified by the year 2000.[50] In August 2008, the government announced the privatisation of the Malta Shipyards which at that time included ship repair facilities, shipbuilding and steel fabrication facilities, superyacht services and yacht repair and refit facilities.[51] The shipyard had been an essential provider of employment. Its role and net

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[48] Michael Cassar, 2013.

[49] Government White Paper - Privatisation: A Strategy for the Future, 1999.

[50] References on Malta's privatisation include Godfrey A. Pirotta, 2001; the Government of Malta, White Paper, Privatisation: A strategy for the future, 1999; Paul Caruana Galizia, 2017, 332-337; Edward Scicluna, 1993, chapter 2; Catherine Marie Vella, 2015; the Privatisation Unit website https://privatisation.gov.mt/en/Pages/home.aspx.

[51] The privatisation of this massive facility which had held a central place in Malta's economic, political and social history, was conducted directly by the government and not the privatisation unit. Formalities were taken care of by the law firm Muscat Azzopardi & Associates, Advocates, and they were the point of contact for potential bidders.

contribution to the economy had declined unremittingly since the 1960s and become a burden, with survival depending on regular infusions of tax-payers money to keep it afloat. In 2010, the ownership of the shipyard facilities was transferred to the Italian company, Palumbo, with an obligation to invest significantly in upgrading the facility. Palumbo signed a 30-year emphyteusis for the land, which remained as state property.

11.3.2 Iceland

The sale of publicly-held assets in various forms began unhurriedly in the 1980s and continued until the 2000s. The whole process involved direct sales of publicly-owned companies and sales of equity held (partly or wholly) by the state or local authorities. Mergers or acquisitions, which subsequently ended in privatisation, were known, even as a sequence of transactions, with larger and more powerful privately-owned companies as the outcome. There were also a few cases where the state closed down companies and exited a particular business.

The state sold its minority shares in Icelandair and Eimskip (shipping company) and in Siglósíld (canning factory) in 1983. In 1985, a state-held metallic and mechanical workshop (Landsmiðjan) was sold to employees. The town council of Hafnarfjörður approved in 1985 to sell their 100% owned fisheries company (BÚH), which owned a few deep-sea trawlers and a large fish plant. The same year, the city council of Reykjavík merged its 100% owned fishing company (BÚR), i.e. trawlers and fish plants, with the privately-owned company Ísbjörninn, to form a new powerful fishing company under the name Grandi Limited. The City of Reykjavík divested its shares in Grandi in 1988. The state-owned Fisheries Bank (Útvegsbankinn) was sold in 1989 and acquired by three other banks, which merged into Íslandsbanki. In addition, 2/3 of the shares in the state travel office (Ferðaskrifstofa ríkisins) were sold to employees.[52]

A formal Privatisation Commission[53] was set up after a new government took office in 1991 and assigned the role of selling state assets. More extensive sales of companies became politically controversial and were fiercely debated in the media. Examples included the shares in the state-held fish meal plants (SR Mjöl) in 1994,[54] Icelandic Prime Contractors, the National Telephone Company (Síminn) in 2005[55] and in HS Orka (geothermal power) in 2007.[56] The

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[52] Based on a report by the National Audit Office (Ríkisendurskoðun, 1994), these were the leading sales of public assets in the 1980s. The government individually chose them but was not part of a comprehensive privatisation programme.

[53] Framkvæmdanefnd um einkavæðingu [Privatisation Commission]

[54] National Audit Office (Ríkisendurskoðun), Skýrsla um sölu ríkisins á SR-MJÖLI HF., 1994.

[55] Framkvæmdanefnd um einkavæðingu, Sala hlutabréfa ríkisins í Landssíma Íslands hf., Skýrsla, 2005 (Report by the Privatisation Commission on the privatisation of the national telephone company).

[56] The state initially held 40% of the shares in the company but had, after some mergers and acquisitions, been diluted down to 15.2%, which were sold in 2007 to the private company Geysir Green Energy.

Privatisation Commission was terminated in 2007.[57] Based on a report from the commission, 44 sales of state holdings from 1992-2005 did bring 141 billion ISK in revenue to the state.[58]

In 1998, two commercial banks, Landsbanki and Búnaðarbanki, were converted into limited liability companies.[59] The state sold 15 per cent of the shares in each bank in an initial public offering. It also restructured four government-held investment funds by merging them into two entities, one a relatively small new business venture fund[60] and a larger investment bank (FBA),[61] and sold 49 per cent of the latter. Two years later, or in 2000, FBA was merged with the privately-owned Íslandsbanki. In 2002 and 2003, Landsbanki and Búnaðarbanki, were fully privatised. The new owners subsequently extended their activities, driven mainly by foreign loans and by using their right to extend their financial services into the European Economic Area, mainly to London and Luxembourg. Both banks collapsed in Oct. 2008.[62]

The town council of Akureyri had for decades held c 77% of the shares in ÚA, a fishing company with 5-6 deep sea trawlers and a modern fish plant. The town council held 100% of the shares in Krossanes, a local fish meal plant. The town council sold the shares in Krossanes in 1995 and the shares in ÚA in 2002. A ferrosilicon plant, established as a joint venture between the Icelandic government and the US Corporation Union Carbide, began operating in 1979. The state remained a significant shareholder until the shares were sold in the early 1990s. The National Power Company (Landsvirkjun) was owned 50% by the state, 45% by the City of Reykjavík and 5% by the Town of Akureyri. The local authorities of Reykjavík and Akureyri sold their shares to the state in 2006. Public opinion towards privatisation in Iceland was mixed and even controversial. A few reports from the State Audit Office were harshly judgemental on some of the sales.[63]

The Regional Development Institute, founded in 1985, held shares in several companies acquired or taken over during the late 1980s and early 1990s. They were usually debt-ridden,

57 The Privatisation Commission (Framkvæmdarnefnd um einkavæðingu) issued two audit reports on the privatisation process, 1996-1999 and 2003-2007, and a few reports on individual sales.

58 The figure of 141 billion is based on a fixed 2005 ISK, which was equivalent to EUR 1.8 billion at that time.

59 Kristín Erla Jónsdóttir, 2013, MS dissertation on the privatisation of Landsbanki and Búnaðarbanki.

60 Nýsköpunarsjóður atvinnulífsins [The New Business Venture Fund intended to strengthen and develop the Icelandic venture capital market along with promoting startups and local business.]

61 Fjárfestingarbanki atvinnulífsins [Investment fund for business enterprises]

62 The name of Búnaðarbanki was changed to Kaupþing. Numerous books and articles were written about the banking crisis in 2008 and the collapse of the Icelandic banks. It is outside the scope of this thesis. However, the annual reports of the Financial Services Authority (FME) from 2000 onwards provide all the basic information about the development of banking in Iceland from 2000 until the collapse in 2008. They are available on the website https://www.fme.is/utgefid-efni/arsskyrslur-fme/. Another source is a massive report on the liquidation of the banks, published by an investigative committee appointed by the Icelandic Parliament, Rannsóknarnefnd Alþingis, 2010.

63 The reports are available (in Icelandic) on the website of the State Audit Office https://rikisendurskodun.is/

and the equity purchase was based on the need to maintain jobs in fishing communities with no other means. In due course, most were divested. Power companies owned by the state or local authorities did also invest in commercial enterprises, especially in power-related projects. Banks and investment funds took over companies that could not meet their financial obligations. Sometimes, it was done through agreements with equity holders and, in other cases, through the liquidator. The banks tended to divest their interests in such companies.

Three state-owned factories were closed down in the early 2000s, i.e. a fertiliser factory, a cement factory and a diatomite factory. The first two had been built in the 1950s, funded by Marshall Aid. They were initially granted a monopoly for selling their products in Iceland, and competing imports were prohibited. Later they had to compete with imports. By the end of the century, they had become technically obsolete, and the location of two plants close to residential areas had raised concerns. The diatomite factory faced resource-related problems and environmental antagonism as it relied on pumping siliceous sediments from the bottom of Lake Mývatn, a nature conservation area with rich bird life.

11.4 Sectoral Growth Policies

11.4.1 Prologue

Policies addressing industrial or business sectors, e.g. agriculture, fisheries, manufacturing, power, tourism and financial services, have been common amongst small states. Small state governments can be effective and responsive to sectoral or industrial dilemmas at the company- or community level, requiring micro-scale policy approaches and public funding. It is also quite common that politicians and civil servants in small states have industrial experience and good knowledge of the sectors and the communities affected. Sectoral policies loomed large in Iceland and Malta during the 1980s and 1990s, albeit in divergent sectors, as is outlined below.

11.4.2 Malta

Industrial policies focussed on manufacturing for exports during the 1960s and 1970s but with a growing emphasis on tourism in the 1970s and 1980s and financial services in the 1990s, both of which have grown precipitously in the twenty-first century. Construction expanded as an essential activity late in the century and has grown frantically in the 2000s and 2010s. Tourism and financial services growth were backed up by an array of government policies, legislation, institutions and investments, e.g. Air Malta. Construction in Malta has unfortunately suffered from a lack of firm government legislation, building control, proper inspection and politically controlled planning, as well as unscrupulous practices of some of the developers and builders.[64]

The Maltese government enticed foreign manufacturing companies in the 1960s and 1970s to set up production plants in Malta for exports and to take advantage of the skilled local workforce looking for work, competitive salaries, tax concessions[65] and various support measures. Several foreign companies came and built up their specialised production for exports and quite a few stayed in the long term.[66] The manufacturing sector was by the end of the century no longer as labour-intensive as it was 30-40 years earlier; it had advanced through automation, specialisation, product development and new markets. However, a study has shown that in 2011, only 8.3% of manufacturing in Malta was in the high or medium-to-high-tech categories. It showed that R&D was carried out mainly by large firms engaged in high-value-added manufacturing, ICT, the manufacture of machinery, chemicals and medical instruments and the generic pharmaceuticals industry. These firms accounted mainly for the country's high-tech exports.[67] All in all, post-independence Malta experienced a sizeable level of export-led industrialisation driven by foreign direct investment and foreign technology.[68]

Malta established itself as a tourist destination in the 1960s. In contrast, with significant growth in the number of visiting tourists during the 1970s, especially following the establishment of the national airline, tourist arrivals in the first half of the 1980s were hit by the second oil shock and a recession in the UK, where most of the tourists came from. Earnings from tourism reached a pinnacle in 1980 but fell during the following years as they did in other southern European countries. Tourism in Malta was affected by an over-reliance on British tourists and the appreciation of the Maltese lira. Losses in the market were reversed by the end of the decade, partly because the Maltese authorities embarked on a diversification strategy in source markets for tourists.

Tourism in Malta grew mainly through the initiatives of private enterprises supported by the government. The sector benefitted initially from solid British ties with the island, and British tourists dominated the scene. The government helped with planning and development permits,

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[64] Built on the author's 10-year business experience in Malta. He was a chairman and shareholder of a few Maltese companies involved in building services, as an MEP services contractor, provider of MEP engineering services, facility management and condominium administration. The author has collaborated with and spoken to several Maltese architects, engineers, contractors and builders over the years.

[65] See an informative Doctor of Laws (LL.D.) thesis on tax incentives provided by the Maltese government in support of industrial growth by Sara Vella Bonnici, 2013.

[66] Examples of companies include ST Microelectronics, various pharmaceutical companies, Toly Products, Playmobile, Carlo Gavazzi, De La Rue, Cardinal Health and Crane Currency.

[67] Luke Georghiou et. al., 2014.

[68] Termed ELIFIT by Leslie Sklair, 1991, i.e., export-led industrialisation fuelled by foreign investment and technology.

but the challenge was finding suitable sites for hotel developments. A spin-off from the expanding tourism was the growing number of foreign seniors interested in staying part of the year or longer term in Malta, particularly in winter. Later, Malta began attracting people who had left their home countries due to unrest, disorder and lack of security, both prosperous people and poor refugees.

Government's main contributions to the growth of tourism were through infrastructure investments and operations (airport, harbour and roads), investments in Air Malta, and EU membership, which eased travel to Malta for Europeans (including the Schengen Area in 2007 and the Eurozone in 2008) and for Eastern Europeans coming to work in Malta and the Institute of Tourism Studies which has educated local professional and tradespeople working in tourism.

The rapid expansion of financial services in Malta during the first two decades of the twenty-first century was preceded by a long history of commercial banking on the island and the development of relevant institutions, which evolved in the late 1980s and 1990s.[69] A government strategy of developing global financial services was not fully backed up by a political consensus until around the turn of the century.[70] It was part of the government strategy to diversify Malta's economic base.[71] The late 1980s saw the first steps in an attempt to develop offshore financial services under the Malta International Business Activities Act of 1988.[72] The new Act complemented and upgraded existing legislation to provide the necessary framework for Malta to become a credible offshore financial centre. The Malta International Business Authority (MIBA) was set up in 1989 to implement and oversee the new offshore services. After the Malta government applied for full EU membership in 1990, it was made clear by the EU in 1993 that various structural reforms were needed, and a programme to that effect was approved in March 1994.

A structured dialogue began between the EU and Malta in 1995. A tax on certain capital gains was introduced in 1993, and a new tax accounting regime in 1994, as an integral part of Malta's financial services sector reform. A shift in financial services back to an onshore regime was inevitable.[73] It involved significant changes in the entire financial services legislation.[74]

[69] John A. Consiglio, 2012.

[70] David Fabri and Godfrey Baldacchino, 1999.

[71] The strategy and objectives of the Malta government are stated in a White Paper, Det. of Information, 1988.

[72] The Act was amended and later renamed as Malta Financial Services Centre Act. The initial steps in the late 1980s and 1990s are examined in a Master in Accountancy dissertation by Anna Sciberras 2018 and a MA (Financial Services) dissertation by Francis Zammit Dimech, 1999, particularly Chapter 1. Further historical insights are provided by Michael Bowe, Lino Briguglio and James W. Dean (eds.) 1998. It contains papers presented at the International Conference on Banking and Finance in Islands and Small States held in Malta in 1995.

[73] Sciberras and Zammit Dimech, *ibid*.

Over the next few years, further modifications were made to the income tax legislation to ensure that Malta would not be considered a tax haven, an essential EU requirement. Malta instituted a traditional tax-based system which met EU requirements but offered many potential benefits for foreign companies and shareholders.

The first steps in developing financial services in the late 1980s and over the 1990s reaped benefits for the Maltese economy in the twenty-first century as the scope and scale of financial services on the island have grown enormously. Meanwhile, Malta has earned a reputation as an effective financial centre, attracting international clients. It is an exemplar and a model of a successful sectoral growth policy by the government.

11.4.3 Iceland

The key growth sectors in Iceland during the 1980s and 1990s, as previously mentioned, were the fishing industry[75] and the power-intensive industries, both resource-based export activities. Tourism was in its early stages but grew precipitously after the turn of the century as the third pillar of the exporting economy.

Managing fish resources in Icelandic waters was challenging before the mid-1970s due to heavy foreign fishing on the grounds and open access to the local fishermen. The government introduced in the mid-and late-1970s, after gaining full control of the fishing grounds, measures aimed at reducing fishing efforts and protecting fish stocks. In 1977, the government introduced substantial restrictions on the fishing effort of offshore trawlers. The fleet kept growing over the next few years, and restrictions on each vessel's fishing efforts were augmented yearly. The fisheries became economically less efficient due to overcapacity and overexploitation. The industry saw declining profits and even losses over the years 1981-1984.

A bold step was taken in 1983, effective 1 Jan. 1984, as previously mentioned, when a new quota system was introduced for seven demersal species, as advised by a task force with a broad industry and government representation. This move initiated a step-by-step transformation of the fisheries management system from previously restrictive catch-effort measures to total allowable catch (TAC) and individual transferable quota (ITQ), allocated to vessels based on historic catches over three years.

[74] Robert Attard, 2005 and Francis Zammit Dimech, 1999, 1-6. New legislation included: the Malta Financial Services Centre Act, the Companies Act, the Income Tax Management Act, the Professional Secrecy Act, the Investment Services Act, the Recognition of Trusts Act, the Prevention of Money Laundering Bill, the Insider Dealing Act and the Banking Act.

[75] The fishing industry includes the fishery, fresh fish markets, fish processing and the export marketing and sales of seafood and other fish products (fish meal and oil), as well as institutions and organisations within the industry.

