# Social Policies in Malta

*Rose Marie Azzopardi*

COMMONWEALTH SECRETARIAT

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United Nations
Research Institute
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Published by the Commonwealth Secretariat
Edited and designed by Wayzgoose
Cover design by Tattersall Hammarling & Silk
Printed by Hobbs the Printers, Totton, Hampshire

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Copies of this publication may be obtained from
Publications Section
Commonwealth Secretariat, Marlborough House
Pall Mall, London SW1Y 5HX, United Kingdom
Tel: +44 (0)20 7747 6534
Fax: +44 (0)20 7839 9081
Email: publications@commonwealth.int
Web: www.thecommonwealth.org/publications

*A catalogue record for this publication is available from the British Library.*

ISBN: 978-1-84929-024-1 (paperback)
ISBN: 978-1-84859-073-1 (downloadable e-book)

*To my dear ones*

*Joe, Stephanie and Daniela*

## About the author

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# Acknowledgements

Special thanks to the staff of the Gozo Public Library (Reference and Archives Sections) and the University of Malta Library (Melitensia Section), who were very helpful during the long hours spent researching, particularly old documents.

I would also like to thank the staff who were involved in this project at UNRISD and the Commonwealth Secretariat for their sterling work and dedication and last, but not least, the anonymous reviewers.

# Contents

# Foreword

During the 1960s and 1970s, increased interest was shown by some international organisations, such as the United Nations and the Commonwealth Secretariat, in small states, notably small island states, and the development challenges they faced during the decolonisation period. The Secretariat, with over one-third of Commonwealth members classified as small economies, is committed to the study of small states. The issue of their vulnerability was first given formal expression within the Commonwealth at the 1977 Commonwealth Finance Ministers Meeting in Barbados. Having noted the special characteristics of small states, in particular their reliance on trade, high dependence on capital inflows and, in some cases, their lack of natural resources, ministers urged the international community to adopt a more flexible approach to their requirements, as well as special measures to assist them. In response, the Secretariat designed a programme to assist in overcoming 'the disadvantages of small size, isolation and scarce resources which severely limit the capacity of such countries to achieve their development objectives or to pursue their national interests in a wider international context'.

In 1983, with the political repercussions of the US invasion of Grenada still resonant, Commonwealth leaders meeting in New Delhi expressed their belief that the problems of small states 'deserved consideration on a wider basis, including that of national security'. A Commonwealth consultative group was commissioned to carry out such an examination. Its report, *Vulnerability: Small States in the Global Society*, published in 1985, was the first to highlight the inherent vulnerability of small states to external interference. In reasserting the vulnerability of and threats to small states, and outlining economic and foreign policy measures to mitigate these, the report was important in raising the political profile of small states in international forums.

Following this publication, the Ministerial Group on Small States was formed to continue discussion of issues of importance to small states. At their second meeting in 1995, ministers recognised that the international context faced by small states had changed dramatically since the end of the cold war. This led to the creation of a Commonwealth advisory group of eminent persons whose report, *A Future for Small States: Overcoming Vulnerability*, was published in 1997.

In 1998 the Commonwealth Secretariat/World Bank Joint Task Force on Small States was formed. In 2000 the Task Force published its seminal report, *Small States: Meeting Challenges in the Global Economy*. The report concluded that addressing the challenges facing small states required correct domestic policy, regional co-operation, assistance from multilateral and bilateral development institutions, and improvements in the external environment. It highlighted four areas of special relevance to successful development in small states: tackling volatility, vulnerability and natural disasters; transitioning to the changing global trade regime; strengthening capacity; and benefiting from the opportunities and coping with the challenges of globalisation. It recommended that an annual small states forum, where international donors could report on their activities in small states, should be held in the wings of the IMF-World Bank meeting. Small states have garnered additional support and attention from international donors as a result, but more remains to be done: a 2005–2006 review of the task force report established that small states are still vulnerable and continue to face development challenges associated with their size.

In adopting *Agenda 21*, one of the key outcomes of the United Nations Conference on Environment and Development (the Rio Earth Summit) in 1992, the wider international community also recognised the special challenges that small island developing states (SIDS) face in planning for sustainable development. As a result, the Global Conference on the Sustainable Development of Small Island Developing States took place in Barbados in 1994. The plan that emerged, the Barbados Programme of Action (BPOA), is the principal international framework for addressing the special challenges and constraints faced by SIDS in their pursuit of sustainable development. The BPOA addresses 14 major themes, ranging from climate change through coastal and marine resources to tourism and human resources development.

The ten-year comprehensive review of the BPOA led to the adoption in January 2005 of the Mauritius Strategy for the Further Implementation of the Barbados Programme of Action for the Sustainable Development of SIDS, which includes 19 thematic areas, including climate change and sea level rise; natural and environmental disasters; and energy resources. The Mauritius Strategy notes that for its successful implementation, SIDS require effective human, institutional and technical capacity development; effective monitoring and co-ordination, including through SIDS regional organisations; and support from the international community, particularly through financial and technical backing.

Finally, Millennium Development Goal 8 (on developing a global partnership for development) specifically mentions the special needs of landlocked countries and SIDS. Yet despite this attention to small states, there are still major gaps in our understanding of their unique development process and experience. Insufficient study has been devoted to the social and economic issues facing small states. In particular, there is virtually no comparative research on social policy issues or on how social policies affect economic development. This paper, together with others in this series, attempts to fill this gap by taking a distinctive approach to social policy, which it sees as encompassing concerns about redistribution, production, reproduction and protection. The papers show how some small states have succeeded in improving their social indicators through appropriate social policies, how others are moving in the right direction and how some are falling behind or failing. We see that, despite their inherent vulnerability, some small states have been successful precisely because of the complementary social and economic policies and strategies they have implemented.

By looking at these countries in comparative perspective, we can draw interesting lessons on policy.

The papers in this series are outputs of the research project, Social Policies in Small States, led by the United Nations Research Institute for Social Development (UNRISD) in collaboration with the Secretariat from 2007 to 2009. Fourteen country studies were commissioned and their findings were discussed at regional workshops in the Caribbean and Pacific. Four thematic papers framed and complemented the country level research. We hope that the findings of this research will be useful to scholars and policy-makers concerned with the social and economic development issues faced by small states.

The research project was designed and co-ordinated by Naren Prasad with assistance from Nicola Hypher at UNRISD, in collaboration with Constance Vigilance at the Secretariat.

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## Abbreviations

| | |
|---|---|
| BPOA | Barbados Programme of Action |
| DP | Development plan |
| DSS | Department of Social Security |
| EC | European Community |
| ETC | Employment and Training Corporation |
| EU | European Union |
| FDI | Foreign direct investment |
| GNI | Gross national income |
| HDI | Human Development Index |
| HIC | High-income country |
| IBRD | International Bank for Reconstruction and Development |
| IDEA | Institute for Democracy and Electoral Assistance |
| ILO | International Labour Organization |
| IT | Information technology |
| LFS | Labour Force Survey |
| MCAST | Malta College of the Arts, Sciences and Technology |
| MCESD | Malta Council for Economic and Social Development |
| MLP | Malta Labour Party |
| MSP | Ministry for Social Policy |
| NATO | North Atlantic Treaty Organization |
| NGO | Non-governmental organisation |
| NSO | National Statistics Office |
| OPM | Office of the Prime Minister |
| PAYG | Pay-as-you-go |
| PL | Partit Laburista (Labour Party) |
| PN | Partit Nazzjonalista (Nationalist Party) |
| PPP | Purchasing power parity |
| PPS | Purchasing power standards |
| R&D | Research and development |
| SIDS | Small island developing states |
| UN | United Nations |
| UNIDO | United Nations Industrial Development Organization |
| UNRISD | United Nations Research Institute for Social Development |
| WHO | World Health Organization |
| WTO | World Trade Organization |
| YMCA | Young Men's Christian Alliance |

# 1

# Introduction

Malta as a small island state is described as a success story, not only in terms of the development and economic growth it has witnessed, especially since independence, but also in the social realm, where everyone appears to enjoy a good standard of living. This growth not only mirrored that of its neighbours, but the island even surpassed its European counterparts. In fact, between 1960 and 1990, with an average annual 5.4 per cent growth rate, Malta 'had the highest growth rate in Europe' (Alesina, 2002: 308). Coupled with this, over the years an ever-increasing web of social services has provided free health and education to all the population (irrespective of income) and social assistance and benefits, including housing, to earners on low incomes. However, abuse of the social security system, an inadequate tax collection structure and fiercer competition following the opening up of the economy have led to increased pressure on social benefits and led to questions about the sustainability of this enveloping social security system.

The Maltese islands comprise three inhabited islands (Malta, Gozo and Comino) and other uninhabited smaller islands in the Mediterranean Sea, 93 km south of Sicily and 288 km north of Africa. At the end of 2009 the population amounted to 412,970 in a total land area of 316 km$^2$, which means that the islands are densely populated with 1,307 persons per square kilometre. Foreigners comprise only 3.8 per cent of the population. The Knights of St John initially described the island as a rough, dry terrain, devoid of any resources and inhabited by lizards. However, the island has a favourable Mediterranean climate, an adaptable people, satisfactory air and sea links with surrounding countries, and a strategic position that it has exploited through the centuries. In 2007 the World Bank classified Malta as a high-income developed country with a gross national income (GNI) per capita of US$16,690 (Atlas method) (World Bank, 2007). After independence in 1964, with a Nationalist Party (NP) government in power, it was essential for Malta to change its economic structure from an economy that serviced the British naval base to one founded more on self-reliance. The transitional period – from a dependent colony to an independent economy – was based on economic policies that succeeded in securing high growth rates.

The objective of this paper is to describe and attempt to explain the process of the economic, political and social development of the island, particularly after independence in 1964. Although the focus is on social development and social policy, these cannot be explained without contextualising them within an economic and political milieu. Publications regarding the political and economic history of the islands are numerous (see Bossevain (1993); Dowdall (1972); Frendo (1979); Ganado (1999);

Mizzi (1995); Pirotta (1994); and Warrington (1998)). However, social development is less well catered for, and for the most part studies on social development only feature more recent years (Abela, 1996, 2003; Sultana and Baldacchino, 1994). This paper endeavours to fill the gap by presenting an analysis of economic and social development plans adopted by different governments over past decades.

The analysis draws on various sources of data, such as the National Statistics Office of Malta and the Central Bank of Malta, and international organisations such as the UN, Commonwealth Secretariat and World Bank. As with other small states, detailed data can be incomplete or even lacking. Other resources include national plans, development plans, official strategic papers, annual budget speeches and other publications available in the Melitensia section (which embraces all publications on the Maltese islands) within the main library of the University of Malta.

This paper is divided into five sections. Section 1 describes Malta's economic and political history prior to and since independence by presenting statistics for the past decades and analysing the development strategies adopted to cope with the new competitive environment it faced after the loss of its colonial hinterland. The post-independence period was the first time the island faced a 'weaning' process in its chequered history of centuries of external domination.