Two major advancements changed the business environment of the industry. Firstly, a transformation of domestic fresh fish sales, the local distribution system and the export trade. Fresh fish markets began in 1987 and seafood exports were deregulated in the 1990s when free export trade and competition replaced the system of regulated export unions. Secondly, the ITQ system, which gained momentum in the 1990s, introduced a market mechanism, replacing the old command and control of the industry. By the early 1990s, companies and vessel owners could sell their quota, partly or wholly, to businesses remaining in the industry, some of which reduced their oversized fleets.[76] Many fish plants were closed while a few were enlarged and up-graded. Processing at sea grew as the number of freezer trawlers expanded. Mergers and acquisitions of companies were common. The economic returns of the industry improved, the fish resources were efficiently managed and annual sustainable yields rose. The social impact of the fisheries management system was debated, i.e., due to a significant reduction in the labour force, the hardship for many fishing communities suffering from the loss of fish quota and public opinion denouncing the substantial financial gains from quota trading for a few privileged families and firms.

The government acted in other areas of structural reforms related to the fishing industry. Firstly, a number of fishing companies owned wholly or partly by the state and local authorities were privatised from the 1980s onwards, as previously mentioned. Secondly, various transfers, subsidies and redistribution policies and schemes affecting the returns of the industry ended in the 1990s. Thirdly, fresh fish prices paid by fish plants to the vessels, which were previously set by a public commission,[77] were after 1987 influenced by market prices on the fresh fish markets.

The interests of the fishing communities and rural districts were strongly represented in Parliament at that time through a rurally-biased electoral system and influence-peddling by sectoral politics.[78] Public opinion turned negative after companies departing the industry began making large profits from selling their quotas (access to a common property resource owned by the state) and depriving their home community from its livelihood, partly or wholly. Subsequently, many companies buying quota began making huge profits. The industry has since become quite efficient and profitable and invested in the 2000s and 2010s in new technically-advanced vessels and fish plants, as well as in other sectors like aquaculture.

Deliberations of large-scale hydro-power projects and associated power-intensive industries evolved in the 1960s, as was reviewed in Chapter 10. A second aluminium plant was

[76]During the first few years of the quota system, a quota could be transferred by either selling the vessel which held the quota or through mergers and acquisitions of fishing companies.

[77] Verðlagsráð sjávarútvegsins [The Fresh Fish Price Commission].

[78] Included sector-based groups like the Farmers' Union and the Association of Vessel Owners.

built in the late 1990s, developed by the American company Columbia Ventures.[79] The aluminium plant at Straumsvík was extended and modified, and a new large aluminium plant was built on the east coast in the 2000s.

The political support for small and medium-sized power projects has been decisive as regards providing electricity and hot water for residents, businesses and public buildings. The political controversy in the 1960s and 1970s over large-scale projects focused on multi-national capitalistic corporations making profits from Icelandic natural resources and on possible pollution – some power-intensive industries were polluting the environment then. In the 1990s and 2000s, the emphasis shifted towards concerns relating to protecting the natural environment - the wilderness and bio-diversities - the impact on carbon footprints and the effects of river dams on soil erosion. Environmentalists became quite vociferous in their opposition to such projects, and the environmental impact assessment process became tedious.

The overall contribution of power production and power-intensive industries to the national economy has been significant.[80] Both hydropower and geothermal projects utilise valuable natural resources, previously underutilised or unused. The contribution of the sector to GDP and exports was discernible. The power-intensive industries have played a pivotal role in diversifying the national economy and in enhancing exports. They were an example of beneficial foreign investments. The development of the hydropower plants and the power-intensive industries made the extension of the national network of high voltage transmission lines feasible. The industrial plants paid high salaries and jobs there were in great demand. They helped bring disciplined industrial work and practices into the country and sell 'surplus' electricity to homes and firms at moderate prices.

The geothermal sector expanded rapidly in the mid and late 1970s due to rising oil prices. Several geothermal district heating systems were developed by local authorities, replacing oil and electrical heating. They were capital-intensive and backed up by state guarantees but have proved feasible and value for money in the long term. Large-scale geothermal projects producing electricity were first developed in the 1970s and 1980s but became more prominent after that.

11.5 Synopsis

While the growth policy approaches of Iceland and Malta in the 1960s and 1970s were divergent, policy choices and government priorities began slowly to converge and thread more

[79] It is in 2023 owned by Norðurál Limited, an Icelandic subsidiary of Century Aluminium. https://nordural.is/en/the-company/

[80] Jóhannes Nordal, 1975, 1979a, 1979b and 1980; Jóhanna Waagfjörð 1991; Sveinn Agnarsson, 2004.

parallel paths in the 1990s, influenced by moves towards extending European cooperation by both states, i.e. through the EU and the EEA. Although the pathways towards greater European cooperation were dissimilar, the intentions were consonant, and both island states had to undergo various structural reforms to comply with European accession policies and programs. They were characterised by institutional changes, trade liberalisation, competition and market efficiencies, deregulation and privatisation of publicly-owned enterprises. Another policy shift was the growing pre-eminence of monetary policies in both states after the mid-1980s. Principal economic activities remained unalike. Malta grew as a manufacturing and service-based economy, while Iceland developed a growing resource-based export economy until tourism evolved as the third export pillar of the economy after the turn of the century.

Structural reforms and institutional changes were generally more unwieldy in Iceland than in Malta due to a different political system, political structure and a much larger geographical area. In Malta, a party winning an election obtained the power to unilaterally change institutions, strategies and policies, which was impossible in the multi-party politics and two government levels in Iceland. However, from the 1990s onwards, structural reforms in both island states were gradually framed by EU and EEA guidelines, as previously mentioned.

It was common in the post-war period and until the 1970s for the state and other public sector entities in Western Europe to invest in commercial enterprises, e.g., airlines, banks, power companies, telecoms, shipyards and manufacturing firms. Iceland and Malta were no exception; their private sectors were unable to carry the burden of investing in capital-intensive enterprises. The Icelandic state and local authorities invested in the fishing industry, power companies, utilities, banks and many other types of companies fulfilling community needs, while community-owned co-operatives invested in local retail, fisheries and an array of agricultural processing and services. The number and scope of state-held enterprises in post-independent Malta grew under different investment motives from the 1960s until the late 1980s. Some investments were unequivocal and purposeful, e.g., the dockyard, industrial estates and utilities; others of national importance, like Air Malta. A few were jointly owned by the state and private parties.

The privatisation process of the 1990s and 2000s bore some similarities in Iceland and Malta, while it was politically controversial in both states. In some cases, the holding structure of state institutions or public agencies was converted into an independent corporation or a limited liability company, but the ultimate public sector ownership remained the same. Some publicly-owned companies were fully transferred to the private sector. The privatisation process brought mixed results; in some cases, it was successful, and in others, it uprooted employees and families. It generated much-needed additional revenue for state treasuries (and local councils in Iceland) and increased efficiencies and profits at the company level.

The abrupt political and economic changes, and new developments, of the 1990s paved the way for sustained growth in Iceland and Malta during the 2000s and 2010s (except during the financial crisis of 2008-2009). Over the first two decades of this century, both states enjoyed a level of economic prosperity never seen before.

12 THE TWO POST-INDEPENDENCE SMALL ISLAND STATES COMPARED

12.1 Introduction

The thesis has compared and analysed the passage of time over 40 years in two small island states, marked by elaborate and dynamic economic, political and social elements. The summaries below review succinctly the main ideas, findings and reasonings, concurring with each of the four research questions unveiled at the outset in chapter 1.1.

12.2 Comparative Political Economy

The post-independence political systems of Iceland and Malta emanated from Denmark and Britain. Malta got its first constitution from Britain in 1835 and Iceland from Denmark in 1874. A few more revised constitutions took effect until a republic was established in Iceland in 1944 and independence gained in Malta in 1964. The two legislatures evolved in stages, in Malta from after the First World War, but not uninterruptedly, and in Iceland from its re-establishment in 1845, with a consultative role at first but with full sovereignty in domestic matters from 1918.

The paradoxical Maltese electoral system, designed to generate coalition governments, has since 1966 given rise to two-party politics, with a one-party government in power all the time, alternating between the Labour Party and the Nationalist Party. Iceland reformed the electoral system in 1959 with eight multi-member constituencies while maintaining an over-representation of rural votes.[1] The political system gave rise to multi-party politics and hence coalition governments of 2-4 parties. Iceland had four main parties during the second half of the twentieth century: The Independence Party, the Progressive Party, the Social Democrats and the Socialist Party. The Independence Party was the largest, participating in coalition governments for over 30 years between 1960 and 2000. Furthermore, due to the large size of the country, Iceland had a powerful local government funded mainly by an independent tax base and state transfer payments. Given Malta's small size, local government was not considered necessary until it was introduced in 1993; it has much less power than local councils in Iceland. Political power was centralised in Malta but decentralised in Iceland.

[1] In 1960, 55% of the population lived in the Southwest region, represented by 23 out of 60 MPs, or 38%.

The Maltese one-party majority governments could, in comparison with the multi-party Icelandic coalitions, make more direct and contentious political decisions, including the power to establish, transform or close down institutions and to make swift policy changes.[2] The Icelandic coalitions were epitomised by 'middle of the road' moderate and compromised political decisions, frequent changes of coalition governments and divided power between the state and the local authorities.[3] Other influential institutions were the Catholic church and the General Workers' Union in Malta and the co-operatives, business federations and trade unions in Iceland.

The relatively large landmass of Iceland had political and economic implications, i.e., decentralised political structures, extensive infrastructure requirements, expensive public services, forceful local authorities, powerful rural co-operatives and over-representation of rural districts and remote towns in parliamentary elections, giving rise to fervent political clout for rurally-based fisheries, agriculture and regional policies. In contrast, the small landmass of Malta gave rise to high urban densities, scarcity of land for development, high land values, controversial land-use planning and building permits, and traffic congestion.[4]

The antipodal locations of Iceland and Malta, in the North Atlantic and the Mediterranean and the North Atl, engendered dissimilar geopolitics and foreign relations; their distances from and closeness to neighbouring countries, including cultural bonds - as well as the location of key export markets - affected their trade networks and political alliances.[5] Iceland is remotely located, far away from other sizeable or economically advanced states. However, it is closer to the US than other European states are, and strategically important to the US and NATO. Meanwhile, Malta stands at a crossroads in the Mediterranean, relatively close to states both to the north and south, with influences from Europe and the Arab world coming together. In addition to conventional solid relations with the UK, Malta developed a gainful relationship with its close neighbours, Libya and Italy.

[2] Michelle Cini, 2002. The centralised political power in Malta generated a more powerful government than in Iceland, where the national government had to share power with the influential local authorities.

4 Helgi Skúli Kjartansson, 2007; Guðmundur Jónsson, 2014. Bjarni Benediktsson, 1956; Agnar Kl. Jónsson, 1969; Dominic Fenech, 1988; 1992; 1997a; 2003; Michelle Cini, 2002; Sigurður Líndal, 1992; Jakob F. Ásgeirsson and Sigríður K. Þorgrímsdóttir, 2004; Michael Briguglio, 2010.

[4] The disorganisation, lack of proper planning and unprincipled practices in property development and construction in post-independence Malta was called 'the urban landscape disaster' by the president of the Chamber of Architects, André Pizzuto, in a highly informative interview with the Times of Malta, 4. Jan 2021.

[5] CIA National Intelligence Survey on Malta's foreign policy, 8 Dec. 1971; Development Plan for Malta, 1973-1980; CIA Memorandum 21 August 1980, *Malta – Libya Relations*; CIA Directorate of Intelligence, 30 July 1984, *Malta: Closer Ties with the East?* Carmelo Formosa, 1989; Gunnar Gunnarsson, 1990; Jeanne A.K. Hey (ed.), 2003; Ronald Mizzi, 2003; Guðmundur J. Guðmundsson, 2006; Valur Ingimundarson, 2008 (ed.); Julian Rausi, 2008; Christos Kassimeris, 2009. Baldur Thorhallsson, Sverrir Steinsson and Thorsteinn Kritsinsson, 2018; Baldur Thorhallsson, 2019.

Iceland and Malta took the first steps in the Europe-wide economic cooperation at the end of the 1960s; Iceland joined EFTA, and Malta signed an Association Agreement with the EEC in 1970. The pressure on small European states to participate in the cooperation kept rising; otherwise, they might risk being left out of the lucrative markets in Europe for their products and services. Malta tabled its first application for EU membership in 1990 and joined in 2004, while Iceland chose to participate in EFTA in 1970 and the EEA Agreement, effective in 1994. Specific structural reforms and more liberal trade policies were required, bringing Iceland and Malta closer to the economic and industrial policies and the institutions of EU member states. Iceland and Malta had developed their economies somewhat disparately until the 1990s, after which they began threading more parallel paths as regards their economic structures, policies and institutions. The growing diversification of the Icelandic economy in the 1990s and 2000s and the reduced role of industrial transfers and redistributive schemes aligned its economic structure to that of Malta, which adopted policies and structural changes as required by EU membership.

The Cold War significantly affected European states' political alliances, economic cooperation, and trade networks until around 1990. Iceland as a member of NATO was affected politically and economically in various ways. It benefitted from Marshall Aid and US relations, while the impact on Malta was, until 1964, mainly felt through Britain as a NATO country. Malta adopted in the 1970s a more independent or ‘neutral’ approach towards both west and east, which impacted its foreign relations.

Illustrative examples of profound interactions of politics and economics in Iceland and Malta includ two significant transformations. One was their divergent and politically debated routes to participation in European economic cooperation. The other political economic transformations were Malta's transition from a fortress economy to an independent and more diversified export-based economy from the 1960s to the 1980s and Iceland's new fisheries management policy taking effect first in 1984. It involved a transition from open-access fisheries with catch restrictions across the board to limited entry and an individual transferable quota system which evolved over the next few years. This policy revamp resulted in a massive industry restructuring and had significant economic benefits but discernible social and political ramifications.

12.3 Exports, Trade Policies and Economic Cooperation

Chapter 6 reviews the main research findings regarding exports, foreign trade and cross-border activities, while Chapter 8 examines the trade policies and foreign relations. While Iceland's exports were both concentrated and resource-based, i.e. from fisheries and power-intensive industries, Malta's export income was more diversified and non-resource-based, i.e. manufacturing, tourism and financial services. The foreign trade policies and trading networks of the two island states were dissimilar until both began to take more decisive steps towards the expanding European economic cooperation in the late 1980s and 1990s, requiring various structural reforms, liberal trade and market-driven competition. The effects of the EEA on the economy, trade, industries and services were felt in Iceland by the end of the century. EU membership, effective in 2004 and the Eurozone in 2008, had a considerable impact on the Maltese economy and society, first felt in the 1990s during the application process. Iceland stayed outside the EU and the Eurozone and did not participate in the EU fisheries, agricultural and regional policies. Iceland applied for EU membership in 2009, but the application was shelved by the new coalition government after the election in 2013. Interestingly, the application, which was heavily debated in both countries, was led by the Nationalist Party in Malta but by the Social Democrats and the Left-Green Party in Iceland.

While imports and exports as a percentage of GDP grew notably in Malta over the period 1970-2000, partly through re-exports (entrepôt trade), their share of GDP in Iceland remained almost unchanged, witnessing perhaps a more significant impact and reverberations of globalisation of trade in Malta than in Iceland. By 2000, Malta had surpassed Iceland in both trade - and financial openness, as Iceland's focus was still on commodity exports.

While Iceland restricted and controlled inward foreign investments, Malta attracted foreign investments to its overall advantage. Nations which are rich in natural resources and with the technology to utilise them have, in the past, tended to protect their resources by raising barriers for outside investors (Iceland). In contrast, nations devoid of export staples have opted to develop an international outlook and attract foreign participation and inward investments (Malta). Icelanders were greater speculators and risk-takers than the Maltese and more lion-hearted in investments abroad; they paid the price for their global investment risks during the financial crisis of 2008-2009.

The foreign trade dynamics and accomplishments in export earnings during the latter part of the twentieth century were crucial in securing sustained economic growth for both states. The foreign trade policies encompassed a key political economic lever and policy instruments. The tide turned in the 1990s with a growing abstention of Western governments from directly interfering with the workings of foreign trade while establishing new frameworks for international trade.

12.4 Macroeconomic Policies

The macroeconomic policies of the two island states were non-comparable in the 1960s and 1970s owing to weighty British financial inputs in Iceland and Malta's strong fish exports and long-established independence in financial matters since the beginning of the century; the policies became more corresponding in the 1990s, as examined in Chapter 9.

Fiscal policies were more complex and challenging in Iceland due to two government levels and several quasi-government bodies and entities, as well as numerous welfare payments, public sector pensions, industrial transfers, transactions and cost-sharing arrangements in between units. Malta, with one government level, was less engaging in transfers and redistributions than Iceland and taxed its citizens and businesses overall at lower rates. Taxes as a share of GDP grew in both island states as the study period elapsed and the welfare systems expanded. Their tax policies and structures were previously more contrasting than comparable but evolved along similar paths in the 1990s and 2000s. The Icelandic government borrowed abroad and invested in infrastructure, state-owned enterprises and state-held investment funds, while the Malta government borrowed less and mainly locally, but attracted a horde of foreign investors. Public debt grew in both states in the 1980s and 1990s.

Monetary policies developed from an embryonic state around 1960 to a more advanced and extensive policy over the next few decades. Iceland's monetary policy was futile and rather ineffective during the 1970s and 1980s, marked by hyperinflation and massive devaluations of the local currency. Monetary control improved during the 1990s, resulting in lower inflation and a more stable currency. Malta had, from the 1960s onwards, employed more prudent and stable monetary policies, perhaps a reflection of a more balanced and diversified economic structure and less volatile economic cycles. Monetary policies were challenging for resource-based nations like Iceland, known for its ‘monomania' political view on the business environment of the fishing industry and fish exports. Prudent fiscal, monetary and foreign exchange policies were put aside to a degree, at the cost of fisheries-driven vested interests, which effects on the national economy included hyper-inflation and massive devaluation of the currency.

The 1970s were quite challenging for the developed nations as regards their macroeconomic policies; they faced the abolition of the gold standard in 1971, the oil crisis in 1973 and again in 1979, rising unemployment, surging inflation (stagflation) and accentuating public debt. Economic policy-makers in the Western world were, after the mid-1970s, left in a quandary and Keynesian demand policies became less appealing. Macroeconomic debates shifted in the 1980s to a Friedman-style monetarism, accompanied by a rising faith in the self-regulating virtue of markets, and liberalism became influential in the economic sphere. Fiscal policies became less popular, and inflation was addressed in many states by limiting the money supply. The relatively balanced monetary policies in Malta did probably engender more durable and obedient fiscal policies since these two policies are interrelated and their influences reciprocal.

Iceland and Malta encountered different experiences in international financial integration and foreign exchange policies. The foreign exchange policies were more action-packed and at times, overbearing in Iceland. The exchange rate of the Icelandic Króna was depreciated massively, while it was more stable in Malta. The British Pound was the currency of Malta until 1968 when the Central Bank began issuing the national currency, the Lira. It was pegged to Stirling until 1972. While the Lira lost around 17% of its value against a basket of foreign currencies in 1980-2000, the ISK lost its value against the Lira by a factor of 9. Adversaries in fish production and exports in Iceland were usually met by devaluations of the ISK, which tended to set in motion a vicious circle of higher import prices, inflation, interest rates and wages, which in the end gave rise to demands for further devaluations. The National Conciliation Accord in 1990 put an end to this previously uncontrollable circle.

12.5 Growth Policies

Iceland and Malta were characterised by profoundly state-controlled economies in the 1960s and 1970s. State-administered capital investments in infrastructure and commercial enterprises were prevalent. Both governments espoused centralised economic growth and policies and plans, including cross-sectoral development plans in Malta. Such policies and interventions had different traits in each island state. Publicly funded (the state, local authorities and co-operatives) investments in commercial enterprises rose markedly in Iceland from the end of the Second World War until the 1980s but subsided thereafter. They rose later in Malta, or from the 1960s to the 1980s and involved the state only. Such investments were directed both at the restructuring and refinancing of established operations and investments in new companies. Examples included banks, airlines, power, telecoms, shipyards, industrial estates and fisheries.

The justifications for the substantial government intervention into the functioning of the post-war economies of Iceland and Malta, were a lack of gainful employment for the local population, a weak private sector unable or unwilling to invest and the need for improved infrastructure to facilitate growth; massive investments were urgently needed in Iceland due to its sparsely populated vast landmass and poor infrastructure.

After the volatilities of the 1970s, policy choices and government priorities in both states began in the 1980s and 1990s to converge and tread related paths. Public policies of the 1990s and 2000s shifted towards an emphasis on structural reforms, deregulation, privatisation, growing liberalism and new realms of legislations, e.g., relating to the environment, competition, freedom of information and public administrative procedures. Globalisation became an influential factor. The winds of change were blowing, calling for a progressive transition in sectors like education, health care, housing, public administration and local government, by conducts like mergers, outsourcing, competitive tenders etc.

12.6 Finale

During the second half of the twentieth century, Iceland and Malta divulged different economic structures and stages of development, with Iceland being economically more advanced. They exhibited several archetypal small island characteristics, i.e., open economies highly dependent on foreign trade, small domestic markets, vulnerability, narrow resource base (Iceland), shortage of local capital and 'islandness'. Both states achieved long-run sustained but variable growth rates, with Malta being more efficacious than Iceland. Their history, culture, religion, politics and societies were rather contrasting, somewhat reflecting the difference between a small, densely populated island located at crossroads in the Mediterranean with a warm climate and a relatively large, sparsely populated, cold-temperate, North Atlantic island, remotely located and impinged by a Nordic heritage.

Sovereignty has been unequivocally conducive to economic growth and societal progression in both Iceland and Malta. The thesis has shown that Iceland and Malta overcame the various challenges of small island states and adopted a good mix of foreign relations, public policies and institutions, complemented with rich human capital and enterprising private sector.

The economic, trade and industrial policies of Iceland were marked by the government's monomania interventions into the towering fisheries and seafood exports until the 1990s, which at times threw monetary and foreign exchange policies off balance and caused crowding-out effects on other sectors. Import-substitution policies were employed for meat, dairy and potatoes throughout the study period and for manufactured products in the 1950s and 1960s. EFTA membership in 1970 favoured fish exports but had adverse effects on manufacturing; many small plants closed down. Economic, trade and industrial policies of Malta, meanwhile, reflected a more diversified and less-developed economy, while it achieved a greater trade- and financial openness than Iceland towards the end of the century; import-substitution policies were prevalent in Malta until the 1980s. Malta accomplished a more stable currency, a lower inflation and more prudent fiscal control than Iceland, while both saw fiscal deficits and rising public debt in the 1990s.

Growth in both island states was apt to favour specific economic sectors and localities but simultaneously provoked inequalities between social classes, labour segments, economic sectors and areas. Economic growth raised overall the national income of both states, but the improved standard of living was likely to be unequally distributed – the growth process created both winners and losers. All things considered, the growing economic strength and espousing government policies from the 1960s to the 1990s, helped lay the foundations for continued long-term economic and social progress, which extended into the 2000s and 2010s, despite a temporary setback 2008-2009, particularly in Iceland.

It is anticipated that the main contributions of the thesis include an improved comprehension of the economic and political histories of Iceland and Malta during the second half of the twentieth century, as well as a significant contribution to small state studies, particularily of small island states. The study has investigated how sectoral industrial policies intersected effectively with foreign trade, macroeconomic, growth and structural reform policies and investments in infrastructure and commercial enterprises. The thesis has expectantly demonstrated that despite being swayed by geographical separation and 'islandness, ', both island states enjoyed sustained economic progress. The study has exposed differences in the impact of the political systems on government strategies and policy choices under dissimilar proportional representation systems, i.e., multi-party politics and coalition governments in Iceland and two-party politics in Malta with alternating one-party majority governments. It additionally has shown how a dependence on a rich natural resource and one overriding export stable shaped, influenced and challenged economic progress and public policies in Iceland, forging a 'one industry' policy focus until late in the century. Contrarily, growing economic diversity, i.e., after the deindustrialisation of the dockyards, contributed emphatically to more balanced growth and stable macroeconomic conditions in Malta. The thesis has demonstrated how participation in the European economic cooperation benefitted both economies and societies, although the main positive effects were felt in the 1990s and 2000s.

The thesis has exposed the implications of the relatively large landmass of Iceland compared to the challenges of the small landmass of Malta. It has furthermore compared the effects of the location of Malta in the Mediterranean and Iceland in the North Atlantic on their trade and foreign relations. The study era, with a carefully chosen timeline, was a transition period from the rather unproductive, undeveloped, low-income, trade restricted and state-controlled post-war economies and societies of Iceland and Malta to high-income, knowledge-driven, productive economies of the modern era and growing welfare states, with new business opportunities, but also threats and challenges.

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Central Bank of Malta

Publications and statistics from the bank are on https://www.centralbankmalta.org/publications This includes the monthly Economic Update and the bank's other main publications are the Quarterly Review, the Annual Report and the Financial Stability Report.

Commonwealth

The Commonwealth i-library https://www.thecommonwealth-ilibrary.org/

Eurostat, the Statistical Office of the European Union

The website https://www.ec.europa.eu/eurostat/data/database provides the EU with statistics at European level that enable comparisons between countries and regions, including Iceland and Malta.

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Adonis, Gérard, *Macroeconomic Policy Frameworks of Small States: A Case Study of Malta*, Commonwealth Secretariat: London, 2011.[Reviews macroeconomic policies in Malta, identifies key issues, lessons learnt and best practices.]

Agnarsson, Sveinn, 'Að nota máttinn rétt í hrapsins hæðum – rafmagn og hagvöxtur á 20. öld', *Fjármálatíðindi*, li, 2 (2004) 114-121.
[A review paper on the role of electricity in economic growth in Iceland during the 20th century.]

Agnarsson, Sveinn, 'Hvaða lærdóm má draga af hagþróun og hagstjórn á Íslandi á 20. öld?', *Saga* xlvii, 2 (2009), 11-37.
[The paper reviews 13 replies from renowned economists and economic historians on what lessons can be learned from economic development and economic policies of 20th century Iceland?]

Agnarsson, Sveinn and Árnason, Ragnar, *The Role of the Fishing Industry in the Icelandic Economy. A Historical Examination*, Inst. of Econ. Studies, Univ. of Iceland, WP Series, W03:07, 2003. [The authors employ econometric methods to estimate the overall contribution of the fishing industry to Iceland's GDP 1963-1996.]

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[The book comprises articles on modern EU industrial policy by renowned scholars.]

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[The paper addresses the impact of global trade liberalisation upon the growth prospects of small states. Summarises the principal economic characteristics of small states.]

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[The paper examines the impact of sub-optimal domestic market size on market structure, competition and domestic welfare in micro-states.]

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[The paper examine the relationship between economic growth in small states and their vulnerability to exogenous shocks. Relevant analysis for both Iceland and Malta.]

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[The paper outlines main theoretical issues and empirical findings relevant for the analysis of economic growth of small states.]

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[Examines for small states the impact of openness and vulnerability to exogenous shocks.]

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[Reviews general legal principles of income tax and the historical background of the Income Tax Act.]

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[The book provides an up-to-date overview of the Maltese income tax legislation.]

Árnason, Ragnar, *The Icelandic Fisheries: The Evolution of a Fishing Industry*, (Oxford: Fishing News Books, 1994).
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Árnason, Ragnar and Agnarsson, Sveinn, ‘Sjávarútvegur sem grunnatvinnuvegur á Íslandi’, *Fjármálatíðindi*, lii, 2 (2005) 14-35.
[Reviews the fishing industry as a fundamental economic sector in Iceland.]

Árnason, Örnólfur, *Á slóð kolkrabbans,* (Reykjavík, Skjaldborg, 1991) [Trailing the Octopus! – The business blocks of the leading business magnets in Iceland in the 1980s, owned by the 14 families, were called the Octopus by the public and the media.]

Ásgeirsson, Jakob F. and Sigríður K. Þorgrímsdóttir, *Stjórnarráð Íslands: 1964-2004 – III. Saga ríkisstjórna og helstu framkvæmdir 1983-2004*, Reykjavík, Sögufélagið, 2004.
[Volume nr. 3 in the history of the civil services and governments of Iceland, 1964-2004. This volume unfolds the history of different governments 1983-2004 and their main projects and activities.]

Ásgeirsson, Ólafur, *Iðnbylting hugarfarsins*, Reykjavík, Bókaútgáfa Menningarsjóðs, 1988.
[Covering the historical period 1900-1940, the author explores the transformation of political attitudes and reviews political cleavages and conflicts as regards economic and industrial development.]

Ásgeirsson, Þórhallur, ‘Samningur Íslands við Efnahagsbandalag Evrópu’, *Fjármálatíðindi*, xix, 2 (1972) 104-108. [A review article on the Agreement between Iceland and EEC in 1972.]

Attard, Joseph, *Industrial Relations in Malta*, PEG, Valletta, 1984.
[This book reviews the history of industrial relations, including the build-up of the trade unions and the legislative framework. It examines the Industrial Relations Act 1976, e.g., the handling of trade disputes, collective bargaining, grievance and conciliatory procedures and the industrial tribunal.]

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[The paper discusses the liberalisation of interest rates in Malta in the early 1990s.]

Baldacchino, Godfrey, ‘A Nationless State? Malta, National Identity and the EU’, *West European Politics*, xxv, 4 (2002), 191–206.
[Discusses the Malta-EU relationship and provides a historical critique of the emergence of the Maltese nationless state and of its integrationist attempts with France, Italy, Britain and the EU.]

Baldacchino, Godfrey, ‘Trade Unions in Malta. Report 110’, European Trade Union Institute, Brussels: ETUI aisbl., 2009. [The report forms part of a wide-ranging project, initiated and coordinated by the European Trade Union Institute (ETUI), with the aim of studying changes in union membership and the different organisational structures of unions in the new member state of the EU, Malta included.]

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[The book unpacks the nature and character of small state success, while also looking at thirteen episodes in modern history where small states emerged victorious in confrontations with larger states.]

Baldacchino, Godfrey and Bertram, Geoffrey, 'The Beak of the Finch: Insights into the Economic Development of Small Economies', *The Round Table*, xcviii, 401 (2009) 141-160. [The paper discusses the development of small economies and is of general relevance.]

Baldacchino, Godfrey and Greenwood, Robert, (eds.) *Competing Strategies of Socio-economic Development for Small Islands*, (Prince Edward Island, The Institute of Island Studies, 1998).
[A selection of scholarly articles on various development themes and approaches of small islands, e.g., in the North Atlantic and from Malta. Of general interest for the thesis.]

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[A volume reviewing and elaborating on various aspects of industrial relations in Malta around the turn of the century, including trade unions, legislation and social dialogue.]

Baldacchino, Godfrey and Wivel, Anders (ed.), *Handbook on the Politics of Small States*, (Cheltenham, Edward Elgar Publishing, 2020).
[The book is an assemblage of scholarly articles which identify key characteristics, challenges and opportunities in the politics of small states and explore different political models for small states.]

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[A highly revealing survey on the Maltese economy and proposed capital development program and government action. Does also look into economic aid and a closer union with Great Britain.]

Bartmann, John Barry, 'Micro-States in the International System. The Challenge of Sovereignty', unpublished Ph. D. thesis, London School of Economics and Political Science, 1997.
[A leading-edge thesis and thought-provoking for the study. Examines the international relations of micro-states in three principal areas of concern: issues of status and legitimacy; the conduct of diplomacy and the efforts of micro-states to achieve strategies of self-reliant economic development.]

Bassanini, Andrea and Venn, Danielle, ‘Assessing the Impact of Labour Market Policies on Productivity: A Difference-in-Differences Approach’, No 54, OECD Social, Employment and Migration Working Papers, OECD Publishing, 2007.
[The WP examines the impact of four labour market policies on productivity, i.e., minimum wages, employment protection legislation, unemployment benefits and parental leave, by use of annual cross-country aggregate data on the policies and industry-level data on productivity 1979-2003.]

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[Examines industrial policy as the initiation and co-ordination of governmental activities to improve productivity and competitiveness of the Maltese economy and of particular industries within it.]

Bénassy-Quéré, Agnès; Cœuré, Benoît; Jacquet, Pierre and Pisani-Ferry, Jean, *Economic Policy. Theory and Practice*, (Oxford, Oxford University Press, second edition, 2019).
[The book is a topnotch reference work on economic policies, e.g. fiscal, monetary, tax, foreign exchange, financial stability and growth. Stimulating and informative.]

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[A paper by a professor of law, and later prime minister, on parliamentary democracy in Iceland.]

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[A paper by a senior Icelandic diplomat on the development of manufacturing and trade in EFTA countries.]

Benediktsson, Einar, *Ísland og Evrópuþróunin 1950-2000*, Reykjavík, Fjölsýn, 2000.
[Mr. Benediktsson was at the forefront of the Icelandic diplomatic service 1956-2001, based intermittently at the international institutions of which Iceland was a member. He wrote this revealing overview publication about Iceland´s role and participation in the Europe´s Integration 1950-2000].

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[A scholarly paper elaborating the role of human capital in economic development.]