Section 2 sets out the social conditions of the island by presenting relevant data on social protection, health, education, housing, employment and income levels. The data show a healthy social environment with a low incidence of poverty among the general population (although there are some recent changes) and a thriving economy that has not brought about stark discrepancies in income levels. However, in recent years both economic and social conditions have come under the strain of sustainability and calls for strong restructuring incentives.

Section 3 conveys the development of social policies over the years and the variations in outlook according to changes in government ideology. The social net has extended its coverage over time, although recently there has been debate as to whether such a wide range of services is sustainable and whether health services, for example, should continue to be offered free of charge to everyone, irrespective of income level. This comes against the background, often described as a 'culture of dependence', of an extensive range of free state services.

Section 4 discusses the strategies Malta has adopted to deal with national and international crises. This is especially relevant considering the ongoing debate on the sustainability of the country's current wide-ranging social policies, especially against the background of an unstable international economic environment.

Section 5 endeavours to draw significant lessons from the experience of Malta since before independence in 1964. Such lessons draw on both the successes and failures of the social development strategies adopted and show how they can throw light on the courageous decisions that need to be taken in the near future.

# 2

# The Political and Economic Environment Pre- and Post-Independence

This section presents the vicissitudes of Malta's economic and political history from the period before its independence from Britain in the early 1960s to its recent accession to European Union (EU) membership in 2004. It attempts to explain breaks in trends and to discover the inherent characteristics that have shaped the island's policies over the years. During its difficult years, Malta has also had to deal with the characteristics of a small island developing state, which make it more vulnerable than bigger countries. (For a more extensive analysis of the vulnerability of SIDS and how deliberate economic development policies can provide resilience, see Briguglio (2003).) The section is divided into two parts: the first presents the political background, while the second provides data on economic variables (gross national product (GDP), economic growth and trade) and the economic strategies adopted by the country since 1959.

Malta is a high-income economy, is classified as a developed country and ranks high in international indices such as the *Human Development Index* (HDI) (33 out of 169 countries in 2010). It has accomplished this in a short period of independence after centuries of foreign domination.

> For several centuries Malta's history was written by foreign military and naval powers and by colonial masters who ruled the country and who exploited its strategic value to dominate the central Mediterranean and to establish a stronghold which could best serve their political and commercial interests. (Government of Malta, 1981: 58)

## 2.1 The political background

In 1800 the British took over Malta as a colony, and thereafter considered it as a strategic naval outpost for the British Empire. It gained independence in 1964, when the UK was decolonising. Throughout its history Malta was occupied by foreign rulers, including the Roman and Byzantine empires, the Arabs, Normans, Aragonese, Hospitaller Knights of St John, French and finally British. Some researchers maintain there is a correlation between colonial heritage and prosperity, and the opportunities that such ties have provided for some small states.

> Those island economies whose close political linkages to former colonial powers survived the transition to the post-colonial era were the ones which exhibited greatest prosperity at the end of the century. (Bertram, 2004: 343)

> Other rent-seeking opportunities for small states relate to exploiting their strategic geographical location or alliances with major powers with respect to ideological or former colonial links. (Armstrong and Read, 1998: 575)

This, however, is only part of the overall equation of success.

The opening up of the Suez Canal in 1869 turned the Mediterranean into the 'world highway of trade' and put Malta, together with the other British Mediterranean island colony Cyprus, in a very advantageous position, making them ports of call for ships on their way to the Far East and the Indian Ocean. However, the invention of larger ships that did not need refuelling, changes in military equipment and Britain's decline as a superpower in the aftermath of the Suez crisis of 1956 reduced the island's value as a strategic asset in the latter part of the twentieth century. This led Britain to relinquish its hold on Malta, which was no longer considered a strategic resource.

Malta was given its first constitution as early as 1921, and in the period up to the 1950s there were attempts at self-government. Independence in 1964 saw a continuity in governance; there was no break in ideological orientation since the government that negotiated the terms of independence saw through the transition. For this reason, it is difficult to distinguish between the situation just prior to and after independence. Furthermore, while other countries fought for independence, in Malta the changeover was smooth.

> There was absolutely no struggle for political independence … 'a second best' option after attempts to secure full integration by the Malta Labour Party (MLP) had failed in the late 1950s. (Baldacchino, 2002: 195)

Malta has had a colourful history which dates back centuries, but history has not been that eventful since independence in 1964, although internal politics have been hotly debated, with a big divide between left and right (Cini, 2000, 2002, 2003). Table 2.1 shows the rotation of power since mid-1950s between the two main political parties, which have been sharply divided (at least until 1996) by differences in political ideology, level of government intervention in the economy and social policy considerations.

Another influential power on the island, especially in the decades following independence, was the Catholic church. Although church power has diminished over the years, it has been a critical factor and perhaps even today can be considered as a vital pressure, particularly in the social sphere. In fact, its role appears to be increasing as it is augmenting its support for services (offered particularly by volunteers) which were previously mostly provided by the state, such as measures against drug abuse and services for the homeless and the disabled. Its significance in the socio-economic field cannot therefore be ignored, especially in a small state with a small population size where people are familiar with each other. 'Socio-economic indicators such as health, education and income distribution, as well as factors such as religion, ethnicity, linguistic, cultural, institutional and historical tradition may all have a critical role on the dimension of size (Read, 2001: 4)

**Table 2.1. Ideological and power rotation in Malta, 1955–2008**

| Years | Political party in power | Highlights of the term |
|---|---|---|
| 1955–1958 | MLP | Government resigned and constitution suspended until 1961 |
| 1962–1966 | PN | Negotiated terms of independence in 1964 |
| 1966–1971 | PN | Signed 1970 Association Agreement with EEC |
| 1971–1976 | MLP | Renegotiated terms for British funding until 1979 |
| 1976–1981 | MLP | Continued with social reforms and restructuring of the economy |
| 1981–1987 | MLP | Growth momentum wanes, external events are strong |
| 1987–1992 | PN | Applied for EU membership in 1990 |
| 1992–1996 | PN | 1993 Commission report – economy needs overhaul |
| 1996–1998 | MLP | Suspended EU application but sustained free market ideas |
| 1998–2003 | PN | Negotiated conditions for EU membership |
| 2003–2008 | PN | EU membership in 2004, and adoption of euro in 2008 |
| 2008– | PN | The sustainability issue becomes more accentuated |

Note: In 2008 the Malta Labour Party was renamed the Partit Laburista or Labour Party (PL); PN = Partit Nazzjonalista (Nationalist Party).

Power relations have always played a significant role in Maltese society, and this has been emphasised by the small size of the community. Both party politics and the church have impacted on economic and social outcomes in the islands. Malta's internal political divide has led to different economic orientations. Cini (2002) attributes this divide not only to the socio-cultural and institutional situation after independence, but argues that it is also a response to the challenges of that particular historical period.

Social cohesiveness is seen by some researchers as an advantage, a unifying force in the face of external forces (Armstrong and Read, 1998), although this is not true for all small states, some of which suffer from internal political or racial problems. The internal political divide hindered social cohesiveness in Malta by creating two opposing factions. 'Since the early 1970s, Malta has possessed one of the purest two-party systems in the developed world. Malta's party system influences and is influenced by the intense political polarisation of the Maltese society' (Cini, 2002: 6). Nonetheless, strong leaders have managed to fill the gap as a unifying force for the majority of their followers on the island.

The Nationalist Party, having gained independence for Malta in 1964, retained its governing position in the 1966 elections. However in 1971 the Labour Party won a one-seat majority with the tough Dom Mintoff at the helm. At this time, the Maltese government intervened heavily in the economy and adopted 'a policy of equidistance from the superpowers', of neutrality and non-alignment. The government changed hands again in 1987 when the Nationalist Party regained power. In 1996, there was another change, but the new government only stayed in power for 22 months. The Nationalist Party regained power in 1998 and has since won the 2003 and 2008 elections. The interim period, 1996–1998, saw different Labour Party policies, with a continuation of the privatisation process that had begun with the previous government, although the state maintained majority shareholdings in the privatised entities.

Malta's relationship with the EU has also been affected by the diverse political orientations. Malta signed an association agreement (which covered industrial goods only) with the European Community (EC) on 5 December 1970, which was supposed to evolve into a customs union. However, this did not materialise. The Labour Party, in government from 1971 till 1987, did not consider the customs union to be a good idea as it judged 'the trade concessions and the level of Community financial assistance insufficient' (European Commission, 1993: 9). The government stated that it would have placed unfair competition in the way of local small companies putting forth – the infant-industry argument. A customs union would have meant that Malta had to accept the common external tariff of the EC, which would have led to a loss of the ability to set tariffs and would have impacted on this revenue-generating mechanism. The Nationalist Party regained power in 1987 but decided not to follow the customs union track. It opted for full EU membership and formally applied on 16 July 1990. In 1993, the Commission issued its first opinion (*Avis*) on the country. On 6 March 1995 the EU General Affairs Council declared that negotiations could start six months after the intergovernmental conference of 1996. However, in October 1996 Malta's application was suspended following a short-lived change of government. With another change in government the application was reactivated in September 1998. The 1999 Helsinki European Council declared that negotiations were to start with six countries, including Malta. Screening of the *acquis* by Malta began in May 1999 and accession negotiations were opened in February 2000 and concluded (except for one chapter) by the end of 2002. On 8 March 2003, a referendum with a turnout of 91 per cent of the electorate found 53.65 per cent to be in favour of EU membership. Malta was the most sceptical of the nine states that conducted referenda on the issue – a reflection of the polarisation of the country. In order to confirm the narrow majority a general election was held (Cini, 2003). The Accession Treaty was signed in Athens on 16 April 2003. Malta joined the EU on 1 May 2004 and adopted the euro on 1 January 2008.

Such changes in political direction and government stance must be viewed as shocks to the system caused by opposing orientations in economic policies, especially taking into consideration the two-party system and the rotation of power over time (Cini, 2003). Moreover, exogenous shocks were also felt over the years, such as independence in 1964 and the restructuring of the economy; the oil price shocks of the 1970s; the international recession in the early 1980s; and the adjustment process entailed in joining the EU in 2004. The impact of politics on everyday life is very strong, strengthened by high election turnouts. In fact 'Malta and Uruguay gain pride of place as the countries with the world's highest turnout, with over 96 per cent of their eligible population voting' (IDEA, 2007), even though voting is not compulsory in either country. This invasion of politics into daily events has seen many ministers accused of patronage and nepotism, which considering the 50/50 divide of the country and its extreme polarisation leads to inefficient use of resources.

'The issue of patronage and nepotism is first on a list of distinctive socio-economic characteristics identified by Bacchus and Brock (1987) as characteristic of many small Commonwealth states', (quoted in Brock and Smawfield, 1988: 229). Such issues cannot be ignored when analysing small communities, as they impinge on the availability of opportunities and access to society's resources, such as education, health, employment and housing.