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[The chapter observes small island economies with a broad spectrum of economic structures built on a similarly wide range of development strategies, but with no unique path to development success.]

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[The book reports on extensive research into the Maltese public service reforms.]

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Bishop, Matthew L., 'The political economy of small states: Enduring vulnerability?', *Review of International Political Economy*, xix, 5 (2012), 942-960.
[An engaging paper on the political economy of small states, especially their vulnerability.]

Bjarnadóttir, Valgerður, ´Útgjöld ríkisins, umfang þeirra og ákvörðunarþættir´, *Fjármálatíðindi*, xxii, 2 (1975), 123-44. [Paper on Iceland government expenditures, their extent and decision-making.]

Bjarnason, Arnar, Export or die. The Icelandic Fishing Industry: The Nature and Behaviour of its Export Sector, Reykjavík: University of Iceland, Fisheries Research Institute, 1996.
[The book analyses the Icelandic fishing (seafood) industry in the 1980s, with emphasis on the export strategies, entry barriers into new markets, marketing management and export behaviour.]

Bjevre, Petter Jacob, *Økonomisk planleggning og politikk*, Oslo, Samlaget 1989. [An edifying and riveting book on economic planning and policy in Norway, in the 1970s and 1980s.]

Björnsson, Elías, 'Skuttogaravæðingin 1970-1982: Aðdragandi og þróun', BA ritgerð í sagnfræði frá Háskóla Íslands, 1990.
[Unpublished BA dissertation in history from the University of Iceland, 1990, on the huge publicly funded investment program 1970-1982, comprised of c 100 new stern-trawlers.]

Björnsson, Ólafur, 'Þróun efnahagsmála 1945-1960', in *Íslensk haglýsing. Greinar um íslensk efnahagsmál*, Þórður Friðjónsson, (ed.), (Reykjavík, Almenna bókafélagið, 1984), 103-117.
[An enlightening review of the Icelandic economy 1945-1960 by an economics professor.]

Blinder, Alan S., *A Monetary and Fiscal History of the United States, 1961-2021*, Princeton University Press, 2022. [This book is the definite history of post-1960 American fiscal and monetary policies with significant spill-over effects to Europe.]

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Boissevain, Jeremy, *Saints and Fireworks. Religion and Politics in Rural Malta* (London, Athlone Press, 1965). [Considered a classic work on clientelism and patronage, with Malta as a case study.]

Bonnici, J., 'A Profile of Malta's Manufacturing Sector: Employment, Exports and Investment', in *The Maltese Islands on the Move: A Mosaic of Contributions Marking Malta's Entry into the 21st Century*, C.C. Vella, L. Sciberras, J. M. Gatt, P. Mifsud and R. Mizzi (eds.) Valletta, Central Office of Statistics, 2000, 47-54. [An overview article on Malta´s manufacturing sector in the late twentieth century.]

Borg, Carla, 'Highlights of Soviet Maltese Relations 1965-1989’, unpublished BA (HONS) dissertation, Department of History, University of Malta, 2011.
[Discusses relations between Malta and the Soviet Union 1965-89.]

Borg, Jacob, 'The impact of the global economic slowdown on two small island states of Europe, Iceland and Malta', unpublished B. EUR STUD (HONS) dissertation, the University of Malta, 2011.
[Explores why two similarly sized small states with open economies were affected so differently by the global financial and economic crisis.]

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[Papers on offshore financial centres at a conference in Malta, 1995. Important in understanding the first steps taken to establish an offshore financial centre in the late 1990s]

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[A survey of the economic structure, land-use and geography as a background study for development in Malta c 1960. A fine assessment and broad overview of Malta in 1960.]

Briguglio, Lino, *The Maltese Economy. A Macroeconomic Analysis* (Malta, David Moore, Malta 1988a).
[A thorough review of the Maltese economy in the 1980s. Examines important macro-economic variables, e.g., output, labour, aggregate domestic expenditures, money, banking and inflation.]

Briguglio, Lino, 'The Maltese Economy Since 1960', *Hyphen*, v, 5, 1988b, 205-223.
[The paper reviews the Maltese economy 1960-1984, including structural changes related to the expansion of the manufacturing sector and the phasing out of the British forces in Malta.]

Briguglio, Lino, 'The impact of a devaluation on the Maltese trade balance with special reference to price and income reversal effects', *Applied Economics*, xxi, 1989, pp. 325-28.
[The paper investigates whether a decrease in the external value of the Maltese Lira would improve the Maltese balance of trade and shows that it cannot be concluded that devaluation reduces trade deficit due to reversal effects associated with increases in domestic prices and induced imports.]

Briguglio, Lino, 'The Maltese Economy – Structure, Development and Problems', *Asian Economic Review*, xxxiii, 3 (1991), 455-480.
[Discusses important changes 1960-1990, i.e., the phasing out of the British forces, the growth of manufacturing and the role of development planning in diversifying the Maltese economy.]

Briguglio, Lino, 'The Terms of Trade and the Direction of Trade in the Maltese Economy', *World Development*, xxi, 2, 1993, 269-276.
[Shows how changes in the terms of trade are influenced by Malta's direction of trade rather than the composition of exports and imports. Malta competes with developing countries in its exports while the island purchases most of its imports from industrialised countries.]

Briguglio, Lino, 'The Economy of a Small Island State, Malta,1960–1993', *Mediterranean World*, xiv, 1995, 105–120.
[The paper reviews the structure and performance of the Maltese economy 1960-1993, including planning, cyclical and structural changes and in public expenditures and balance of payments.]

Briguglio, Lino, *Macroeconomics and the Maltese economy*, (Malta, BDL publishing, 2011).
[The book is a basic-level update, revision and extension of the 1988 publication.]

Briguglio, Lino and Cordina, Gordon (eds.), *Competitive Strategies for Small States* (Malta, Foundation for International Studies and the Commonwealth Secretariat, 2004)
[Includes 20 articles on the competitive strategies of small states in the Commonwealth.]

Briguglio, Lino, Cordina, Gordon and Kisanga, Ellawony J. (eds.), *Building the Economic Resilience of Small States*, (University of Malta and the Commonwealth Secretariat, 2006).
[This volume of 14 papers focuses on how vulnerable small states can build up economic resilience. Some of the papers correspond with themes explored in the thesis.]

Briguglio, Lino, Cordina, Gordon, Farrugia, Nadia and Vigilance, Constance (eds.), *Small States and the Pillars of Economic Resilience*, published in 2008 by the University of Malta and the Commonwealth Secretariat.
[20 scholarly papers on macroeconomic policy, market efficiency, good governance and social and environmental issues. Concepts and arguments relevant for the policy analysis in the thesis.]

Briguglio, Lino and Vella, Melchior, 'Trade Openness, Volatility and Governance', in *Handbook of Small States. Economic, Social and Environmental Issues*, Briguglio, Lino (ed.), Abingdon and New York, Routledge, 2018, 42-52.
[The paper analyses result from 171 country. Shows that countries highly dependent on international trade, including most small states, are exposed to GDP growth volatilities.]

Briguglio, Michael, 'Malta's Labour Party and the Politics of Hegemony', *Socialism and Democracy*, xxiv, 2, 2010, 213-226.
[The paper analyses the successes and failures of the Labour Party since independence. It looks at factors like the two-party dominance, patronage and the Catholic influence.]

Brincat, Mario, 'Export-Led Industrialisation and Development in Malta, 1955 – 2000', unpublished Ph D thesis, University of London, 2008.
[Reviews the process of export-led industrialisation driven by FDI and foreign technology, replacing jobs lost with the rundown of British and NATO bases. Shows how industrialisation reduced emigration and helped building up public goods and welfare. Highly relevant for the analysis in the thesis.]

Brincat, Mario, 'The Birth of the 'Maltese Model' of Development, 1945 – 1959', *Journal of Maltese History*, i, 2 (2009), 34-52.
[Based on Brincat´s Ph D thesis. Prolific contribution to explaining economic development in Malta.]

Brincat, Mario, 'Decolonisation and the Emergence of the Maltese Model of Development, 1949-1959', in *Colonial Encounters. Maltese Experiences of British Rule 1800-1970s*, John Circop (ed.), Horizons, Malta, 2015, 415-437.
[Maintains that export-led industrialisation was adopted as a development model in the 1950s in response to the challenges of decolonisation – a compelling argument.]

Brincat, Mario, Birth of the Malta Development Corporation: A Landmark in the Islands' Economic Development, (Malta: Gutenberg Press Ltd., 2017).
[Outlines the first years of MDC, in the late 1960s and 1970s – general background info.]

Bryn, Kåre and Guðmundur Einarsson (eds.), *EFTA 1960-2010. Elements of 50 years of European History*, EFTA, 2010.
[The book contains mainly papers presented at a conference held in Geneva 2009, marking the 50th anniversary of EFTA in 2010 and 15 years of the European Economic Area Agreement in 2009.

Buttigieg, Eugene, 'Challenges facing Malta as a Micro-state in an Enlarged EU', *Bank of Valletta Review*, No. 29, 2004, 1-15.
[The paper considers the challenges of Malta in an enlarged EU of 25 states – as a micro-state and as a micro island state. It adds insularity and periperiality to the disadvantage of small size.]

Camilleri, Mark, From Colonialism to Mintoffianism: Malta´s Transition from a British base to a commercial economy, published by the author in Malta, 2012a.
[Reviews the history of economic development and the political economy of Malta up to the 1980s. Discusses issues relevant for the study, but is more descriptive than analytical.]

Caruana Galizia, Paul, *The Economy of Modern Malta from the Nineteenth to the Twenty-First Century*, (London, Palgrave Macmillan, Palgrave Studies in Economic History, 2017).
[Narrates the economic history of Malta from the 19th century until modern times. Explains post-independence economic policies and interventions of the Malta government. Lacks political neutrality and is inwardly focussed – the impact foreign relations tend to be eluded, except Britain.]

Cassar, Ian P., Vella, Kevin and Buttigieg, Sean, 'Understanding the Economic Contribution of Tourism in Malta: A Literature Review', *Mediterranean Journal of Social Sciences*, vii, 6 (2016) 49-60.
[A critical assessment of previous studies on the contribution of the tourism in Malta.]

Cassar, Michael, *Malta Drydocks 1963-2010*, (Malta, Michael Cassar, 2013).
[A descriptive volume on Malta drydocks 1963-2010, with many photographs and newspaper clippings. Traces all major events and changes, is informative but is not an academic publication.]

Causon, E. A., 'Malta-EEC Association Agreement: It´s Implications for Malta´s Foreign Trade', unpublished B. A. (HONS) dissertation in Economics, University of Malta, 1971.
[Is written only one year after the agreement was signed and is more factual than analytical.]

The Central Bank of Iceland, Macroeconomic model of the Icelandic Economy, Working Paper no. 82, 2019. [Important for macroeconomic analysis of the Icelandic economy.]

Chircop, John (ed.), *Labour History Revisited*, (Malta, Horizons, 2012).
[The volume presents pioneering research on the history of the labour movement in Malta, derived form a conference held in 2010 to mark the 90th anniversary of the foundation of the Labour Party.]

Chircop, John, 'Labour History, Historiography and beyond', in *Labour History Revisited*, J. Chircop (ed.), (Malta, Horizons, 2013), 11-60.
[The paper contains an overview and analytical introduction to the labour history of Malta.]

Chircop, John (ed.), *Colonial Encounters: Maltese Experiences of British Rule 1800-1970s,* Malta, Horizons, 2015a.
[Prolific collective works of 17 papers on social, economic and cultural debates on colonialism and colonial rule with a focus on Maltese experiences of British dominion – historically inspiring.]

Chircop, John, 'Colonial Encounters in Multiple Dimensions: Collaboration, Defiance, Resistance and Hybridity in the making of Maltese History', in *Colonial Encounters: Maltese Experiences of British Rule 1800-1970s*, J. Chircop, (ed.), Malta, Horizons, 2015b, 13-66.
[The paper contains a review and analytical introduction to the Maltese experiences of British rule from the outset in 1800 until 1979 when the British Forces left Malta.]

Christoffersen, Henrik, *Danmarks økonomiske historie efter 1960*, Århus, Systime, 1999. [Reviews the progression from agricultural society to service society and welfare state and the lead role of government. The book´s exploration is akin to the main themes and time period the thesis.]

CIA World Factbook (https://www.cia.gov/library/publications/resources/the-world-factbook/geos/mt.html). The CIA World Factbook is a reference resource produced by the US Central Intelligence Agency. It provides information on the countries of the world.]

Cini, Michelle, 'A Divided Nation: Polarization and the Two-Party System in Malta', *South European Society and Politics*, vii, (2002), 6-23.
[Reviews the party political, institutional and social-cultural framework that characterises Maltese politics. Explores why Malta as a small and ethnically homogeneous state is so politically divided.]

Consiglio, John A., 'Malta´s Banking History: Overview and Observations', chapter 2 in *Banking and Finance in the Mediterranean. A Historical Perspective*, Consiglio, John A., Juan Carlos Martinez Oliva, Gabriel Tortella, Monika Pohle Fraser, Iain L. Fraser (eds.), London, Routledge, 2012.
[The chapter reviews the banking history of Malta, which carries all the characteristics of a small island economy in the Mediterranean. Features an array of institutions, personalities and main events.]

Cooper, Andrew F. and Shaw, Timothy, M. (eds.) *The Diplomacies of Small States. Between Vulnerability and Resilience* (London, Palgrave Macmillan, 2009).
[Collection of 15 articles on small state diplomacy vis-à-vis regional and international organisations, as well as challenges and realities. Includes case studies of small states, including Iceland.]

Cordina, Gordon, 'Patterns of fiscal revenue and expenditure in Malta: 1980-1992', *Bank of Valletta Review*, no. 6, Autumn 1992, 1-14.
[The paper analyses the emergence of debt as a principal method of fiscal financing by the Malta government during the late 1980s. It assesses the suitability of debt financing policy.]

Daníelsson, Ásgeir, 'Sveiflur í sjávarútvegi, gengisstefna og almenn hagstjórn', *Fjármálatíðindi*, xxxviii, 3 (1991) 186-194. [Analytical paper on volatilities in the fishing industry, foreign exchange policy and economic policies, relevant for Iceland only.]

Daníelsson, Ásgeir, 'Íslenskur sjávarútvegur - auðlindin, rentan, arðsemin og hagvöxtur´, *Fjármálatíðindi*, li, 2 (2004) 100-113.
[A paper on the Icelandic fishing industry – the resource, the rent, profits and growth.]

Debono, Manwel and Baldacchino, Godfrey (eds.), *Working Life and the Transformation of Malta 1960-2000*, Malta, Malta University Press, 2021.
[The book consists of 16 scholarly papers which examine the transformation of the Maltese workplace 1960-2000 and address issues like labour market changes, employee relations and rights and specific state interventions through policies and legislation.]

Debono, Manwel, *Xjenza Online,* 'An Analysis of Trade Union Membership in Malta', vi, 2018, 46–58. [The study examines membership levels through a survey carried out through a national sample of 781 employees. It reveals a lower trade union membership level than has been officially reported.]

Delia, Emmanuel P., *The Currency Basket*, A study of the Maltese Lira commissioned by the Confederation of Private Enterprise, (Malta, COPE publication, Malta 1986).
[The study considers the implementation of a more active monetary policy, the introduction of an export-subsidy scheme and a slight modification in the currence basket of the Malta Lira.]

Delia, Emmanuel P. 'In Search of an Industrial Policy', in *Maltese Business: The Challenges Ahead*, Godwin Ellul and Albert Caruana (eds.), Malta, 1996, 80-98.
[Reviews industrial policy in Malta over the last few decades. Examines the lack of clarity of the Maltese industrial policy and the role of manufacturing in the economy.]

Dixit, Avinash and Luisa Lambertini. 2003. "Interactions of Commitment and Discretion in Monetary and Fiscal Policies." *American Economic Review*, xciii, 5 (2003), 1522-1542.
[The paper argues that fiscal and monetary policy choices interact, which may cause altered macroeconomic outcomes than if each policy was implemented in isolation. Carefully chosen policy mix – in collaboration between the government and the central bank - may stimulate economic growth.]

Dowdall, John, 'Mintoff's Malta: Problems of Independence,' *The World Today* xxviii (1972a) 189-195. [The paper discusses how the 1972 Anglo-Maltese agreement was a political success for Mintoff, but how it did in several important ways conflict with his long-term objectives.]

Dowdall, John, 'The political economy of Malta', *The Round Table*, No. 248, Oct. 1972b, 465-473.
[The paper discussed the political economy of Malta during the immediate post-independence years and at the beginning of Mintoff´s reign.]

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton, Princeton Univ. Press, 2000
[This extensive volume is a first-rate reference work, useful for the last part of the study period. Comprehensive coverage on political economy in macroeconomics, discusses basic issues, tools of analysis, conflicts of interest and economic policies. Highly informative and persuasive for the study.]

Easterly, William and Kraay, Aart, (2000), Small States, Small Problems? Income, Growth, and Volatility in Small States, *World Development*, iixxx, 11 (2000), 2013-2027.
[Their findings are pertinent for the thesis. They conclude, that small states have higher per capita GDP than other states, due to productivity advantage, and that small states do also have greater volatility of annual growth rates, which is in part due to greater volatility of terms of trade shocks.]

Edwards, Sebastian, *Monetary Policy. An Evaluation*, Published by the government of Iceland, 2018. https://www.government.is/lisalib/getfile.aspx?itemid=58be6f63-689f-11e8-942c-005056bc530c
[A paper which evaluates monetary policy in Iceland.]

Einarsson, Eiríkur Bergmann, "Hið huglæga sjálfstæði þjóðarinnar": áhrif þjóðernishugmynda á Evrópustefnu íslenskra stjórnvalda, Doktorsritgerð frá Háskóla Íslands, 2012.
[Ph D thesis from the Univ. of Iceland on the sense of sovereignty: how national sentiments influenced Iceland's European policy. The research asks why Iceland has chosen to participate in the European integration through the EEA and Schengen agreements but not with full membership in the EU.]

Einarsson, Bjarni G., Guðjón Emilsson, Svava J. Haraldsdóttir, Thórarinn G. Pétursson, and Rósa B. Sveinsdóttir, *On our own? The Icelandic business cycle in an international context*, Working Paper nr. 63, Central Bank of Iceland, 2013.
[The paper analyses the properties of the Icelandic business cycle and whether it is synchronised with the business cycles of other developed countries.]

Einarsson, Ólafur R., 'Upphaf íslenskrar verkalýðshreyfingar 1887-1901', *Saga*, vii, 1 (1969), 3-127.
[Traces the history of the first years of the formation of trade unions in Iceland.]

Ellul, Emanuel, 'Monetary and Exchange Rate Policy in Malta', *Quarterly Review*, xxxi, 2 (1998) 56-61, Central Bank of Malta.
[A short paper on monetary and exchange rate policies in Malta, from the study period.]

Eyjólfsson, Eyjólfur Brynjar, 'Styrkleikar, veikleikar og markmið útflutningsfyrirtækja. Útflutningur íslenskra sjávarafurða', MS ritgerð í viðskiptafræði, H.Í., 2013. http://hdl.handle.net/1946/14739
[Unpublished M.S. dissertation in business studies from the University of Iceland, 2013. Assesses the strengths, weaknesses and objectives of Icelandic firms exporting seafood.]

Fabri, David and Godfrey Baldacchino, 'The Malta Financial Services Centre: A Study in Micro-State Dependency Management?', in *Offshore Finance Centres and Tax Havens. The Rise of Global Capital*, Mark P. Hampton and Jason P. Abbott (eds.), London, Palgrave Macmillan, UK, 1999.
[The chapter outlines the island's recent attempts to locate itself as a credible international financial centre. It focuses also on the development of the Malta Financial Services Centre, which has been transformed into a composite regulatory body.]

Falzon, Joe, 'The Money Supply Process in Malta: 1960-1992', *Bank of Valletta Review*, 10, 1994, 28-51. [The paper discusses highly regulated interest rates and capital controls in Malta until they were liberalised in the early 1990s.]

Farrugia, Nadia, Economic Restructuring and Supply-Side Policies: Some lessons for Malta, *Bank of Valletta Review*, No. 29, 2004, 27-41.
[The paper discusses the imporance of supply-side policies of the Maltese economy and argues its importance for small states. Special constraints faced by small states are described.]

Federation of Industries, 'Exchange Rate Policy – Urgent Review Needed', Report prepared by E. Scicluna and J. E. Agius (Federation of Industries, Malta 1985.)
[The report reviews the performance of Malta's export price competitiveness 1983-1984 and estimates its impact on Malta's export performance. Effects of exchange rates on inflation considered.]

Fenech, Dominic, 'The 1987 Maltese Election: Between Europe and the Mediterranean,' *West European Politics*, xi, 1 (1988), 133-38.
[Reviews the results of the 1987 election when the Nationalists won after 16 years of Labour reign.]

Fenech, Dominic, 'The 1992 Maltese Election', *West European Politics*, xv, 4 (1992), 189-95.
[Reviews the Nationalists landslide victory over Labour after 5 years in power.]

Fenech, Dominic, ‘The 1996 Maltese Election: Swing of the Pendulum,’ *West European Politics*, xx, 2 (1997a), 165-72.
[Reports on the ‘surprise’ victory of the Labour Party over the Nationalists in the 1996 election.]

Fenech, Dominic, ‘Malta's external security’, *GeoJournal*, xli, 2 (1997b) 153-63.
[A paper on Malta's external security issues in the late 1990s.]

Fenech, Dominic, ‘The 1998 Maltese Election’, *West European Politics*, xxii, 2 (1999), 193-98.
[The paper reports on the 1998 election when the Nationalist Party returned to office after a snap election called because of a dissent within the governing Labour Party.]

Fenech, Dominic, ‘Malta’, *European Journal of Political Research* xlii, (2003), 1026–1028.
[Discusses issues in national politics and questions relating to EU membership. At the time of writing there were still unresolved matters, particularly on VAT, the environment and competition.]

Fenech, Dominic, ‘The Strangeness of Anglo-Maltese Relations’, *Journal of Mediterranean Studies*, xxiii, 1 (2014) 21–29.
[The paper explains the paradoxical Anglo-Maltese relationship, between colony and metropolitan state, and consequently the atypical attitudes and sentiments they evolved towards each other.]

Fenech Adami, Edward, *Eddie. My Journey* (Malta, Allied Publications, 2014)
[An autobiography of Eddie Fenech Adami, leader of the Nationalist Party and Prime Minister of Malta 1987-1996 and 1998-2004. He led Malta´s accession into the EU. Highly relevant book with background information on politics and government policies in Malta during the 1980s and 1990s.]

Findlay, Ronald and Wellisz, Stanislaw, *The political economy of poverty, equity, and growth: five small open economies.* A World Bank comparative study, (New York, Oxford University Press, 1993).
[Compares economic policies and performances of Hong Kong, Singapore, Jamaica, Mauritius and Malta. Provides information on historical backgrounds, political systems and economic statistics.]

Foreman-Peck, James, ‘Industrial Policy in Europe in the 20th Century’, European Investment Bank, Economic and Financial Studies, EIB Papers. 11, 2006.
[The paper reviews industrial policies in Europe during the 20th century, with a focus on growth factors, instruments and impact across countries and period. It draws policy lessons, both successes and failures.]

Formosa, Carmelo, Trade Policies in Malta between 1970 and 1990, unpublished B. A. (HON) in Public Administration, University of Malta, 1989.
[The dissertation reviews trade policies in Malta during the 1970s and 1980s.]

Freire-Serén, María Jesús, ´Human Capital Accumulation and Economic Growth´, *Investigaciones Económicas*, xxv, (2001), 585-602.
[The paper discusses the ways in which educational investments may contribute to economic growth. It is revealing for the thesis and thought-provoking.]

Frendo, Henry, ‘The long road to responsible government: Maltese politics and society under a non-representative constitution 1903-1919’, in Henry Frendo (ed.), *Party Politics in a Fortress Colony: the Maltese Experience*, (Valletta, Midsea, 1991).
[This revealing article is of a Maltese political history interest for the thesis.]

Frendo, Henry ´Local government in Malta: a slowly maturing process´, in *The Oxford handbook of local and regional democracy in Europe*, Loughlin, John, Hendriks, Frank and Lidström, Anders (eds.), Oxford, Oxford University Press, 2010, 434-454.
[The chapter reviews the representative system of local government in Malta set up in 1993 and earlier attempts of setting up local councils in Malta and local administration in Gozo.]

Frendo, Henry, *Party Politics in a Fortress Colony: The Maltese Experience*, (Valletta, Midsea, 3rd ed., 2013).
[The author has pieced together, from original sources, an analytical narrative of how Maltese political parties originated, formed and developed from the 1870s onwards.]

Friedman, Milton, *A Program for Monetary Stability*, 1960. [A view from 1960 on failed monetary policies and the need to look at root causes of inflation. Highly interesting for Iceland.]

Friedman, Milton, *Capitalism and Freedom*, 1962. [A ground-breaking view from the early 1960s on the relations between economic and political freedom, the role of government, the control of money, fiscal policies and international financial and trade arrangements.]

Friedman Milton, 'The Role of Monetary Policy', *American Economic Review*, Vol. 58, No. 1 (Mar. 1968), pp. 1–17. [Discusses how the major goals of economic policy can be mutually compatible or incompatible and on what terms they can be substituted for one another. Focuses on how monetary policy has blended with other policy instruments in the 1960s.]

Friedman Milton, 'Inflation and Unemployment: Nobel Lecture', 1977, *Journal of Political Economy*, 85, 1977, 451–72. [The paper discusses the relationship between inflation and employment from a historical perspective.]

Georghiou, Luke, Elvira Uyarra, Ramona Saliba Scerri, Nadine Castillo and Jennifer Harper Cassingena, ‘Adapting smart specialisation to a micro-economy – the case of Malta’, *European Journal of Innovation Management*, xvii, 4 (2014), 428-447.
[The paper discusses smart specialisation strategy in Malta in the context of a micro-economy with an industrial structure, based on a small number of FDIs and a preponderance of micro-enterprises.]

Gíslason, Gylfi Þ., “Ísland, Fríverzlunarsamtökin og Efnahagsbandalagið”, *Fjármálatíðindi* xxvi, 1979, 178–201.
[An overview article on Iceland, EFTA and EEC by the former leader of the Social Democratic Party 1968-1974, minister of trade and a professor of economics, aimed at a general readership.]

Gíslason, Gylfi Þ., *Viðreisnarárin*, Reykjavík, Almenna bókafélagið, 1993.
[Reflections on the two-party coalition 1959-1971 by a former trade minister, a leader of the Social Democrats (1968-1974) and a professor of economics. The book is not impartial but revealing and focuses on economic policies and politics, aimed at general readers with political interests.]

Grabowski, Richard, Sharmistha Self and William Shields, *Economic Development: A Regional, Institutional, and Historical Approach*, London, Routledge, 2012.
[Focuses on political economy and leadership decisions. Works through the unique development paths of individual countries. Discusses both the prospects and challenges of economic development in the rapidly evolving global economy.]

Greaves, Donna-Marie, A critical comparative assessment of Malta's direct tax fiscal regime applicable for international holding and financing activities: Prospects and challenges, unpublished MA FIN SERVICES Dissertation, Faculty of Laws, University of Malta, 2015. https://www.um.edu.mt/library/oar//handle/123456789/16749
[The dissertation examines Maltese tax provisions pertinent to the taxation of holding companies and financing activities and compares Malta with Cyprus, the Netherlands and Luxembourg.]

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[The paper argues that the large current account surpluses in the 1970s reflected high government savings due to the annual rent payments from the British government.]

Grech, Aaron G., *The Evolution of the Maltese Economy since Independence*, the Central Bank of Malta, 2015. Online at https://mpra.ub.uni-muenchen.de/68392/
[Reviews how the Maltese economy has developed over the last 50 years, 1964-2014. Includes very important sources of reference for the study and analytical inputs.]

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[A published Ph D thesis from the Graduate Institute for International Studies, Geneva, on aspect of development (technology) in the context of Malta. Chapter 1 on economic development in and the island's role in the world economy is particularly revealing for the thesis.]

Greenidge, Kevin, Meredith, Arnold McIntyre and Hanlei Yun, 'The effects of structural reforms on economic growth in the Caribbean small states' in *Handbook of Small States*, Lino Briguglio (ed.), Abingdon, Routledge, 2018, 71-102.
[The chapter asses the impact of structural reforms on growth in the Caribbean small states. Some of the examples cited, correspond befittingly with similar impacts in Malta and Iceland.]

Grimaud, Jean Micallef, *Small States and EU Governance. Malta in EU Decision-Making Processes*, (London, Palgrave Macmillan, 2018)
[The book explores Malta government´s capacity and strategies in EU legislative decision making.]

Grønlie, Tore, *Statsdrift. Staten som industrieier*, Oslo, Tano, 1989.
[An overview of the prevalent state ownership of industrial enterprises in post-war Norway. Correlates intriguingly with a similar saga of government ownership of enterprises in post-war Iceland.]

Guðjónsdóttir, Alexandra, Verkfallsréttur samkvæmt 14. gr. kjarasamningslaga. Beitt eða bitlaust vopn í kjarabaráttu opinberra starfsmanna, ML ritgerð í lögfræði, háskólinn í Reykjavík, 2016. [ML dissertation in law on issues relating to the rights of public servants to strike.]

Guðmundsson, Björn R. and Zoëga, Gylfi, ‘A Study of Iceland´s Fiscal Policy, 1960-1998’, in *Macroeconomic Policy: Iceland in an Era of Global Integration,* M. Guðmundsson, T.T. Herbertsson, and G. Zoëga, (eds.), Reykjavik, University of Iceland Press, 2000, 195-219.
[The paper analyses various aspects of the fiscal policy in Iceland 1960-1998, including time series of key macroeconomic aggregates, discretionary and systematic fiscal policy, international perspective and fiscal policy and external debt.]

Guðmundsson, Guðmundur J., ‘The Cod and the Cold War’, *Scandinavian Journal of History,* xxxi, 2 (2006) 97-118.
[The paper reviews the Anglo-Icelandic fishery disputes 1952–1976. It narrates the negotiations between the British and Icelandic governments and discusses the effects the disputes had on Iceland's relations with NATO and the US and on the balance of East-West power in the North-Atlantic.]

Guðmundsson, Már and Kristinsson, Yngvi Örn, ‘Peningastefna á Íslandi á 10. áratugnum’, *Fjármálatíðindi*, xliv, 1997, 103-128.
[A prolific overview paper on monetary policy in Iceland during the 1990s.]

Guðmundsson, Már; Herbertsson, Tryggvi Thor and Zoëga, Gylfi (eds.) *Macroeconomic Policy: Iceland in an era of Global Integration,* (Reykjavik, University of Iceland Press, 2000).
[The book contains the proceedings of a conference on macroeconomic analysis of the Icelandic economy, covering five broad themes: The choice of an exchange-rate regime, fiscal and generational accounts, the macroeconomics of natural resources, financial stability and econometric modelling.]

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[Analyses the underlying factors and forces of economic growth in Iceland 1910-1980 by means of an econometric model. Examines also the importance of the fishing industry for the national economy.]

Gunnarsson, Gunnar, ‘Continuity and Change in Icelandic Security and Foreign Policy’, *The Annals of the American Academy of Political and Social Science,* DXII, 1 (1990) 140-151.
[The article addresses the security policy of Iceland and the foreign economic policy in terms of the changes its development may imply for Iceland's external relations.]

Gunnarsson, Gunnar Ágúst, ‘Stefnumótun Nýsköpunarstjórnarinnar í atvinnumálum 1944’, an unpublished B.A. dissertation in political science from the University of Iceland, 1982.
[Examines the strategy devised by the new government in 1944 to improve the industrial base and implement an investment plan for fisheries, agriculture, manufacturing and infrastructure improvements.]

Gunnarsson, Gunnar Ágúst, ‘Industrial Policy in Iceland 1944-1974. Political Conflicts and Sectoral Interests’, unpublished Ph D thesis from the University of London, 1989.
[The core theme is the political economy of post-war industrial policy in Iceland. It examin-es the exercise of political authority to influence investments and analyses five different investment programs. It is inspirong for the industrial policy analysis of the thesis.]

Gunnarsson, Gunnar Ágúst, 'Ísland og Marshalláætlunin 1948-1953. Atvinnustefna og stjórnmálahagsmunir', *Saga* xxxiv, 1996, 85-130.
[A paper based the part of the Ph D thesis that contends with the Marshall aid investment program 1948-1953, especially political conflicts and sectoral interests.]

Gunnlaugsson, Stefán and Sævaldsson, Hörður, 'The Icelandic fishing industry: Its development and financial performance under a uniform individual quota system', *Marine Policy,* lxxi (2016), 73-81.
[The paper analyses trends in the industry since c 1990, marked by declining employment, reduction in the number of vessels and the close-down of many fish plants, while profitability has risen.]