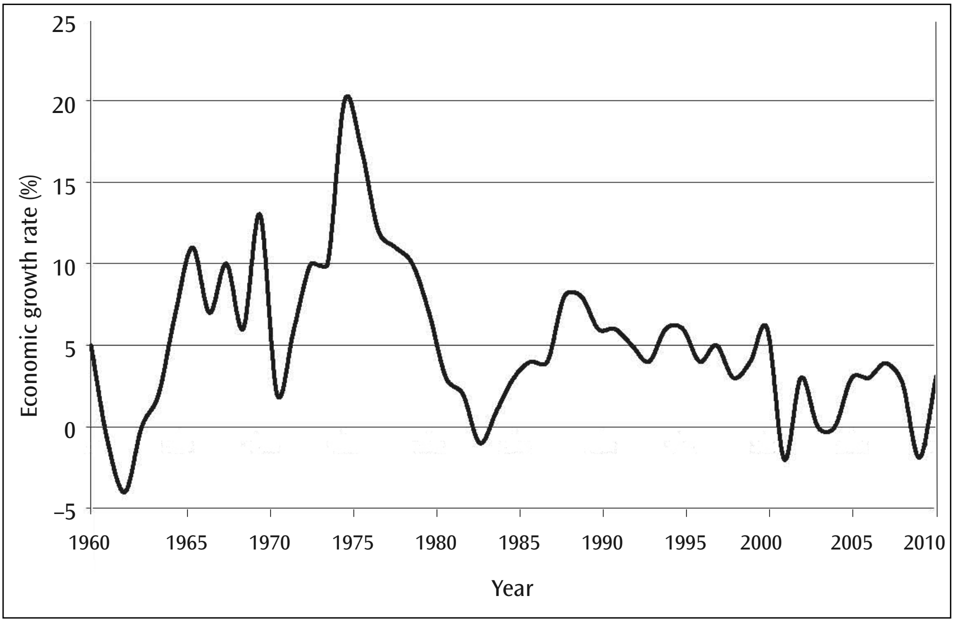
## 2.2 The economic environment

This section examines development plans and economic policies over the post-independence period and how they have related to economic performance. In particular, it describes the two predominant phases in Malta's economic strategy: state intervention in the 1970s and 1980s and the more liberal strategy of later decades. This is followed by statistics that depict the island's key economic characteristics and how they have evolved since the 1960s (or earlier, data permitting). Figure 2.1 shows the vicissitudes of real economic growth from 1960 to 2010. Over the span of 50 years, Malta's growth has been erratic and fluctuated quite heavily. Overall growth has been relatively high, averaging almost 5 per cent over the period 1960–2010, with few years of negative growth. As a result of these favourable growth rates, Malta transitioned to a high-income country, according to the World Bank classification. The level of development accomplished by the island in the process of its independence does not, at face value, indicate that any significant difficulties have arisen as a result of the small size of the island's economy. The shocks the country has faced over the period did not lead to deterioration in the standard of living that it had worked for during past decades.

At independence in 1964, the Maltese economy was dependent on servicing the British naval base. Malta's economy was considered as largely service-oriented even before independence, offering itself as a platform for military purposes, with a significant number of people employed in related activities such as the civil service, dockyards, domestic maids, cooks and other service providers. In fact in 1959, a total of 40,000 persons (out of a total working population of 90,000) were directly employed by government or the British Crown (Government of Malta, 1959). The whole service industry was designed to cater for the British, not necessarily in high value added spheres. Consequently, the early development plans (1959–1964 and 1964–1969) were focused on reducing this dependence and on the building of the infrastructure necessary to diversify the economy. Growth in the early 1960s was disappointing but from 1965 increased dramatically and was over 10 per cent in 1966.

The first development plan had to be revised in 1961 due to significant planning changes. The British government decided to 'plan' for Malta, since it recognised that 'effective measures should be taken to make the economy of the Maltese islands more viable by reducing dependence on service spending' (Government of Malta, 1959: 1) and this was part of its decolonisation strategy. Malta was deemed to be at an 'economic crossroads (and it had) no real choice' but to redirect resources to achieve a 'self-supporting and viable economy' (Government of Malta, 1959: 2). The development plan was systematic – Malta needed to convert the naval dockyard to a commercial ship repair entity; try to change its industrial structure to win overseas markets as the local market was too small; and develop the tourism industry, taking advantage of the enticing Mediterranean climate.

**Figure 2.1. Real GDP growth rate, 1960–2010**




Note: Data for 2010 are provisional.
Source: World Bank

The emphasis at the time was on the infrastructure that the country needed to diversify its economy from being dependent on 'safe and assured employment under the benevolent service direction … to be replaced by employment in the world of competition' (Government of Malta, 1959: 4). The plan's focus on infrastructure became even more emphatic in the 1961 revision of the plan, when government realised that the power station needed to be bigger than originally planned; government had to build factories for new investment since the investors themselves were not willing to do so; and the hotels planned for the tourism sectors, essential for the development of the industry, were in areas outside towns where services (water, electricity, sewerage and telephones) were lacking. Table 2.4 shows the high level of gross fixed capital formation in the 1950s and late 1960s.

The second development plan (1964–1969) was the first drawn up by a purely Maltese government without a British presence dominating the planning process. The main ideas incorporated in the plan were based on the 1963 UN Mission's economic study *Economic Adaptation and Development in Malta*. The UN Mission had been very critical of the first development plan, stating that it was

> … not a comprehensive economic plan … but is largely a government capital spending plan supplemented by certain policy proposals. Nor does the Plan contain any projections of either the desirable or the likely development of private investment, or of the overall growth of the gross national product. (Stolper *et al.*, 1964: 213)

The message of the second plan was that there was a need to change 'as the maintenance of a traditional structure implies economic stagnation' and the way forward was through industry, agriculture and tourism that were to be geared towards exports, so that the island would not be 'limited by the size of the home market' (Government of Malta, 1964: 1). The UN study estimated that it would take the island 'between 15 and 25 years before ultimate viability can be achieved' (p. 1), which meant 1980 or 1990.

> During this period Malta will require outside help in terms of know-how, grants and loans to achieve the required economic transformation. This outside help will be essential until the economy reached the 'take-off' stage of development, when endogenous forces will be expected to support growth and lead the economy to eventual maturity. (Government of Malta, 1964: 1)
>
> Malta's eventual salvation lies in a competitive industrial structure largely oriented towards the export market. (Ibid: 4)

In the 1960s, emigration policies were introduced to encourage the release of excess labour. After the second world war, Woods (1946) and Schuster (1950) saw emigration as an appropriate strategy for Malta to reduce unemployment. Attard (1997) maintains that the emigration policy had been introduced by the British early in the nineteenth century, the destination being nearby Mediterranean countries. The Balogh and Seers Report (1955), however, suggested that emigration was costly to Malta, since young and skilled workers were leaving the country at a time when they could contribute to the transformation of the economy. Nonetheless, the huge number of people who left the island did relieve the pressure of unemployment. It was referred to by various top officials in the 1950s (including Archbishop Gonzi in 1950) as the 'safety valve' for Malta (quoted in Attard, 1997) or as an 'unnecessary evil'. The second development plan admitted that the first plan had been unsuccessful since the expected employment numbers had not been achieved, in spite of high migration figures (as confirmed in Table 2.3 below, especially between 1950 and 1970), as suggested by both the UN report and the British Defence White Paper. The latter presented a rather bleak scenario for Malta, suggesting that unless drastic and effective measures were implemented, unemployment could increase to between 20,000 and 29,000, while national income could drop by as much as 15 per cent. In reality only 1,760 new jobs were created, when the number of people entering the labour force was estimated at 16,000 and 44.4 per cent of the working population actually worked for government. The second plan suggested an annual migration of 7,500, slightly lower than the UN recommendation of 10,000. This was 'to counteract the evils of over-population or rapid population increase vis-à-vis the jobs that can be created during the next five years' (Government of Malta, 1964: 5). Actual annual migration patterns are shown in Table 5.1 (p. 64).

The first development plan had created an aids to industries board which the second plan replaced with a development corporation that was to introduce interest free loans instead of grants. Industry was already operating under 'a protective umbrella' and this 'protective policy would continue in the next plan', envisaging its removal in the long term in order to move towards free competition (Government of Malta, 1964: 8). Government would also seek the consultancy services of an international organisation to study which 'male-intensive industries' could realistically be set up in Malta. Female participation in the labour market was less than 20 per cent (Table 4.10, p. 55).

During the first development plan, funds (£29.25 million) were secured from the British Government, most of it to convert the shipyard. During the second plan, a long-term loan of £2.7 million was secured from the International Bank for Reconstruction and Development (IBRD). The financial agreement with the British Government also envisaged the transfer of £18.8 million (25 per cent of which would be in the form of loans) over the next three years. However, the UN Mission estimated that by 1969, the Maltese government would face a deficit of over £50 million. The British Government would not commit to further funding and in fact only offered an additional £600,000 as budgetary aid for the first year, with no further commitments.

Overall, the second plan resulted in an extension of the first plan and a continuation of projects already begun. The biggest thrust was on construction of infrastructure and as the plans declared, this left meagre financial resources for social protection programmes. The UN Mission warned: '…the basic solution to the economic problems of Malta is not to be found so much in the capital works to be constructed as in the policies to be pursued' (Stolper *et al.*, 1964: 2). This warning went unheeded.

The third development plan (1969–1974) was also revised in October 1970.

> The third plan pursued the same broad objectives of strategy that had motivated the previous two plans … designed to achieve an average annual rate of growth of 9.4 per cent between 1968 and 1973. (Government of Malta, 1969: 3)

Such a rate was achieved, as shown in Table 2.4 below. The policies of the third plan were similar to the those of the other two, except in the type of association the government wanted to encourage with the European Economic Community.

In 1971 the Malta Labour Party took over from the Nationalist Party. The ideology was very different and this brought great changes in the perspective of policies and also in the role of the state in the economy. Whereas the NP government's role had been one of support in providing the infrastructure but then expecting a greater role from the private sector, the MLP government was more interventionist. Nationalisation plans were drawn up and a great programme launched the welfare state. According to the new government, the results of the previous (stillborn) plan had fallen far short of expectations. Consequently, the period 1971–1987 witnessed extensive state intervention in the economy, based on the twin strategies of export orientation and (later in the 1980s) import substitution. This appeared to inhibit the development of a competitive private sector; however, during 1973/79 the private sector contributed 60.8 per cent of total investment (Government of Malta, 1981: 17). In the early 1970s, the economy of Malta was affected by external events such as commodity and oil price hikes in 1972/73 and 1979. This, as well as the strong trade relationship (75 per cent of both total imports and exports) it had with western Europe, affected Malta's growth potential. In such hostile circumstances a small developing island economy had limited defence mechanisms at its disposal (Government of Malta, 1973: 15). These difficulties resulted in job losses in manufacturing industry, closure of firms, higher imported inflation and a fall in the value of Malta's foreign reserves. However, the policies adopted came to fruition and the 1970s saw the island's highest growth rates, as shown in Figure 2.1 above.