Gylfason, Thorvaldur, Herbertsson, Tryggvi Thor and Zoëga, Gylfi, "A Mixed Blessing: Natural Resources and Economic Growth," *Macroeconomic Dynamics*, iii, June (1999), 204-225.
[Diagnoses data for 125 countries 1960–1992 confirming an inverse relationship between the size of the primary sector and economic growth, but not between the volatility of real exchange rates and growth. Is apposite for analysis of the Icelandic economy in the 1990s.]

Gylfason, Thorvaldur and Zoëga, Gylfi, "Inequality and Economic Growth: Do Natural Resources Matter?", Ch. 9 in *Inequality and Growth: Theory and Policy Implications*, Theo Eicher and Stephen Turnovsky (eds.), Cambridge Mass., MIT Press, 2003.
[The paper is to the point for analysis of economic growth in Iceland during the 1980s and 1990s. Demonstrates how increased dependence on natural resources tends to go along with less rapid economic growth and greater inequality in the distribution of income across countries.]

Gylfason, Thorvaldur and Zoëga, Gylfi, 'Natural Resources and Economic Growth: The Role of Investment', *The World Economy*, xxix, 8 (2006), 1091-1115.
[The paper explores whether excessive reliance on natural resources affects savings and investments and hence retards growth. Pertinent for analysis of the impact of natural resources on growth.]

Hálfdánarson, Guðmundur, 'Discussing Europe: Icelandic nationalism and European integration', in *Iceland and European Integration: On the Edge*, Thorhallsson, Baldur (ed.), London, Routledge, 2004, 128-144.
[The paper discusses Icelandic nationalism and why the Icelandic political elite has been reluctant to participate in the European integration and not yet applied for membership.]

Harris. S. E. (ed.), *The New Economics: Keynes' Influence on Theory and Public Policy*, New York, 1947. [Contains contributions from Keynesian economists on Keynes' economics.]

Harwood, Mark, *Malta in the European Union*, (London: Ashgate Publishing, 2014).
[The book reflects on Malta's road to EU membership. It explores the historical context and outlines how Maltese processes and policies have changed since membership and whether a causative link exists between these changes and Malta's membership of the EU.]

Hastrup, Bjarne, *Hovedstrømninger i dansk og international velfærd i begyndelsen af det 21. Århundrede*, (København, Multivers Academic, 2017).
[This stimulating and revealing Danish book examines the main trends in Danish and international welfare at the beginning of the 21st century.]

Heron, Tony, 'Small States and the Politics of Multilateral Trade Liberalization', *The Round Table*, 97:395, 2008, 243-257.
[The paper reviews the position of small states in the global politics of trade and development. It focuses specifically on the issue of multilateral trade liberalisation and the consequences for small states.]

Hey, Jeanne A.K., (2003) (eds.) *Small States in World Politics. Explaining Foreign Policy Behaviour*, (London and Boulder, Colorado, Lynne Rienner Publisher, 2003).
[Contains articles on small state foreign policies of eight selected countries, world-wide, during the latter part of the study period, and an introduction and a concluding chapter by the editor. Is of a generic applicability to the thesis.]

Imbroll, Fabio, 'The introduction of death and donation duties and income tax within a historico-legal context', unpublished Doctor of Laws thesis, Faculty of Laws, University of Malta, 2014. https://www.um.edu.mt/library/oar//handle/123456789/2184
[It focuses on the main acts that introduced direct taxation in Maltese legislation during the first half of the 20th century, which formed the basis of taxation and essential sources of state revenue during the second half of the centur.]

Ingebrigtsen, Christine; Neumann, Iver; Gstöhl, Sieglinde and Beyer, Jessica (eds.) *Small States in International Relations* (University of Washington Press, Seattle, University of Iceland Press, Reykjavik, 2006)
[Comprises 9 reprinted articles by renowned academics. Stimulating for analysing the impact of international relations on economic policies of Iceland and Malta in the thesis.]

Ingimundarson, Valur, *Í eldlínu kalda stríðsins. Samskipti Íslands og Bandaríkjanna 1945-1996,* (Reykjavík, Vaka- Helgafell, 1996). [A revealing volum, narrating the history of the relationship between Iceland and the US during the Cold War years 1945-1966.]

Innis, Harold A., *The Fur Trade in Canada: An Introduction to Canadian Economic History* (1930). [Explains how the fur trade shaped Canada´s economic history, affected by its geography. The concepts and ideas presented in the book and Innis´s other books are inspiring for any interpretations of natural resource-based developments in Iceland.]

Ísleifsson, Sumarliði R., *Saga Alþýðusambands Íslands*, Reykjavík, Forlagið, 2013.
[A two-volume history of the Federation of Trade Unions in Iceland, founded in 1916].

Jóhannesson, Guðni Th., 'Troubled waters: Cod War, Fishing Disputes and Britain's Fight for the Freedom of the High Seas, 1948–1964, Unpublished Ph D thesis, Queen Mary University of London, 2003.
[Historical analysis of the fishing disputes between Iceland and Britain 1948-1964.]

Jónasdóttir, Guðbjörg Oddný, 'Horft til suðurs. Getur Ísland lært af sögu Möltu fyrir og eftir inngöngu í Evrópusambandið', MA ritgerð í alþjóðasamskiptum við HÍ, 2011. http://hdl.handle.net/1946/8811
[Unpublished MA dissertation in international relations, University of Iceland, 2011, asking whether Iceland can learn some lessons from Malta´s experience, before and after the island´s EU accession.]

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[An internationally acclaimed textbook for students, providing modern analysis of current events and classical issues in macroeconomics. Background reading and basic information for the study.]

Jones, Huw, 'The Economic Transformation of Malta in the 1960s. With particular reference to manufacturing', *Scottish Geographical Magazine*, lxxxvii, 2 (1971) 128-141.
[The paper provides a first-rate historical overview of the economic transformation of Malta in the 1960s, with a focus on government programs and the development of manufacturing.]

Jong, Herman J. de and Nuno Palma, ‘Historical National Accounting’, in *The Economist’s Guide to Economic History*, Matthias Blum and Christopher L. Colvin (eds.), (Palgrave Macmillan, London 2018), 395-403. [An essential source on historical national accounting.]

Jónsdóttir, Hrefna Björk, ‘Hvað varð um stríðsgróðann? Gjaldeyriskreppan og eignakönnun 1947’, BA ritgerð í sagnfræði, Háskóla Íslands, 2014. http://hdl.handle.net/1946/18095
[BA dissertation in history from the University of Iceland, 2014 on the war profits and how the government ‘squandered’ funds and ran into a foreign exchange crisis two years after the war ended.]

Jónsdóttir, Kristín Erla, ‘Einkavæðing Landsbankans og Búnaðarbankans. Voru bankarnir einkavæddir á réttmætan hátt?’, MS ritgerð, viðskiptafræði, H.Í., 2013. http://hdl.handle.net/1946/14523
[MS dissertation in business studies from the Univ. of Iceland on the privatisation of Landsbanki and Búnaðarbanki. Queries whether the privatisation of the banks was based on reasonable grounds?]

Jónsson, Agnar Klemens, *Stjórnarráð Íslands 1904-1964 I-II*, Reykjavík, Sögufélagið, 1969.
[The 60-year history of the Icelandic civil service and government, 1904-1964, written by a high- ranking civil servant.]

Jónsson, Ásgeir, Ásdís Kristjánsdóttir and Illugi Gunnarsson, *Framtíð íslenskrar peningastefnu. Endurmat á ramma peningastefnunnar*, Reykjavík, Forsætisráðuneytið 2018.
[A 247-page report of a government appointed team of 3 economists reviewing Iceland´s evolving monetary policy during the last 100 years. Identifies sub-periods and key policy changes.]

Jónsson, Bjarni Bragi, ‘Hafta- og styrkjakerfi á Íslandi’ í *Frá kreppu til viðreisnar: þættir um hagstjórn á Íslandi á árunum 1930 til 1960*, ritstj. Jónas H. Haralz, Reykjavík, Hið íslenska bókmenntafélag, 2002, 135-220.
[An extensive overview of government intervention programs and policies adopted in Iceland 1930-1960, including incentives, transfers, subsidies, price controls, rationing and injunctions.]

Jónsson, Guðmundur, ‘Upphaf ríkisafskipta af efnahagsmálum: efnahagsmál á Alþingi og í ríkisstjórn á árum fyrri heimsstyrjaldar 1914-1918’. Kandídatsritgerð HÍ, 1983.
[Unpublished MA dissertation in history, University of Iceland, 1983. Analyses the advent of state intervention into economic affairs: economic policy debates in parliament and government during World War I, 1914-1918.]

Jónsson, Guðmundur, ‘The State and the Icelandic economy, 1870–1930’, Ph.D. thesis London School of Economics and Political Science 1992.
[Definitive historical analysis of the first stages of state intervention into economic affairs in Iceland.]

Jónsson, Guðmundur, ‘Iceland’s Response to European Economic Integration, 1945–1960, in *Pathbreakers. Small European Countries Responding to Globalisation and Deglobalisation*, edited by M. Müller and T. Myllyntaus. Bern: Peter Lang, 2008, 375–406.
[Discusses Iceland’s reluctance to participate in the European integration process in the immediate post-war years, 1945-1960.]

Jónsson, Guðmundur, ‘Coming to Terms with Europe. Iceland’s Entry into EFTA and its Implications’, chapter 5 in *EFTA 1960-2010. Elements of 50 years of European History*, by Kåre Bryn and Guðmundur Einarsson (eds.), EFTA, 2010, 77-97.
[Provides a historical review of Iceland’s participation in the European integration process, with EFTA membership as the first major step in 1970 and EEA as the second step in 1994.]

Jónsson, Guðmundur, ‘Iceland and the Nordic Model of Consensus Democracy’, *Scandinavian Journal of History* xxxix, 4 (2014), 510-528.
[The author argues that democracy in Iceland was probably more adversarial than consensual in style and practice and differed from the Nordic model of consensus - apt political history analysis.]

Jónsson, Guðmundur, ‘Smáþjóð á heimsmarkaði. Tímabilið 1914-2000’, in volume II of *Líftaug Landsins. Saga íslenskrar utanríkisverslunar 900-2010* (Reykjavik, Skrudda, 2017), 111-439.
[This part is titled "A small nation on the world market. The period 1914-2010". It covers extensively the economic history of foreign trade in Iceland 1914-2010, as well as essential statistics.]

Jónsson, Sigfús, *Sjávarútvegur Íslendinga á 20. öld* (Reykjavík, Hið íslenska bókmenntafélag, 1984)
[A comprehensive overview of the development of the Icelandic fishing and seafood industry during the 20th century, i.e. until 1984, exploring the fish resource, fishing, processing, export sales and seafood marketing, institutions and regional economic impact.]

Jónsson, Sigfús, ‘A question of sovereignty? Iceland and Malta’, *Small States & Territories*, v, 2 (2022), 251-268.
[The paper examines how sovereignty has contributed to the economic success of Iceland and Malta during their early years of independence and its continuing relevance and resonance today.]

Jónsson, Sigfús, ‘Wandering on a foreign strand! – foreign relations and trade policies of Malta and Iceland, 1964-2004’, *The Round Table*, cxii, 4, 2023, 407-420.
[Compares the foreign relations and trade policies of Iceland and Malta and policy reforms 1964-2004, and the global economic and political context within which they evolved.]

Jónsson, Sverrir, Þróun launaákvarðana ríkisstarfsmanna: Um samninga og samningsgerð ríkisstarfsmanna 1945-2011, Dissertation for Master of Public Administration, University of Iceland, 2012. [Analyses the collective bargaining process of public servants in Iceland, 1945-2011.]

Júlíusson, Árni Daníel og Jónsson, Jónas, *Landbúnaðarsaga Íslands 1-4*, (Reykjavík, Skrudda, 2013)
[Extensive reference works in four volumes on the history of agriculture in Iceland from early times to the modern era. Volumes 3 and 4 deal with the 20th century. Rich source of information.]

Kassimeris, Christos, 'The Foreign Policy of Small Powers', *International Politics*, xlvi, (2009), 84-101.
[The paper addresses the relative shortage of small power studies, expands the theoretical understanding of this type of states and reassert the term `small power' in the relevant literature.]

Katzenstein, Peter J., *Small States in World Markets: Industrial Policy in Europe*, Ithaca, New York: Cornell University Press, 1985.
[This was an essential and ground-breaking publication on industrial policies of small states when published in 1985 and pivotal as a perspective of the 1970s and 1980s. Studies small states in W-Europe in coping with the volatile international economy, trade liberation and industrial policies.]

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[One of the early studies of small states with an emphasis on increasing military disparity between small and great states and the role of the UN in protectin the new small states.]

Keynes, John Maynard, *The General Theory of Employment, Interest and Money*, first published in 1936.
[Revolutionary work, written for a world-wide readership. The book brought a paradigm shift in economic thought and action, especially in the post-war era. Influenced economic strategies and policies globally until the 1970s, including Iceland and Malta.]

King, Russell, 'Malta Builds an Independent Economy', *Geographical Magazine*, vol. 50, 6 (1978) 373-386.
[Discusses the economic and political challenges of Malta in the 1970´s as the British are departing and the island needs to build up an economy independent of incomes from the British government.]

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[The paper reviews developments of the 1970s in Malta. The author discusses the dualistic structure between Malta and rural Gozo and between the industrialised towns and the countryside in Malta.]

Kjartansson, Helgi Skúli, *Ísland á 20. öld*, Reykjavík, Sögufélagið, 2002.
[The book provides an outline of the history of Iceland during the 20th century.]

Kjartansson, Helgi Skúli, 'The impact of elections: Elections results as a determinant of Icelandic coalition politics over 65 years', *Stjórnmál og Stjórnsýsla*, iii, 1 (2007), 63-84.
[The paper reviews the formation of coalition governments in Iceland since independence.]

Kjartansson, Helgi Skúli, Bjarnason, Halldór and Jónsson, Guðmundur, *Líftaug Landsins. Saga íslenskrar utanríkisverslunar 900-2010* II (Reykjavik, Skrudda, 2017).
[The second of a two volume collective works on the history of foreign trade in Iceland comprising the period 900-2010. It covers 1830-2010, contains detailed statistical tables and is c 540 pages.]

Kjeldstadli, Knut, *Arbeid og klasse - historiske perspektiver*, Pax, Oslo, 2018. [An essential source on the labour market in Norway in a historical perspective. Relevant for Iceland.]

Klein, R.L., 'Paul Samuelson as a "Keynesian" Economist', chapter 11 in *Samuelsonian Economics and the Twenty-First Century*, edited by Michael Szenberg, Lall Ramrattan, and Aron A. Gottesman. Published by Oxford Scholarship online in 2009. [Samuelson´s critical works in Keynesian economics are reviewed in the chapter.]

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[Shows that distortionary taxation reduces growth, whilst non-distortionary taxation does not; and that productive government expenditure enhances growth, whilst non-productive expenditure does not.]

Knútsson, Lárus Ari, 'Aðdragandi Nýsköpunarstjórnarinnar', óbirt BA ritgerð í stjórnmálafræði frá Háskóla Íslands, 2001.
[BA dissertaion in political science from the Univ. of Iceland, outlining the war-torn circumstances in the new republic of Iceland and the formation of the coalition government in 1944, which endeavoured to prepare and pull off the massive post-war capital investment program.]

Kristinsson, Gunnar Helgi, 'Iceland and the European Union, Non-decision on membership', in *The European Union and the Nordic Countries*, Miles, Lee (ed.), London, Routledge, 1996, 150-165.
[The book provides an assessment of the relationship between the EU and the Nordic countries. The article highlights Iceland´s special characteristics and indisposed public opinion for membership.]

Kristjánsson, Árni, 'Þjóðarsáttin 1990', BA dissertation in history from the University of Iceland, 2009. [Narrates the entire negotiating process and explains the politics behind the National Accord in 1990].

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[Provide estimates of foreign assets and liabilities and financial and trade openness.]

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[A fine introductory textbook for the application of macroeconomic analysis in policy-making.]

Líndal, Sigurður, 'Stjórnskipuleg staða forseta Íslands og synjunarvald hans', *Skírnir* clxvi, 1992, 425-439.
[A paper by a law professor on the constitutional position of the president of Iceland and his role in the formation of government.]

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[The paper reviews the results of 572 interviews in Malta with the public on foreign and local holidays taken; frequency of visits, type of accommodation, and length of stay, etc.]