The Exchange Control Act of July 1972 discontinued the Maltese currency's peg to sterling. The Central Bank of Malta (formally established in 1968) began determining the exchange rate of the Maltese pound (before July 1972 the Maltese pound was denoted as £M to distinguish it from the pound sterling; after 1972 it became the Maltese lira, denoted as Lm). The previous government was seen to have been 'in pursuit of a spendthrift programme of expenditure based on growing public borrowing' (Government of Malta, 1973: 3), which could only lead to bankruptcy. In fact, public debt had risen to £M43 million with a further £18 million of committed expenditure. The MLP government managed to acquire interest free loans from NATO countries (Italy, Germany, Canada and Norway). It also secured an interest free loan of £17 million from China and a soft loan of US$5 million from the USA. It was given gifts in kind by the USA in the form of equipment (worth $2 million) and medical and hospital equipment by Libya. Furthermore, during the 'uncertain months of 1971/72, when the future of the new Agreement with Britain was in the balance, the Libyan Government kept Malta in funds, without any strings, so as to enable it to pursue its negotiations from a position of strength' (Government of Malta, 1973: 7).

The fourth development plan (1973–1980), under the new government, had a longer timeframe than the previous plans. Although power changed hands in 1971, the plan was issued in October 1974, on the expiry of the third plan. In the interim period, the government renegotiated the financial agreement with Britain, deemed as unsatisfactory since it was insufficient and also included high-interest loans. The renegotiation resulted in an annual rental payment of £14 million, retroactive from 1 October 1971 until 31 March 1979, when the last British forces left the islands.

Although external events in 1973 put pressure on the Maltese economy, the evaluation by government was not negative since:

> Small size and a labour-based economy can be used to advantage in an age when giant blocs heavily dependent on high energy consumption, confront one another. Moreover, the compactness of institutions, the political and social awareness of the people and the ability to adapt speedily to new circumstances give Malta an enormous advantage over bigger but much more heterogeneous communities. (Government of Malta, 1973: 21)

The literature on small states often defines such advantages for small economies (see, for example, Armstrong and Read (1998); Baldacchino (2002); Blazic-Metzner and Hughes (1982); Brautigam and Woolcock (2002); Streeten (1993)).

In view of these events, the strategies adopted by government included greater state involvement; a more rigorous export drive; efficient import substitution; control of domestic price levels; diversified economic relationships; and a humane and sensitive welfare policy to minimise the impact on the Maltese people of storms originating abroad. These strategies translated into greater state intervention in the economy, import and price controls, nationalisation of pivotal economic services and utilities, the adoption of the twin development strategies of export promotion and later on import substitution, and the launch of an extensive welfare programme. There was a national strategy of reclaiming areas controlled by foreign interests, by nationalising these sectors through the creation of new institutions, including the banking sector (Bank of Valletta, 1973; Mid-Med Bank, 1975; Investment Finance Bank, 1977); transport (Air Malta and Sea Malta); telecommunications (Telemalta, 1975); energy (Enemalta, 1977); broadcasting; housing (Housing Authority); tourism-related issues (National Tourism Organisation); the importation of grain (Medigrain); and a tug fleet for the busy harbour (Tug Malta).

The plan declared two main economic objectives: to increase the productive capacity of Malta so that when revenue from Britain dried up after 1979 the economy would remain viable; and reducing 'compulsory emigration' by creating jobs in the industrial sector, complemented by the services sector. But above all, the plan envisaged 'diversified relationships with other countries, far and near, so that no single country's policies or economic misfortune can seriously affect Malta's welfare' (Government of Malta, 1973: 50). The government was acting on 'democratic socialist beliefs' and was offering the country a mixed economy. However, the tone of the plan was marginally different: 'The Government's role had been almost entirely passive: it is now active, constantly watchful, more closely related to the real needs of development and above all flexible. The State will not limit itself to a backing role' (ibid: 60).

The focus of the plan was on human beings as 'the most important component of the economic structure of the nation'; the improvement of the quality of this resource through education was central. Since manufacturing was to increase its importance, the focus turned to technical education, emphasising the need to remove the stigma of inferiority associated with blue collar jobs. The government adopted other strategies to sustain industry, alleviate unemployment and rationalise its own administrative costs. To sustain industry, government continued with the factory building programme and the setting up of a small-scale industry establishment.

The fourth development plan was different from the three previous plans, especially in regard to the role of the state and the attitude and positive outlook of the seven-year programme, offering a mixed economy approach rather than focusing on grants and aid to the private investor and foreign firms. The conclusion of the report sums up the general perspective and approach.

> Being small and being young Malta is exposed and vulnerable … Malta has a greater degree of social cohesion and national solidarity than countries more generously endowed with physical resources, but with deep internal division … This cohesion is something eminently worthwhile in its own right, but it is also essential for flexibility and adaptation to change … Development consists in the removal of rigidities … Malta needs full participation of all – workers, employers and self-employed – so that 'planning from above' and 'planning from below' meet and reinforce one another. (Government of Malta, 1973: 205–206)

Not all political analysts concur that this co-operation between all social partners did in fact take place; however, this is beyond the scope of this report, which focuses on evidence about social policies adopted by the different governments.

**Table 2.2. Selected data for 1973 and 1979**

| | 1973 | 1979 |
|---|---|---|
| GDP at constant 1973 prices | £M115.8 million | £M245.4 million |
| Manufacturing output | £M65 million | £M215 million |
| Manufacturing employment | 25,848 | 34,486 |
| Drydocks turnover (profit in last six years) | £M7 million | £M16 million |
| Tourist arrivals | 211,196 | 618,310 |
| Tourism income | £M16.2 million | £M76.2 million |

Source: Government of Malta, 1981

Table 2.2 provides various statistics for 1973 and 1979, that is the beginning and end of the fourth plan, showing that Malta managed to weather the dark clouds hovering over the international economy in the 1970s. Growth over the period was very high (Figure 2.1), reaching 20 per cent in 1975. Malta went through an industrialisation phase over this period (peaking in 1981), as shown in Figure 2.4, with construction constituting a significant portion of industrial activity on the island. Unemployment, which reached 6.88 per cent in the early 1970s, fell to 3.29 per cent by 1979. Export growth was significant over this period, as shown in Table 2.4. Several local economic historians see the 1970s as a time when state intervention was so intensive that it practically crowded out private initiative. However, in terms of investment, the figures contradict this assertion. During 1973/1979, gross capital formation in real terms amounted to £M216.6 million, of which 60.8 per cent (£M131.7 million) was invested by the private sector, surpassing the 55.8 per cent envisaged in the fourth plan. Investment by the public sector accounted for 39.2 per cent. Both public and private sector investment concentrated mostly on construction and machinery.

> During the last 25 years, the Maltese economy has experienced a major transformation. … rapid growth … export-based industrial sector, a large-scale tourist industry and a successful switch to commercial ship repairing … national income has risen sharply … accompanied by improved living standards … a more equitable distribution among the population of the benefits arising from the deployment of national resources.
>
> (Government of Malta, 1981: 1)

There were two central themes in the fifth plan (1981–1985): consolidation of the previous plan (to be equipped to face global changes) and an increase in flexibility. The latter was seen as essential to shift the island's productive base, and thus comparative advantage, from one based on labour-intensive industries (textiles and footwear) to more skilled and technologically-based manufacturing and services. 'Success lies in anticipating these changes and moving up the stages of comparative advantage' (Government of Malta, 1981: 239).

The fifth plan thus focused on the cultivation of 'trade, friendship and co-operation with a wide range of countries embracing different political and economic systems and social conditions', so that any economic problems encountered abroad would not 'unduly disrupt the island's development' (ibid: 57–58). In this sense the idea was to diversify not only of the products, but also the markets, for those products. In fact, government had established trade and investment links with European countries, Libya, the Council for Mutual Economic Assistance, the Far East, the People's Republic of China and the Middle East.

Having established the necessary institutional framework in the 1960s and 1970s, and the inclusion of all society through a wide network of social security provisions and solid foundations for an export-oriented strategy in the 1970s, the focus in the 1980s turned to the 'full development of its human resources' (Government of Malta, 1981: 58). Such development was necessary not only at an individual level in order to provide adequate living conditions, but also as a means for the continuing development of the country as a whole. Although the fifth plan still offered a mixed economy approach for the 1980s, there was a difference from the 1970s full government engagement in the process. Government would 'lay down broad policy guidelines … participate directly in a number of economic sectors … leave private enterprise free

… along socially responsible lines' (Government of Malta, 1981: 64).

Therefore, while the 1970s saw nationalisation of vital sectors of the economy that had been foreign owned, in the 1980s the government encouraged more private sector participation, although the state maintained majority holdings in the sectors. Furthermore, private investment would still be encouraged, though not through direct incentives such as tax concessions and grants (termed 'easy-come-easy-go projects') but rather by offering a more skilled workforce. The plan called for 'national consensus and a bold collective effort' (Government of Malta, 1981: 68) in order to succeed, which could be achieved because of the solid base offered by the realisation of a welfare society which reduced social inequalities and provided access to basic social needs such as health and education to all the population, regardless of their income level.

The relationship with the European Community, which should have translated into a customs union, did not materialise because the 1981 Maltese government felt that local industry was not ready for the stiff competition from European companies which the common external tariff implied. Furthermore, this deep integration arrangement with the European continent was believed to lead to trade diversion and envisaged a different role for the 'closer commercial relationships with Arab states' that the Maltese government wanted to maintain (Government of Malta, 1981: 73).

The Government was optimistic that:

> Malta has advantages that more than compensate for these economic handicaps. These lie in social and psychological factors … change … affect … some groups in the community … this is … made more acceptable where solidarity is strong and the common benefits are visible. (Government of Malta, 1981: 240)

It also believed that, although small, Malta would be resourceful and resilient in facing the challenges of future development programmes.

The sixth development plan (1986–1988) lost the optimism projected in the previous plan and started out by stating that the 'growth momentum' of earlier years had been lost. Indeed, growth slowed significantly in the early 1980s and even turned negative (–0.1%) in 1983. Furthermore, the global environment had become so volatile that planning was becoming less possible. The first half of the 1980s had seen a global turbulent economic environment which affected all economies and especially open ones, including Malta. In 1983/84 there was a strong downturn in economic growth, reflecting the strong impact that external global events had on the small economy. Unemployment was also particularly high in the 1980s, peaking at 10.45 per cent in 1984.

The sixth plan conceded that the fifth plan had been thwarted by unexpected events and the targets had not been attainable. The 'consolidation strategy' of the fifth development plan was in fact transformed into a 'containment strategy'. The policies adopted included import substitution and price and wage freezes. Although these were partially effective, the costs were also significant. Like the first development plan of 1959, the sixth and last plan talked of Malta as being 'delicately poised at its economic crossroads' (Government of Malta, 1986: 95) and called for social partners, government, private sector and people in general to work together for the development of the country. In spite of this rather negative depiction of the economic situation, the plan nonetheless mapped out arrangements for specific sectors, including health, housing, education, culture and welfare.