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[The paper traces the development of tourism in Malta since the 1960s, with a focus on the tourism product, marketing initiatives, arrivals patterns and changes in accommodation. Over-dependence on British visitors, inadequate infrastructure and the limited impact of planning are emphasised.]

Magnússon, Guðmundur, *Frá kreppu til þjóðarsáttar*. Saga Vinnuveitendasambands Íslands 1934–1999, 2005. [Narrates the history of the Icelandic Business Federation from the Great Depression until modern times.]

Magnússon, Magnús Árni, The Engagement of Iceland and Malta with European Integration: Economic Incentives and Political Constraints, Ph D thesis from the Faculty of Political Science, University of Iceland, 2011. http://hdl.handle.net/1946/15623
[This thesis compares different routes taken by Iceland and Malta towards European integration during the period 1989-2009, despite significant opposition in both countries. It combines analysis of economic interests in market integration with ideational interests in protecting national identities.]

Magnússon, Magnús S., 'Iceland in Transition. Labour and Socio-economic Change before 1940', Ph D thesis from the University of Lund, Sweden, 1985.
[The thesis investigates the implications for the working classes of the social and economic transition in Iceland from a preindustrial society to an advanced capitalist economy specialising in fish exports.]

Magnússon, Magnús S., 'Efnahagsþróun á Íslandi 1880-1990' in Guðmundur Hálfdánarson og Svanur Kristjánsson (eds.) *Íslensk þjóðfélagsþróun 1880-1990*. Ritgerðir, Reykjavík: University of Iceland Press, 1993, 112-214. [The paper outlines the main phases and advancements in the economic development of Iceland, 1880-1990.]

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[The purpose of the report was to provide an authentic basis for government and industry to formulate an action plan, aimed at improving the competitiveness of the Maltese manufacturing sector prior to joining EU and the Single European Market.]

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[The paper outlines Dom Mintoff's huge impact as an international visionary politician and his shortcomings. Helps to explain Malta's international relations and status during the 1970s and 1980s.]

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[Reviews past growth of main economic variables, patterns of economic development of sectors 1954-1974, examines the determinants of the main economic variables in the Maltese economy, presents an econometric model of the economy and discusses future economic development.]

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[This is a revealing account from a high-ranking civil servant while serving under two long-term prime ministers, i.e., Borg-Oliver and Mintoff. It narrates and enlightens exhaustively the story of all major political events during this 25-year period.]

Mizzi, Ronald, 'Malta's foreign policy in the 70s: Mintoff's opening to the East', unpublished BA dissertation in international relations, University of Malta, 2003.
[The dissertation deals with the conduct of Malta's foreign policy during the 1970s when it changed radically. It reviews particularly the emerging relations with Eastern Europe and China.]

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[A meticulously researched biography of a world-known and contentious politician and prime minister that dominated the political scene in Malta for decades during the second half of the 20th century.]

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[The thesis analyses SME promotion policies. It outlines export-led industrialisation, fuel-led by foreign investment and technology, as the most dynamic contributor to economic growth from the mid-1960s to the mid-1980s. The main theme and study period correspond aptly with this thesis.]

Neill, Robin, *A History of Canadian Economic Thought*, [The relevance of the book for the thesis is chapter 8 'The Staple Thesis 1920-40'.]

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[A paper outlining the future development of the electrical system, i.e., production and distribution]

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[An overview paper on energy resources in Iceland and their utilisation]

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[A paper discussing the relationship between the energy sector and economic performance.]

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[A keynote paper reviewing the rather liberal economic policies of the 1960s and the different economic constraints and unique policy challenges of the 1970s]

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[Discusses the need to radically improve the competitiveness of the Icelandic economy.]

Nordal, Jóhannes, *Lifað með öldinni*, Reykjavík, Vaka-Helgafell, 2022.
[An autobiography of the former Director of the Central Bank. It contains a wealth of information and political insights on key economic policies in Iceland during the second half of the twentieth century.]

Nordal, Jóhannes and Tómasson, Ólafur, ´Frá floti til flots. Þættir úr sögu gengismála 1922-1973´, bls. 215-234 í *Klemensarbók*, Reykjavík, FVH, 1985.
[A review paper on developments of the foreign exchange rates of the ISK, 1922-1973.]

North, Douglass C., 'Location Theory and Regional Economic Growth', *Journal of Political Economy*, lxiii, 3 (1955), 243–58.
[A classical paper on export-base theory. Demonstrates the inadequacies of theories of regional economic growth theories for North American regions. Is significant for Iceland.]

North, Douglass C., *Structure and Change in Economic History* (New York & London, W. W. Norton, 1981)
[North examines the structure of economic systems, outlines an economic theory of the state and explores the dynamic forces that cause institutions to adapt. Enlightening frame of reference for ideas and thoughts from around 1980 for this thesis.]

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[This noteworthy and thought-provoking article reflects the lecture D. C. North delivered in Stockholm, Sweden, December 9, 1993, when he received the Nobel Prize in Economics.]

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[North extends his previous analysis of institutions to explore the deeper determinants of economic change. He argues that economic progress depends on the ability to create institutions that are productive, stable, fair, accepted and flexible to be changed or replaced.]

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*[*Was a landmark book with the stated aim of suggesting new paths for the study of European economic history. The authors argue that efficient economic organisation is key to economic growth as they explain the rise of the West. A revealing outlook from the 1960s and 1970s for this thesis.]

Oglethorpe, Miles K., Aspects of the economic evolution of Malta since independence in 1964, PhD thesis University of Glasgow, 1983.
[Analysed the relevance of dependency theory to Malta. He concluded that dependency themes could help evaluate Malta's development process.]

Olgeirsson, Friðrik G., *Í þágu þjóðar. Saga skatta og skattkerfisbreytinga á Íslandi 1877-2012*, Ríkisskattstjóri, Reykjavík, 2013.
[A detailed history of how the tax system evolved in Iceland over the period 1877-2012, published in two volumes by the State Tax Authority. Very informative on tax issues.]

Ólafsson, Stefán and Katrín Ólafsdottir, *Economy, Politics and Welfare in Iceland. Booms, busts and challenges*‘, Fafo-report 2014:13, NordMod 2030. Sub-report 4.
[NordMod2030 is a joint Nordic research project studying the impact that international and national development trends may have on the Nordic social models. The report examines the Icelandic political model, economic development, labour market, social protection, welfare, income and poverty.]

Óskarsson, Þorleifur, ´Þættir úr sögu íslenskrar togaraútgerðar 1945-1970‘, kandídatsritgerð í sagnfræði við Háskóla íslands, 1987.
[Unpublished MA dissertation in history from the Univ. of Iceland with excerpts from the history of the Icelandic deep-sea trawler fleet, 1945-1970.]

Óskarsson, Þorleifur, ‘Togaraútgerð á tímamótum‘, *Ný Saga* ii, 1 (1988), 13-15.
[Trawler companies at a juncture - on the renewal of the trawler fleet after World War II.]

Pace, Roderick, ‘The Domestic and International Politics of the next Mediterranean Enlargement of the European Union’, *The European Union Review*, iii, 1 (1998), 77-111.
[Reviews the status of Cyprus and Malta, which were ahead of the field in the EU membership race at the date of publication. Enlightening analysis in the context of the mid and late 1990s.]

Pace, Roderick, 'A small state and the European Union: Malta’s EU accession experience', *South European Society & Politics* vii, 1, (2002) 24–42.
[In this paper Malta’s EU membership application is considered from the perspective of Malta as a small European state. Malta’s application experience is viewed in light of Malta’s domestic politics at the time of writing 2 years before Malta became a member of the EU.]

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[The article discusses Malta’s relations with the EU and the effects on Maltese society, politics and economy, prior to formally joining.]

Pace, Roderick, ‘The Mediterranean Island States: Malta and Cyprus’ in *The European Union and the Member States,* sec. ed., Zeff E. and Pirro, E. (eds.), Lynne Reinner, US (2006), 493-533.
[The paper discusses Cyprus and Malta in the 2004 EU enlargement, their similarities and dissimilarities and how their membership applications presented the EU with some political difficulties.]

Pace, Roderick, ‘EU Enlargement and Security in the Mediterranean Region’, chapter 12 in ‘*The Security Dimensions of EU Enlargement: Wider Europe, Weaker Europe?*’, Brown, D. and Shepherd, A. J. (eds.), (Manchester University Press, 2007), 174-191.
[The paper focuses on the main security challenges the EU faces in the Mediterranean.]

Pack, Howard and Saggi, Kamal, ‘Is There a Case for Industrial Policy? A Critical Survey.’ *The World Bank Research Observer,* xxi, 2 (2006), 267-297.
[The article surveys the analytical literature on industrial policy. It addresses arguments for and against industrial policy and reviews recent industry successes.]

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[The authors present a unified political economy approach by bringing together the theory of macro-economic policy, public choice and rational choice in political science. Highly relevant study theme for the thesis with a sterling timing at the end of the study period.]

Pirotta, Godfrey A., ‘Maltese political parties and political modernization’, in *Maltese society: a sociological inquiry*, Ronald G. Sultana and Godfrey Baldacchino (eds.), Msida, Mireva, 1994, 95-112.
[The paper describes the political parties and political modernisation in Malta as of the mid-1990s.]

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[The paper deliberates the first phase of the privatisation policy which began in 1988 and the second and more vigorous phase which began in 1999, how this policy was adopted as a response to a sizeable public deficit and to the national economic adjustment needed before Malta could join the EU.]

Pirotta, Godfrey A., *Malta's Parliament: An Official History*, Valletta: Office of the Speaker of the House of Representatives, 2006. [The history of the Maltese Parliament.]

Pirotta, Joseph M., *Fortress Colony: The Final Act 1945-1964*, Vol. I-IV, Malta, Midsea Books, 1987-2018.
[The study meticulously examines Malta´s transformation 1945-1964 from a British fortress colony to sovereign state. Reviews the domestic political-religious struggle, the independence process, the economic challenges as well as policy and planning responses. Excellent reference book on major events in Malta during the post-war years until 1964.]

Pomfret, Richard, ‘Trade Preferences and Foreign Investment in Malta’, *Journal of World Trade Law*, xiv, (1982), 236-250.
[Studies the impact of foreign preferences on investment in Malta in the early 1980s.]

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[Provides an overview of the development of the financial sector during the late twentieth century, e.g., slow growth in the number of listed companies on the Stock Exchange and preference of family-owned businesses to fund growth through bank credit.]

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https://www.um.edu.mt/library/oar/handle/123456789/57197
[The dissertation analyses quantitativel the economic benefits and economic costs of the tourism industry in Malta. It explicates trade policies in Malta 1991-2007.]

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[This classic book was first published in 1911 and analyses the underlying principles of money, credit and entrepreneurship in the development of capitalist economies.]

Schutzbach, Werner, *Island, Feurinsel am Polarkreis*, published by Bildungsverlag Eins, 3., revised edition in 1999. [An enlightening and explanatory book, written in German, about the physical geography of Iceland.]

Sciberras, Anna, 'The development of income tax legislation in Malta: A historical note', unpublished Master in Accountancy dissertation, Department of Accountancy, University of Malta, 2018. https://www.um.edu.mt/library/oar//handle/123456789/43143
[The dissertation analyses the introduction and development of income tax legislation in Malta and assesses the impact of some of Malta's major historical events on Malta's income tax legislation.]

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[The study, from 1993, focuses on the need to restructure the economy and points to issues like privatisation, price and trade liberalisation, size of the public sector and government efficiency.]

Sigurðsson, Jón, 'Aðild Íslands að EFTA og fjárhagsmálin´, *Fjármálatíðindi*, xvii, 1 (1970), 19-25.
[An outline paper on Iceland´s new membership of EFTA and financial implications]

Sigurðsson, Jón, 'Íslenzkur iðnaður og fríverzlunarsamningarnir', *Fjármálatíðindi*, xxiv, 2 (1977) 137-147. [Paper reviewing Icelandic manufacturing and the free trade agreements in the late 1970s.]

Simpson, John V., 'Malta's second development plan: 1964-69', *Journal of the Faculty of Arts*, iv, 1 (1969), 29-36.
[A paper reviewing and assessing the implementation of Malta´s second development plan.]

Sklair, Leslie, *Sociology of the Global System*, Hemel Hempstead, Harvester Wheatsheaf, 1991
[The book argues that in a world dominated by global capitalism, it is important to see social problems in a global context.]

Snorrason, Hallgrímur, ‘Búskapur hins opinbera 1945-1982’, í *Klemensarbók,* Sigurður Snævarr (ritstjóri), Reykjavík, FVH, 1985, 141-175.
[A paper by the Director of Statistics on the development of public finance in Iceland 1945-1982. Includes analysis of how taxes have evolved over the period. English summary.]

Solow, Robert M., ‘A Contribution to the Theory of Economic Growth’, *Quarterly Journal of Economics,* lxx, 1956, 65-94.
[A classic paper where the Solow growth model was first presented. Assumes a standard neoclassical production function with decreasing returns to capital. High-level theoretical analysis.]

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[The author suggests a simple way to segregate shifts of the aggregate production function from movements along it. The method assumes that factors are paid their marginal products, but can be extended to monopolistic factor markets.]

Spiteri Gingell, David and the Commonwealth Secretariat, Current Good Practices and New Developments in Public Service Management: A Profile of the Public Service of Malta, London: Commonwealth Secretariat, 1995.
[The book provides a profile of public services management in Malta in the 1990s.]

Spiteri, Edward J., *Malta: An Island in Transition, Maltese Economic History, 1954-1974*, (Malta, Progress Press, 1997).
[The book, written by a civil servant, provides an edifying narrative from the time the British government announced its intention to run down the military forces and naval base until Malta became a republic in 1974.]

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[Embodies a detailed political and economic history of the Marshall Plan, including Soviet responses. Quite relevant for political economy analysis of Iceland as a Marshall aid recipient in the early 1950s]

Stilwell, Frank, *Political Economy. The Contest of Economic Ideas*., Oxford University Press, Australia and New Zealand, third edition, 2002.
[Provides an overview of political economy and takes a historical approach. Reviews classical political economy, Marx, Keynes, neoclassical and institutional economics and modern political economy.]

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[In 1962, the self-government of Malta invited an economic mission from the UN to study the economic problems of Malta and to make suggestions for future policies. The mission was led by professor Stolper. The report was submitted on the 28th March 1963.]

Swan, Trevor W., ‘Economic Growth and Capital Accumulation’, *Economic Record*, xxxii, (1956), 324-361. [Swan developed independently a neoclassical growth model which was published ten months later than Solow (1956), but included a more complete analysis of technical progress.]

Tabb, William K., *Reconstructing Political Economy: The Great Divide in Economic Thought*, (London, Routledge, 1999).
[The book examines how diverse traditions of political economy have conceptualised economic issues and theory. It correlates befittingly with political economy thoughts and principles from the study period as it was published in 1999.]

Tang, Shiping, *The Institutional Foundation of Economic Development*, Princeton, Princeton Univ. Press, 2022.
[Brings together findings from development economics, political science and sociology, Explores the mechanisms through which institutions affect growth.]

Thor, Jón Th., *Saga sjávarútvegs á Íslandi I-III*, Akureyri, Bókaútgáfan Hólar, 2002-2005.
[The history of fisheries in Iceland from the beginning until 1973, published in 3 volumes.]

Thorhallsson, Baldur, *The role of small states in the European Union*, (Aldershot, Ashgate, 2000).
[The author´s research, reflective of thoughts in the 1990s, shows that the special characteristics of smaller states impact on their approach in the decision-making process of the EU, e.g., in the common agricultural and regional policies.]

Thorhallsson Baldur, *Iceland and European Integration. On the Edge*, (London, Routledge, 2004).
[The book contains a case study of Iceland and explores the complex attitudes of small states to European integration and provides a new theoretical approach for understanding such relationships. It explains why the Icelandic political elite has been reluctant to participate in European integration.]

Thorhallsson, Baldur 'The Size of States in the European Union: Theoretical and Conceptual Perspectives', *European Integration*, xxviii, 1 (2006), 7-31.
[The article provides a conceptual framework that includes six categories referring to the size of states. Helps defining the size of a states and their behaviour within the EU.]

Thorhallsson, Baldur, ‘Studying Small States: A Review’, *Small States & Territories*, I, 1 (2018), 17-34.
[The paper provides an overview of the literature of small state studies. It analyses how the discipline has evolved and how vulnerability and a lack of capacity have dominated the discipline.]