Overall, the six development plans, covering the period 1959 to 1988, had different perspectives, but the overall aim was to transform an economy dependent on the British as a naval base and supplier of supporting services into an independent export-oriented economy. Growth rates indicate that this transformation, which took place over a period of 20 years, was successful. The main difference is that while in the 1960s, the idea was that first the country needed economic development to be able to later focus on social development, in the 1970s and 1980s this was seen as a simultaneous process. However, as the sixth plan indicated, planning was becoming more volatile

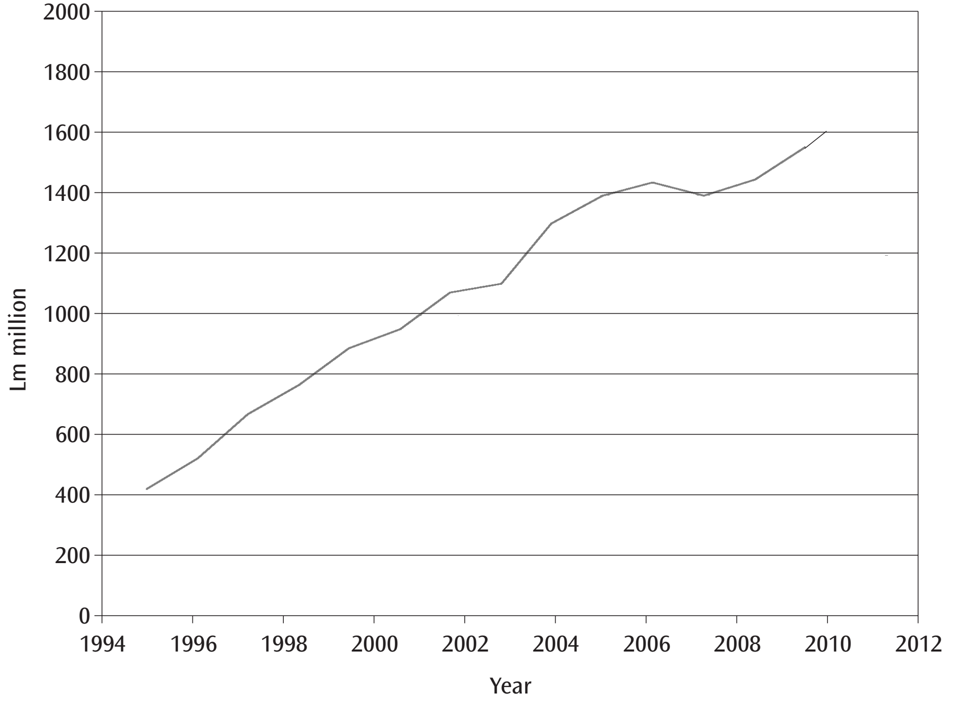
After the transfer of power to the Nationalist Party in 1987, a more liberal policy agenda was adopted, although the first opinion of the European Commission (1993) indicated that the liberalisation process was slow in international comparative terms. In addition, development plans were exchanged for business plans in line with a more market-oriented economy rather than a centrally planned one. As a result of the liberalised economic strategy, the importance of trade has increased considerably since the 1980s (Figure 2.6). Furthermore, the closer relationship sought with the EU indicated an economy policy that was more concerned with promoting regional integration rather than a wider, diversified, global reach. Yet data show that in the twenty-first century as an EU member state, Malta imports 70 per cent of its total imports from the EU, but exports to the EU less than half (45 per cent in 2008) of its merchandise exports (Central Bank of Malta, 2009). Similarly, sources of foreign direct investment (FDI) are not limited to Europe but have an international flavour. While the political inclination from the late 1980s onwards was towards deeper integration with the European mainland, economic relationships were not limited by such borders.

By 1990, Malta had surpassed Greece and Portugal in GDP per capita in terms of purchasing power parity (PPP). Growth rates for the 1990s averaged 5 per cent; however the negative economic circumstances at the start of the new millennium led Malta to fall back to 77 per cent of the EU average by 2004, whereas Greece rose to 94 per cent (Eurostat provisional figures), while Portugal remained stationary at 77 per cent. By 2009, Malta rebounded and at 81 per cent marginally surpassed Portugal. The 1990s were years of rapid technological change, which led government to introduce computers in primary schools during the latter part of the decade. Slow growth in the EU, which was Malta's biggest trade partner, did not inhibit the island from continuing to grow. The financial crises of the decade led Malta to devalue its currency in 1992 in line with similar decisions taken by central banks on the European continent. Government had one overriding strategy for the decade: EU membership. Having applied in 1990, it hoped that the next enlargement (1995) would include Malta. However, the 1993 European Commission's opinion (*Avis*) was not optimistic:

> The reforms … require so many changes in traditional patterns of behaviour that what is effectively involved is a root-and-branch overhaul of the entire regulatory and operational framework of the Maltese economy … to enable its economy to take advantage of all the opportunities provided by accession. (European Commission, 1993: 13)

Privatisation became top priority, to turn state companies into more efficient private enterprises ready to be competitive in the single market. The short-lived 1996–1998 Labour government also continued the privatisation programme, with a slight difference: retaining majority share holdings. This much-needed economic restructuring, coupled with demands for new institutional frameworks, upgrading of existing structures in compliance with EU standards and badly managed and over-run projects, led to peaks in public debt (Figure 2.2). This spelt trouble for the  social security system. Thus the government adopted a self-help strategy, moving away from the welfare state to a welfare society, aiding NGOs to take over the role previously played by government. In this regard, EU membership was perhaps the greatest incentive for the Maltese Government to start putting its house in order and undertake the necessary reforms.

**Figure 2.2. Escalation of public debt, 1994–2010**



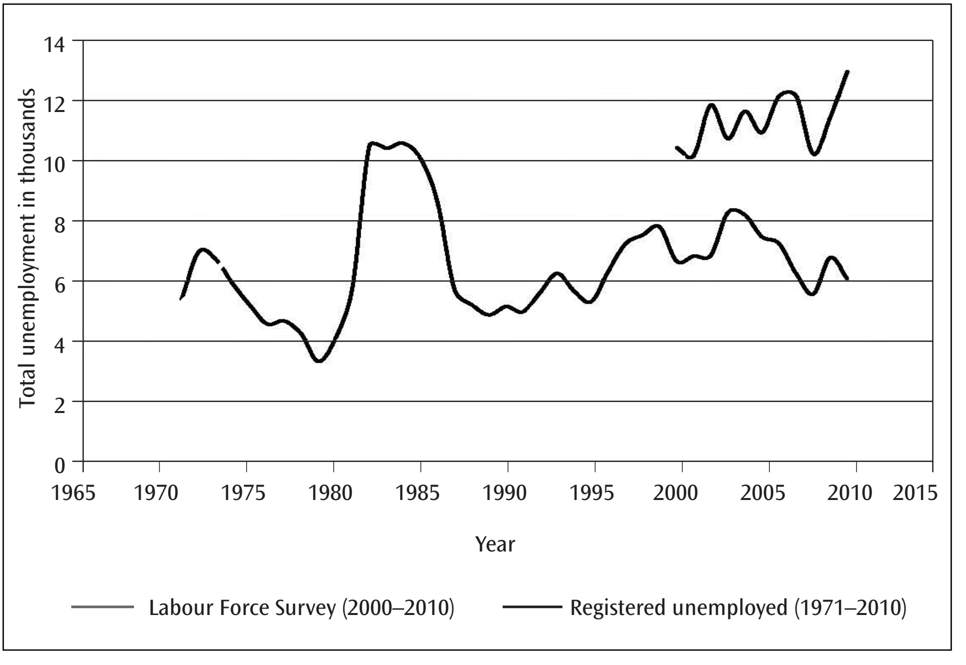

Note: Public debt as a percentage of GDP peaked at 76.7 per cent in 2004. Figures in nominal terms. Data for 2008–2010 have been converted to Lm to make comparison easier, even though since 2008 the currency of Malta has been the euro. Conversion was at the standard rate of 0.4293. Data for 2010 are until the second quarter.
Source: Central Bank of Malta, *Quarterly Review,* 2004–2010

The downturn in global economic activity in 2000/2001 hit Malta drastically, with low and briefly negative growth in GDP per capita, increasing unemployment and negative trade growth. In the five years before EU membership (2000/2004), economic growth was low at 1.24 per cent. This rate was a reflection of its components which all registered low growth (Table 2.4). Private consumption and gross capital formation were a mere 0.16 per cent and 0.96 per cent respectively, while negative growth was registered for both exports (–2.57%) and imports (–2.95%). These figures indicate an economy that was contracting. Government consumption was the main engine of growth at 3.08 per cent (which is nonetheless half the usual growth of this sector). It would appear therefore that both local and foreign demand had decreased and the only growth derived from government consumption, while activity in the private sector remained weak. The situation deteriorated in the period just before EU accession, possibly also due to new competitive pressures.

During the five years after accession to the EU (2004/2008), the situation improved somewhat in the first three years but deteriorated in the following two years, showing negative growth in gross fixed capital formation, exports and imports, while positive growth was registered for private and government consumption. Yet overall the growth rates depict a situation with potential for recovery. The restructuring process in Malta continues, as the last vestiges of the derogations clinched in EU negotiations expire. This is likely to put more pressure on the Maltese economy, especially when more markets are liberalised and state aid and subsidies (especially for water, electricity and transport) are finally all removed. The economy may be facing a shaky period, exacerbated by external shocks emanating from an unstable international environment. For a deeper discussion of this, see Azzopardi (2009). Provisional figures for 2009 indicate deterioration in various areas. Real GDP contracted by 2.1 per cent by the third quarter of 2009 (NSO, 2009d). Tourism declined by 9 per cent, while tourist expenditure decreased by 12.5 per cent (NSO, 2009h). The number of people registering for work increased by 15.9 per cent (NSO, 2009g). By July 2009, the full-time gainfully occupied population had dropped, while the number of part-time workers increased (NSO, 2009f). In the period up to October 2009, international trade had also slowed (NSO, 2009e). A sample survey of manufacturing entities during the third quarter of 2009 saw declines in turnover (11.6%), investment (54.2%) and employment (5.6%). Fortunately, a slight rebound seems possible for 2010, although comments about later years are more cautious. See, for example, the IMF's 2011 report on Malta, which contains advice on 'ambitious fiscal consolidation … [and] … prudent macroeconomic and financial risk management and prevention policies' (IMF, 2011:1).

An examination of key economic characteristics such as unemployment, composition of GDP and trade shows the evolution of the Maltese economy over the period. Its small size does not seem to have affected Malta's development, since it managed to progress well after independence, albeit with hiccups in certain years and its economic strategies were accompanied by growth. Figure 2.3 provides data related to unemployment from 1971 to 2010. This shows two available datasets. One refers to the number of registered unemployed, which cannot be considered as comparable over the years, as changes have occurred in how administrative records are kept and who can be classified as unemployed. The other is the labour force survey (LFS), which is conducted according to the International Labour Organization (ILO) definition and is thus comparable with other countries; however, Malta only started using this method in 2000 in line with Eurostat regulations. Overall, unemployment in Malta has been modest, although the early 1980s stand out as having high unemployment rates. LFS figures show that unemployment reached almost 13,000 in 2010.