Thorhallsson, Baldur (ed.) *Small States and Shelter Theory. Iceland´s External Affairs,* (London and New York, Routledge, 2019).
[The book argues that small states need external shelter in order to survive and prosper. They seek such a shelter from larger states and international organisations. A theory of shelter is presented and applied to examine Iceland´s external relations. Possibly applicable to Malta as well.]

Thorhallsson Baldur, Steinsson Sverrir and Kristinsson Thorsteinn, ‘A Theory of Shelter: Iceland´s American Period (1941-2006)’, *Scandinavian Journal of History*, 2018, iliii (3). https://doi.org/10.1080/03468755.2018.1467078 [The article is predicated on the assumption that small states need economic, political and societal shelter in order to prosper, and applies this theory to the case of Iceland during the American period 1941–2006.]

Thorhallsson, Baldur and Wivel, Anders, ‘Small States in the European Union: What Do We Know and What Would We Like to Know?’, *Cambridge Review of International Affairs*, xix, 4 (2006), 651-668.
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APPENDICES

APPENDIX I

ECONOMIC GROWTH ANALYSIS

The primary hypothesis postulated for Iceland and Malta, 1960-2000, is that economic growth, as a dependent variable measured by the level of real GDP per capita, was a function of movements in three independent variables, notably *exports*, *labour* and *capital formation*. The hypothesis assumes other additional, or residual, factors which affected growth, such as institutions, technology, human capital and public policies, factors are either unmeasurable or with data unavailable.

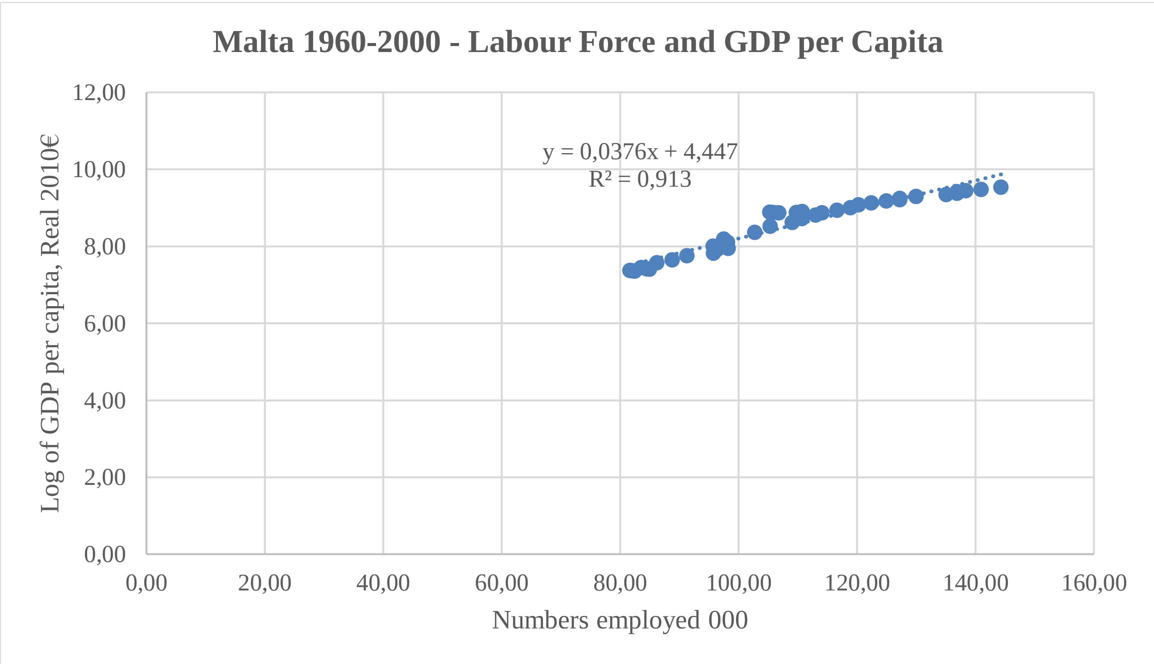
The single independent variable regression analysis applied involved three independent variables and one dependent variable representing the level of economic output per person, i.e., log GDP per capita, measured in real terms – Icelandic krónur for Iceland and Maltese Liri converted into Euro for Malta. The results are presented in Figures 1-6 below. They show consistently that movements in the dependent variable are a function of movements in all the independent variables, separately though, albeit somewhat stronger relationship for Iceland than Malta. However, due to inherent characteristics of time series analysis, problems of serial correlation and collinearity were detected. The results of the regression analysis in Figures 1-6 are to be interpreted as an indication of potent relationships but not as statistically proven.

Figures 1 and 2 show the relationship between the size of the labour force and the level of GDP per capita. For an increase of each 1,000 employed, the level of GDP per capita grew by 3.76% in Malta and by 1.27% in Iceland, both with a high coefficient of determination. Figures 3 and 4 show the relationship between an increase in the units of capital formation and the level of GDP per capita. For each unit of increase in capital formation, the GDP per capita grew by 1.66% in Iceland and 0.22% in Malta. Despite some drawbacks in the comparability of the statistics, the difference is clear. Economic growth was more capital-intensive in Iceland but more labour-intensive in Malta. Figures 5 and 6 show the impact of export income on GDP per capita. In Iceland, each unit of increase in export income resulted in 1.96% growth in GDP per capita, but in Malta, only 0.04% growth, both with a rather high coefficient of determination. The juxtaposition of the export income shows that the direct impact of export income on growth was more significant in Iceland than in Malta.

Figure 1

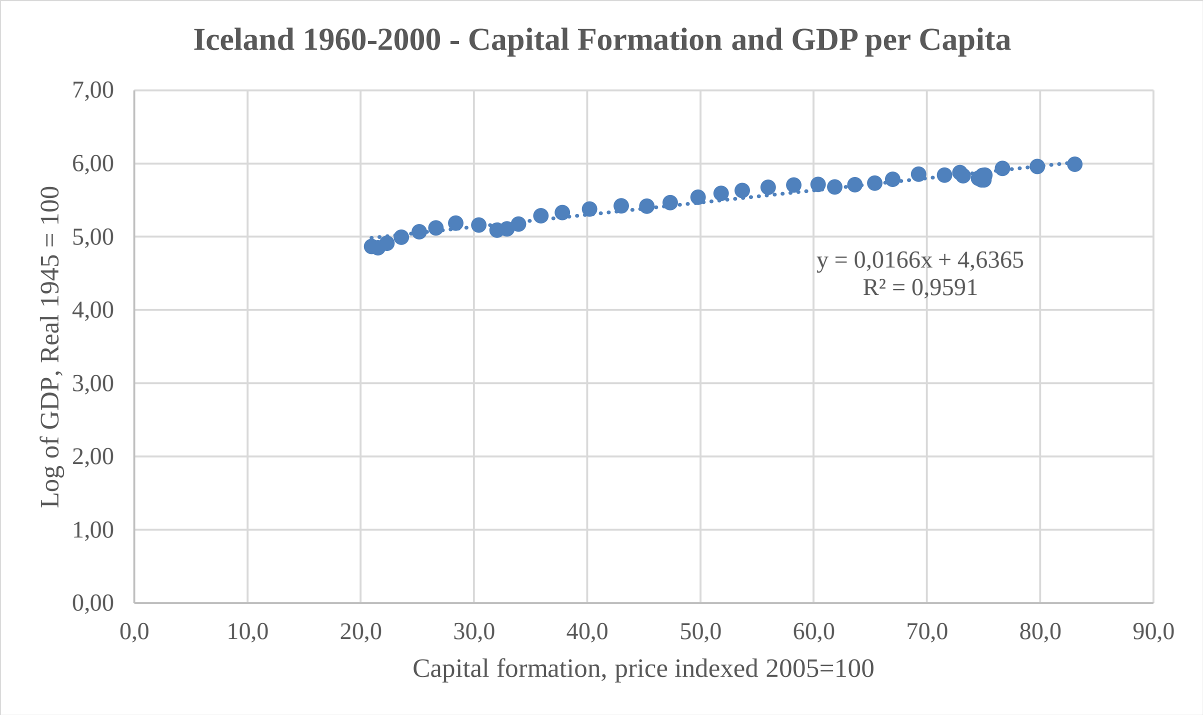
Sources: https://sogulegar.hagstofa.is/

Figure 2



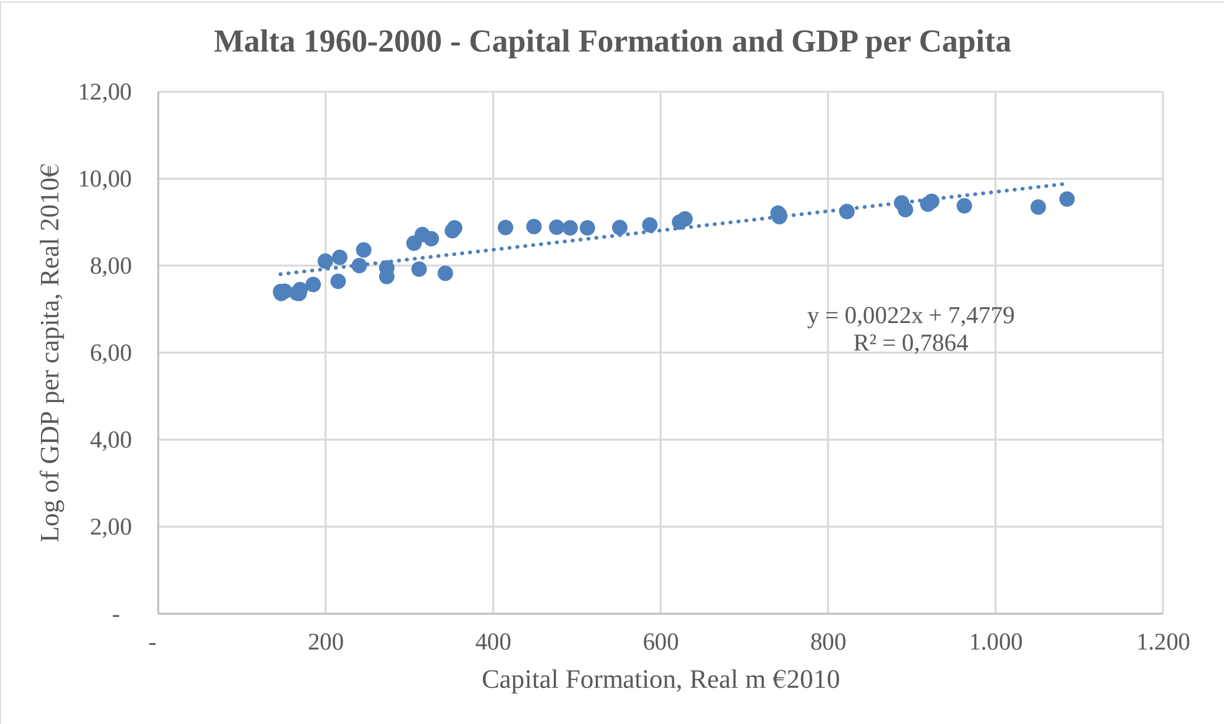
Sources: https://www.centralbankmalta.org/historical-annual-database

Figure 3



Sources: https://sogulegar.hagstofa.is/

Figure 4

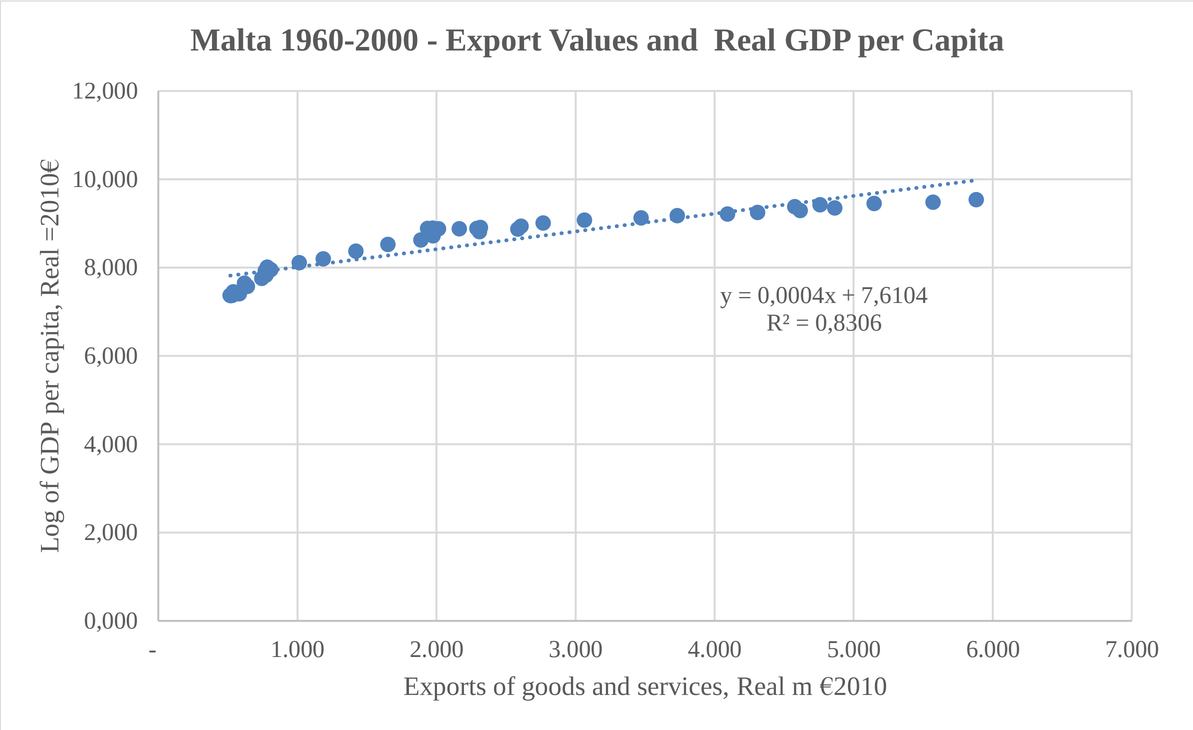


Sources: https://www.centralbankmalta.org/historical-annual-database

Figure 5

Sources: https://sogulegar.hagstofa.is/

Figure 6



Sources: https://www.centralbankmalta.org/historical-annual-database

Time-series:

Time-series econometrics is complex with some inherent issues. The order of observations is fixed, the data sample is small and problems of serial correlation occur, i.e., the entries for one particular year are affected by, or a function of, the entries of previous years. Another issue is stationary or non-stationary time series, as the latter may cause a spurious correlation. For instance, GDP per capita, which increases over time, is non-stationary. By contrast, the annual growth rate of GDP varies from year to year but does not usually increase over the time series; hence it is stationary, although the independent variables are non-stationary. Despite various attempts in the thesis, no efforts at conducting multivariate regression analysis met the criteria of the required statistical tests. Problems of serial correlation and collinearity were detected, and the results of some of the t-tests were unqualified.

In the time-series analysis presented in the thesis, the X-axis represents the years of the entries for the different variables of the Y-axis. On the x-axis, the first year of the entry is defined as x=1; year 2 is x=2 etc. The functional forms chosen for the values on the Y-axis are either linear or exponential trend lines. Linear trend lines represent diminishing growth rates over time, while exponential trend lines account for constant growth rates over time.

Cross-sectional data:

The cross-sectional analysis appears above (Figures 1-6). In single-equation regression models, the dependent variable is expressed as a linear function of the independent or explanatory variable. A causal relationship is assumed from the explanatory variable to the dependent variable. Such a statistical relationship does not imply causation. The idea underlying causation must come from outside the statistics, e.g., economic theory, models or hypothesis.

There is an asymmetry in the way the explanatory variable is treated. It is assumed the dependent variable has a probability distribution while the explanatory variable has fixed values. Our two-variable regression analysis assumes that the dependent variable is contingent upon a single explanatory variable. The chosen explanatory variables represent selected drivers of economic growth, i.e., labour, capital formation and export values. It is customary in growth studies to show the growth as lnY on the Y-axis, as in Figures 1-6. Figure 1 shows the labour force size in Iceland as an explanatory variable and ln of growth per capita in real terms as the dependent variable. The equation $\ln Y = 0{,}0127x + 4{,}1695$ indicates that for every 1,000 additional labour, GDP per capita grew by 1.27%. The coefficient of determination, $R^2 = 0{,}9481$, shows that the regression line accurately represents the data set. The semi-log form chosen (lnY) shows that Y will change by roughly 100 times the slope coefficient as X increases by one unit. For the three explanatory variables, the regression lines show for both islands, stronger causal relationships between the size of the labour force and GDP per capita than between export values and GDP per capita. The statistical relationship between capital formation and GDP per capita was stronger in Iceland than in Malta.

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