**Figure 2.3. Unemployment rate, 1971–2010**




Total registered unemployed persons aged 16–61, according to administrative records. Data are not comparable since changes have been made over the years, especially in recent years.
LFS shows total unemployment of persons aged 15+ according to the ILO definition.
Source: ILO, 2009

Table 2.3 provides additional information which shows that net migration was very high compared to the natural rate of population increase in the 1950s until the mid-1970s. After the mid-1970s net migration became positive. The population increased from 319,000 in 1957 to 345,000 in 1985 and stood at 405,000 in 2005. Estimates for 2009 stand at 412,000 (including 17,000 non-Maltese residents), but projections indicate decreases from 2025 onwards, declining to 380,000 by 2050 (NSO, 2010d).

**Table 2.3. Net migration rate and natural increase in population rate, 1950–1980**

| | 1950–1955 | 1955–1960 | 1960–1965 | 1965–1970 | 1970–1975 | 1975–1980 |
|---|---|---|---|---|---|---|
| Natural increase in population rate per 1,000 inhabitants | 19.17 | 17.97 | 13.78 | 7.36 | 8.46 | 9.03 |
| Net migration rate per 1,000 inhabitants | –17.89 | –19.25 | –18.32 | –8.87 | –7.46 | 3.64 |

Source: UNCTAD, 2009

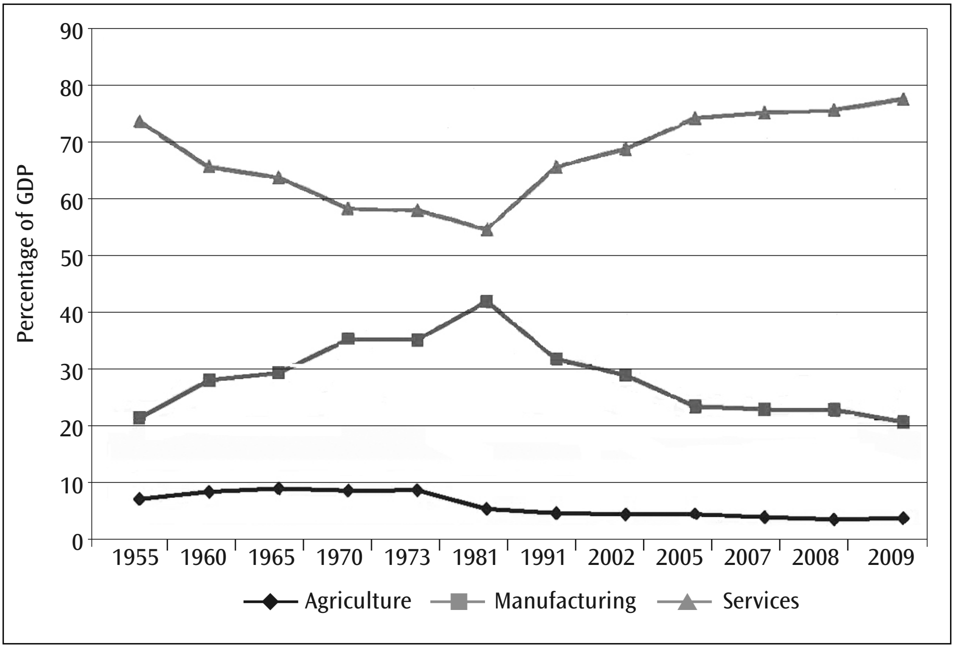
Figure 2.4 gives the composition of GDP for selected years, from 1955 to 2009. Since independence, services (including government services) have always constituted more than half of of GDP, reaching 70 per cent in 2002. This is similar to other developed countries. Figures indicate that agriculture has seen a decrease over the 52-year period under review, which accords with conventional development stages. Manufacturing increased, in conjunction with policies aimed at improving Malta's productive capacity from the 1970s, peaking in 1981. Services, as a percentage of GDP, witnessed a significant decline during the industrialisation phase. However, as the service economy at independence mainly catered to the British naval base rather than high-value added services, Malta did not necessarily lose out when services were replaced by manufacturing (the inverse of conventional stages of development). The composition of GDP for the period overall has only marginally changed in the 52-year period, as services subsequently increased in importance, although the actual components of each sector have changed. The service industry is now mainly focused on tourism, education, health, recreation, retailing, legal and banking services, as well as personal services.

Table 2.4 shows that in certain periods, government consumption was stronger than other economic activity. Government expenditure as an engine of economic activity reached 8.4 per cent (1965/70) and 7.9 per cent (1990/2000) respectively, at a time when government rhetoric was promoting a free market philosophy. Growth from capital formation peaked at 15.2 per cent pre-independence, 14.4 per cent in the immediate post-independence period and then 8.4 per cent in the 1980s.

Independence appears to have been a great impetus for economic activity in both the private and public sectors. The expected systemic shock led to greater activity in both sectors and acted as a stimulus for fresh investment. The highest recorded export growth was 13 per cent in the 1970s, while in the post-independence period (1965/70) imports stood at 12.2 per cent. Since then growth rates have been more modest but nonetheless significant.

In the post-independence period Malta has been characterised by an open economy with a trade ratio (exports plus imports as a percentage of GDP) of over 100 per cent since the 1970s and over 150 per cent since 1974 (see Figure 5.1, p. 63). The

**Figure 2.4. Composition of Malta's GDP, 1955–2009**




Source: Compiled from World Bank data (1955–1981); EU Commission data (1991–2002); Eurostat data (2005–2009)

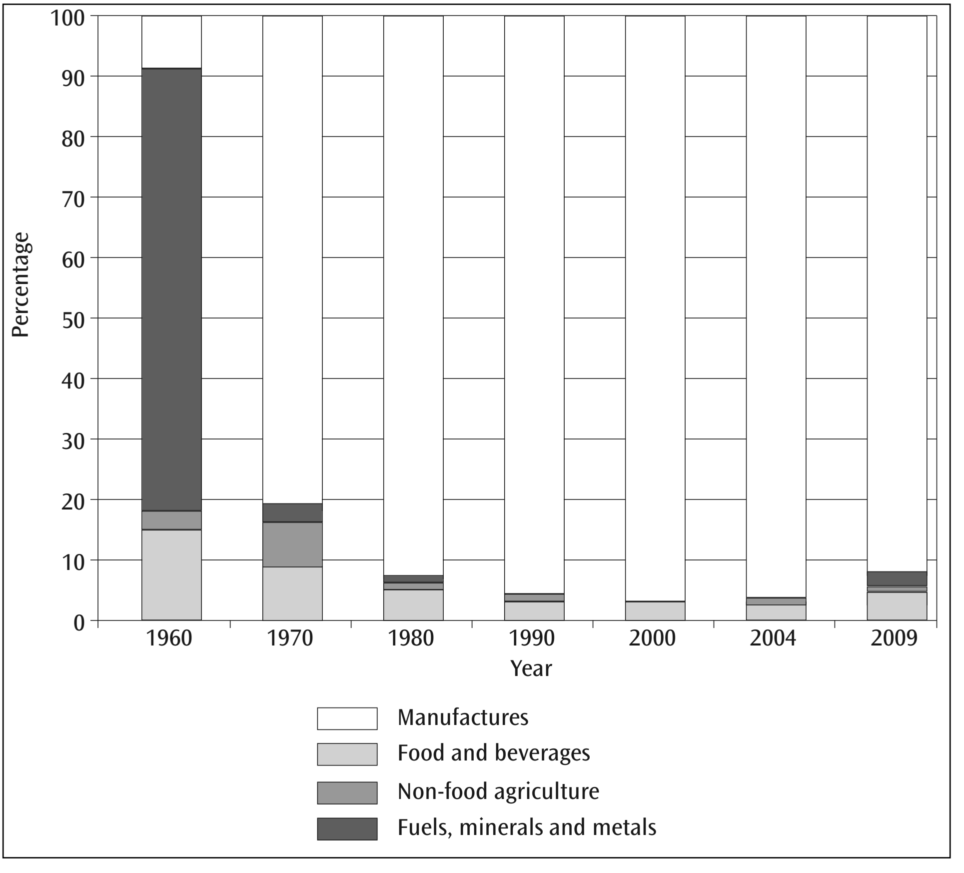
**Table 2.4. Breakdown of growth rate of GDP indicators at constant prices, 1950–2008**

| Economic indicators | 1950–1960 | 1960–1965 | 1965–1970 | 1970–1981 | 1981–1990 | 1990–2000 | 2000–2004 | 2005–2008 |
|---|---|---|---|---|---|---|---|---|
| GDP growth | 3.3 | 0.3 | 9.0 | 11.3 | 3.85 | 5.25 | 1.24 | 2.97 |
| Private consumption | 3.9 | 2.9 | 12.0 | 6.4 | 4.09 | 5.02 | 0.16 | 1.43 |
| Government consumption | 7.6 | 0.3 | 8.4 | 6.8 | 5.38 | 7.87 | 3.08 | 3.44 |
| Gross fixed capital formation | 15.2 | 5.7 | 14.4 | 5.5 | 8.38 | 7.34 | 0.96 | 7.95 |
| Exports of goods and services | 1.8 | –1.7 | 7.5 | 13.0 | 3.41 | 4.81 | –2.57 | 0.19 |
| Imports of goods and services | 6.0 | 2.5 | 12.2 | 5.2 | 4.68 | 5.16 | –2.95 | 1.46 |

Source: Compiled from IMF data (1950–1981); UN data (1981–2008)

ratio of 179.6 per cent of GDP (for 2007) is considerably higher than the average for the EU27 of 119.4 per cent. As with other small states, such an open economy, although an important part of Malta's development strategy, reveals a position of vulnerability, particularly in the face of external shocks. Analysis of development strategies shows the importance of external financing to Malta's economy in the post-independence period. In 1970 aid accounted for 8 per cent of GDP and was above 5 per cent throughout the 1970s. In 1980 aid decreased substantially as a percentage of GDP to 1.3 per cent and remained at low levels in percentage terms for the rest of the period. In 2004 it fell to 1.1 per cent of GDP.

**Figure 2.5. Composition of merchandise exports, 1960–2009**




Source: Based on UNCTAD data, 2005

The composition of merchandise exports has however changed. Malta has focused more on manufactured goods, which represented only 5.8 per cent of exports in 1960, but increased to around 93 per cent by 2009, the bulk (70%) being in the machinery and transport equipment category (Figure 2.5). Malta's problem may be its heavy dependence on one particular company in the semiconductors sector, which represents over half of all manufactured exports. 'STMicroelectronics is the largest private employer in Malta … providing 55 per cent of the country's total domestic exports' (STMicroelectronics, 2002). On the one hand, this shows a specialisation aspect which goes against the impression that small countries cannot support economies of scale through specialisation; on the other hand, this high specialisation puts the country in a more vulnerable position, due to the non-diversification of its product range.

The company, which set up operations in Malta in 1981, states:

> We find Malta to be very low risk for the foreign investor and the social environment is safe and secure. The lifestyle is very pleasant and Malta is within easy reach of the main European destinations. The island's location is in a time-zone that facilitates working with both Asian and North American clients.
>
> (Gretchen Gene, Group Vice President and Managing Director, 2006)

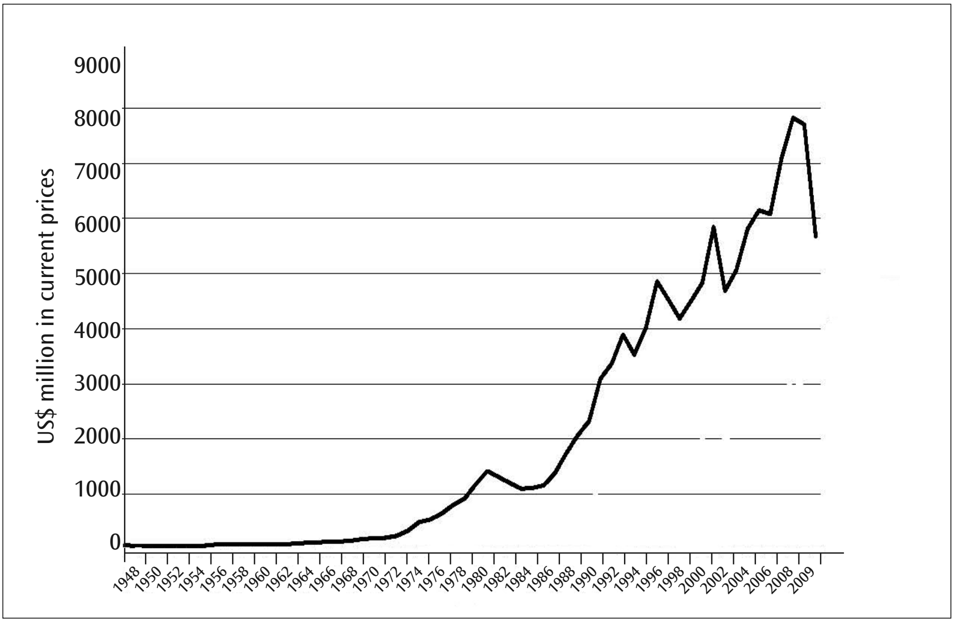
Geography and social factors appear to be important deciding characteristics for the continuance of operations of this particular strong company within the Maltese economy. However, the economic incentives must not be ignored.

In merchandise trade, Malta has always had a negative balance of payments (Figure 2.6). However, this gap has continued to widen, especially in the new millennium. Although trade in services shows a positive balance, the current account remains in deficit. The situation has in fact continued to deteriorate. Indeed, the net balance in the current account worsened from a net deficit of €140.2 million during the December 2008 quarter to €212.8 million during the corresponding quarter in 2009 (NSO, 2010c). Figure 2.6 confirms the importance which trade has had for the island and how this exploded upwards after the mid-1980s, when a more liberalised stance was declared by government.

Figure 2.7 gives a more detailed picture of growth rates for both imports and exports. This is particularly important for small countries that depend heavily on trade due to their limited internal resources. The data show that the 1970s saw the highest growth rates. The downturn in global economic activity during 2000/2001 and again in 2008/2009 drastically hit the island, which saw severe negative growth in trade. Malta has a resilient economy and significant improvement was registered after the first downturn. However, unlike in previous decades, the growth rate for imports exceeded that for exports, possibly reflecting the opening up and further liberalisation of the domestic economy, especially related to EU membership and the removal of tariffs and other barriers to trade. However, it could also reflect a higher propensity to consume in recent years, leading to lower saving rates. In fact, the governor of the Central Bank has on various occasions indicated that the Maltese are living beyond their means (Bonello, 2009)

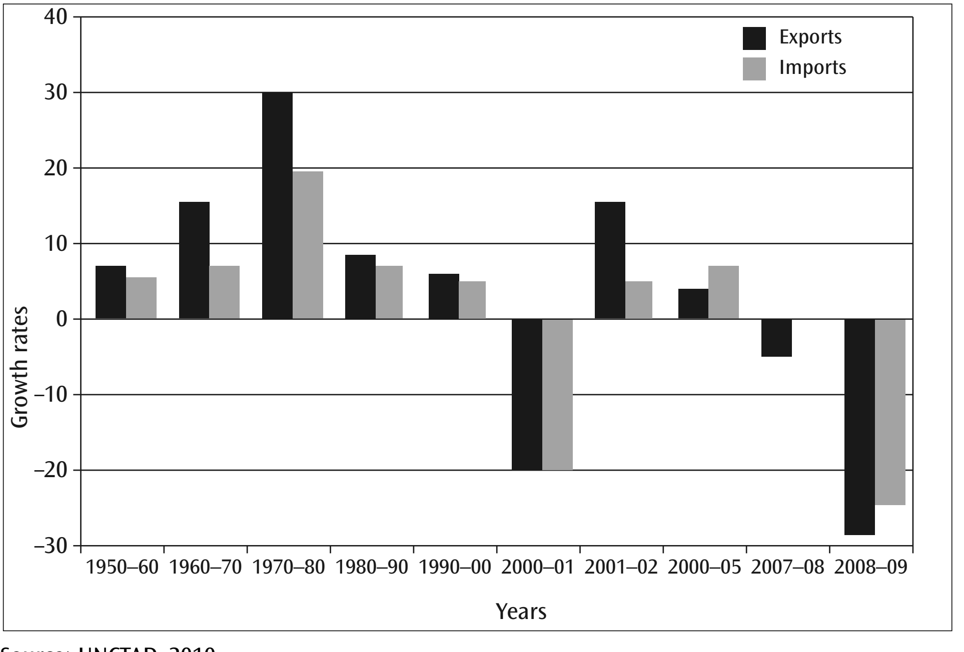
The volatility of the economy in recent years is particularly due to the restructuring entailed by EU membership. This continues to make big demands of Malta's small economy, which in international terms tended to be protected from harsh competitive pressures, as maintained by the European Commission in its first appraisal of Malta's application for membership in 1993 and by the 1995 *Economic Freedom Index*,which assessed Malta as 'mostly unfree'. The economy ranked 32nd on the *Global*

**Figure 2.6. Merchandise exports and imports, 1948–2009**




Source: Based on UNCTAD data, 2009

**Figure 2.7. Growth rates for exports and imports, 1950–2009**




Source: UNCTAD, 2010

*Competitiveness Index* in 2004, although it is losing ground and was placed 35th in 2005 and 50th in 2010/2011 (World Economic Forum, 2004; 2005; 2010). In terms of purchasing power parity, Malta's position was 48th in 2004 with a per capita income of US$18,720 (World Bank, 2005). The ranking dropped to 57th in 2009 at US$22,640. Thus, while relative deterioration is evident, Malta's ranking is nonetheless high considering that the list includes 213 countries of larger size and with greater resources.

This concludes our historical analysis of the main events that defined the period just prior to independence until EU accession and our survey of the political and economic vicissitudes faced by the island. Its responses to systemic shocks were strategically tackled through the island's development plans, which needed to be changed when circumstances demanded. By the late 1980s, with a change in government, the plans were thought to be redundant and it was considered that this sort of planning was not applicable to a free market economy. The next section moves to an analysis of aspects of Malta's social environment.

# 3

# The Social Environment

This section is subdivided into three parts, each discussing important social indicators in the areas of health, education, and income levels and poverty. At first glance, the social environment appears in good shape, since it is inclusive of all Maltese citizens. A few have fallen through the social net, as access thresholds have become more stringent; although the number of homeless people may be increasing, changes in the social fabric, such as family break-up, may be partially responsible for this, leading to a new form of relative poverty, although the numbers involved are still small. Whether current social security provision can be sustained in the future is, however, debatable and figures indicate that new measures will have to be taken to cater for these new realities.

Malta is characterised by impressive social indicators. The *Human Development Index* ranks Malta 33rd out of 169 countries (2010). The island's position has been relatively stable over the last 19 years; the 1991 *Human Development Report* ranked Malta 29th out of 160 countries, a slight improvement compared to its ranking in 1970, when Malta was 31st out of 101 countries. The level of social development attained in Malta is marginally better than its income level, as shown by a positive value for the difference between the GDP per capita and HDI ranking. Its health statistics are significantly good; for example, in terms of life expectancy it ranks 22nd together with Cyprus.

## 3.1 Health

In 2000, the World Health Organization (WHO) classified Malta (based on 1997 data) as having the fifth best performing health system in a total of 191 countries. This is primarily due to the fact that it is equitable, since it is available to everyone, irrespective of income. The main health statistics are favourable, as shown in Table 3.1.

Malta's health statistics are significantly good, for example in terms of life expectancy it ranks 22nd, together with Cyprus. The current levels (2009) for infant mortality rate, life expectancy and births attended by skilled personnel are in fact more favourable than the average for high income countries. In all of these measures there has been a progressive improvement over the last 40 years, except in the case of hospital beds and immunisation. (However, in the latter case, the reality is that many parents nowadays obtain immunisation in private clinics and not within the public immunisation programme, thus the figure is under-represented.)

**Table 3.1. Selected health indicators (1970–2008)**

| | 1970 | 1980 | 1990 | 2000 | 2005 | 2008 |
|---|---|---|---|---|---|---|
| **Infant mortality rate (per 1,000 live births)** | | | | | | |
| Malta | 25.0 | 14.2 | 9.8 | 5.8 | 5.3 | 6.1 |
| High-income countries | 24.5 | 14.5 | 9.7 | 6.6 | 6.1 | 5.8 |
| **Life expectancy (years)** | | | | | | |
| Malta | 70.1 | 72.9 | 75.5 | 78.2 | 79.5 | 80.0 |
| High-income countries | 70.7 | 73.4 | 75.7 | 77.9 | 78.9 | 79.6 |
| **Births attended by skilled personnel (% of total)** | | | | | | |
| Malta | | | | | 100.0[a] | 100.0 |
| High-income countries | | | | | 99.2 | 99.4 |
| **Hospital beds (per 1,000 people)** | | | | | | |
| Malta | | | 9.4[b] | | 7.5 | 7.8 |
| High-income countries | | 8.6 | 6.3 | 6.5 | | 6.1 |
| **Immunisation DPT[c] (% of children 12–23 months)** | | | | | | |
| Malta | | | 63.0 | 94.0 | 92.0 | 73.0 |
| High-income countries | | | 87.7 | 92.7 | 95.4 | 95.1 |

[a]2006
[b]1989
[c]Diphtheria; Pertussis (whooping cough); Tetanus
Source: World Bank, *World Development Indicators*

## 3.2 Education

Malta's performance in education has been less impressive. Malta has an adult literacy rate of 92.4 and a gross enrolment ration of 81.3. The World Bank education statistics show that the adult literacy rate in 1995 was 87.9 per cent compared to 98.4 and 98.7 for high-income countries in 1990 and 2005 respectively. Table 3.2 shows the school enrolment figures in Malta and the average for high-income countries in selected years since 2005. The data show that Malta's primary and secondary enrolment levels have tended to be similar to those of high-income countries generally, although Malta has had a slightly more disappointing performance in recent years. There is a greater difference at tertiary level, where enrolment levels in Malta were around 20 and 33 per cent in 2000 and 2008 respectively, compared to around 55 and 67 per cent in high-income countries. About 2,700 students graduate every year from the University of Malta, but this is a small fraction of Maltese young people. In fact Malta has the highest number of early school leavers in the EU27, at 49.6 per cent (2008), compared to a EU27 average of 23 per cent. However, the position has improved when compared with the 2001 figure of 54.9 per cent. The percentage of 18-year-olds who are in some form of education was a disappointing 39.8 per cent in

2004; this gradually increased to 50.4 per cent in 2008. Nevertheless this remains far below the EU27 average of 77 per cent (Eurostat data).

**Table 3.2. Primary, secondary and tertiary education enrolment in Malta compared with high-income countries (for selected years)**

| | 1991 | | 2000 | | 2005 | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| | Malta | HIC | Malta | HIC | Malta | HIC | Malta | HIC |
| Primary (% gross) | 107.9 | 101.8 | 106.6 | 101.3 | 100.1 | 101.3 | 99.0 | 100.00 |
| Primary (% net) | 97.0 | 95.2 | 95.5 | 95.9 | 91.2 | 94.9 | 91.4 | 94.8 |
| Secondary (% gross) | 82.8 | 91.8 | 89.2 | 100.4 | 99.5 | 101.0 | 98.1 | 100.0 |
| Secondary (% net) | 78.3 | – | – | 89.2 | 86.6 | 90.7 | 82.0 | 90.3 |
| Tertiary (% gross) | 12.7 | – | 21.4 | 56.3 | 31.6 | 66.2 | 33.0 | 67.2 |

Source: World Bank, *World Development Indicators*

Table 3.3 provides some comparisons with selected European countries on other educational indicators. The first indicator shows whether the country's education system allows for more active female participation in the labour market by looking at early childhood education enrolment. The participation rate is very high. This reinforces the evidence provided previously showing that enrolment levels for compulsory education in Malta are generally very high. The next three indicators show the proportion of students who continue to specialise after compulsory education. Other than in kindergarten and early childhood education enrolment, the Maltese situation does not appear positive in comparison with most European countries.

The last two columns show the percentage of students who follow science and technology courses and the proportion of women in these areas; this is seen as essential for future development. Malta compares badly with other countries in relation to the number of graduates, although the percentage of women is similar to that in other countries. This suggests that actions need to accompany words in order to accomplish a transformation in the educational field. Females succeed more than males at almost every educational level. For example, girls are less likely to leave school early, they account for more pass rates for the best secondary schools and there is a high ratio of females to males at tertiary level (1,658 to 1,079 for 2009 graduates). However, at postgraduate level males overtake females. Women who obtain a doctoral degree only represent 0.09 per cent of the 15+ female population, whereas the figure marginally increases to 0.47 per cent for males, according to the census of population and housing conducted in 2005.

## 3.3 Income levels and poverty

Malta's GDP at market prices in 2009 stood at €5,749.7 million. In per capita and purchasing power parity this translates to €19,000 or 81 per cent of the EU27 average.

**Table 3.3. Comparison of selected education indicators, 2008**

| Country | Percentage of four-year-olds in education | Females in vocational schools[a] | Males in vocational schools[a] | Percentage of 18-year-olds in education | Science and technology graduates[b] | Female S&T graduates as a % of total graduates |
|---|---|---|---|---|---|---|
| EU 27 | 90.1 | 44.7 | 55.7 | 77.0 | 13.9 | 9.2 |
| Austria | 85.6 | 72.1 | 81.4 | 72.5 | 11.8 | 5.8 |
| Belgium | 99.6 | 72.9 | 73.0 | 82.7 | 11.6 | 6.0 |
| Denmark | 95.3 | 41.1 | 55.1 | 80.2 | 15.5 | 11.4 |
| Estonia | 91.2 | 21.6 | 42.9 | 80.4 | 11.4 | 9.8 |
| Ireland | 44.0 | 35.9 | 31.8 | 90.2 | 19.5 | 11.8 |
| Greece | 52.4 | 22.7 | 38.5 | 70.2 | 11.2 | 9.8 |
| France | 100.0 | 38.6 | 49.6 | 76.5 | 20.2 | 11.4 |
| Cyprus | 75.3 | 3.9 | 21.1 | 36.2 | 4.0 | 3.0 |
| Luxembourg | 95.2 | 58.8 | 65.4 | 70.6 | 1.8 | 1.7 |
| **Malta** | **97.8** | **37.0** | **61.1** | **50.4** | **6.0** | **3.5** |
| Romania | 79.0 | 57.4 | 71.8 | 75.4 | 15.2 | 13.4 |
| Slovenia | 83.2 | 57.2 | 71.4 | 89.1 | 10.7 | 5.9 |
| Sweden | 91.8 | 53.7 | 60.2 | 95.4 | 13.2 | 9.0 |
| UK | 97.3 | 31.5 | 31.3 | 51.1 | 17.6 | 11.2 |
| Iceland | 95.6 | 28.9 | 39.8 | 77.0 | 10.4 | 7.5 |
| Turkey | 13.0 | 35.7 | 41.6 | 38.4 | 7.6 | 4.8 |

[a]As a percentage of total upper secondary enrolment
[b]Per thousand of population aged 20–29 since 1993
Source: Eurostat, 2008

In 1980 Malta's GDP totalled £M347.1 million, of which 46 per cent derived from direct production, 41 per cent from market services and 13 per cent from non-market services.

The distribution of income shown through the S80/S20 ratio stood at 4.6 in 2000 and 4.1 in 2009. The Gini coefficient (ranging from 0 to 100) showing the 'relationship of cumulative shares of the population arranged according to the level of income to the cumulative share of the total amount received by them' stood at 30 in 2000, marginally lower than the EU25 coefficient of 29. Data for 2009 show an improvement to 27.8 for Malta (Eurostat, 2010).

**Table 3.4. Income inequality indicators, 2009**

| Threshold | Value (Lm) | Number of persons below threshold | % of total |
|---|---|---|---|
| *Population size* | | 404,554[a] | 100.0 |
| Median national equivalised income | 9,935 | 202,249 | 50.0 |
| 40% of median | 3,974 | 11,891 | 2.9 |
| 50% of median | 4,968 | 29,870 | 7.4 |
| 60% of median | 5,961 | 61,278 | 15.1 |
| 70% of median | 6,955 | 100,169 | 24.8 |

[a]Does not include foreign residents and therefore differs from total population figure.
[b]Ratio between the sums of the highest and lowest 20 per cent equivalised incomes of persons within the households.
Source: National Statistics Office, 2010b

Table 3.4 provides a breakdown of the income inequality indicators for 2009, which shows that 50 per cent of the population had a median income of €9,935. Such figures are perhaps too modest when one considers the examples of conspicuous consumption evident in luxurious houses, cars, jewellery and yachts, quite apart from the millions of euros invested in foreign banks. This is suggested by an analysis of the data in Table 3.5, showing household gross income by source, which amounted to €3.3 billion in 2008. Employee cash income is the main source of household income (63%), followed by old-age pensions (12.5%). Self-employment only contributes 12.5 per cent, which appears too modest considering that 11.9 per cent of all workers are self-employed. Social transfers account for 4.7 per cent. Interest and dividends (which are normally taxed at a flat rate of 15 per cent locally) contribute 5 per cent to household income. Other income from inter-household cash transfers only amounts to 0.2 per cent. The remaining 0.6 per cent is derived from rents on property and land, which is very insignificant when one considers that 20.6 per cent of all household dwellers pay rent. Furthermore, garages, offices and showrooms are also rented out at significant rents. Another important statistic shows that after allowing for tax and social security contributions, the disposable income of households is 83.9 per cent of gross income. However, in 2007, for the first time, the amount of corporate tax collected exceeded personal income tax, suggesting that some success has been registered on the tax evasion front.

The at-risk-of-poverty threshold is defined as the 'equivalent to 60 per cent of the median national equivalised income of the persons living in households' (NSO, 2003). According to 2005 data, this category stood at 14.9 per cent and was unchanged since 2000. In 2009, this figure slightly increased to 15.1 per cent and means that over 61,000 people are below the at-risk-of-poverty threshold of €5,961 and are thus dealing with poverty issues on a daily basis. Females are more at risk than males. Single person households (20.4%) have the highest rate, followed by households with dependent children (17.2%). The most vulnerable are in fact single parent households with one or more dependent children (53.6%). Individuals (16+) at risk of poverty tend to be unemployed, retired or inactive. The at-risk-of-poverty rate of 15.1 per cent more than doubles if social transfers are excluded. Social transfers are more important for this category in Malta when compared to the EU15. Data available for 2000 show that the figure of 14.9 per cent for Malta is better than the figure of 18 per cent for the EU15. However, the figure of 30.2 per cent (excluding social transfers) is worse than the EU15 average of 26 per cent. This indicates that social transfers are more important in alleviating poverty in Malta than in other European states. Furthermore, individuals who are at risk of poverty tend to be tenants, which accentuates the problem of rents and the need for social housing.

**Table 3.5. Gross household income by source, 2008**

| Income | Total (Lm'000) | % of gross income |
|---|---|---|
| Employee cash and non-cash income | 2,087,376 | 63.0 |
| Income from self-employment | 412,683 | 12.5 |
| Interests and dividends | 164,455 | 5.0 |
| Rental of property | 19,940 | 0.6 |
| Inter-household cash transfers | 6,739 | 0.2 |
| Unemployment benefits | 18,280 | 0.6 |
| Old age benefits | 409,972 | 12.5 |
| Sickness benefits | 57,552 | 1.7 |
| Survivors'/family/children's allowances | 60,407 | 1.8 |
| Education related allowances | 19,911 | 0.6 |
| Other income | 33,591 | 1.0 |
| **Gross income** | **3,290,905** | **100.0** |
| Tax on social security | 531,251 | |
| **Net** | **2,759,654** | **83.9** |

Source: National Statistics Office, Press Release 75/2007

Another important component of income analysis is the gender pay gap, which is the percentage of women's hourly earnings of men's earnings for paid employees at work for 15 or more hours per week. This stood at 80.8 per cent for Malta in 2001, compared with 84 per cent for the EU15. This indicates that women are still paid less for similar work, even though legislation (introduced in 1976 and subsequently updated) is in place to prohibit this (see, for example, the Equality for Men and Women Act, Act 1 of 2003, Chapter 456). More recent data purport to show that Malta has the lowest gender pay gap, at less than 10 per cent, of all EU member states (Government of Malta, 2008d: 93) However, while more specific details are provided for all countries, data are either missing for Malta or considered unreliable. Furthermore, women are less visible in the work environment and do not feature significantly in top positions. The work environment remains male dominated.

# 4

# Social Policies

The social security system in Malta dates back to the Knights of St John, who provided assistance to the poor and in the mid-seventeenth century set up charitable institutions to continue this work. Later, in 1885, members of the Malta police force (followed by the Malta civil service) were the first beneficiaries of a pension scheme. In 1921 Malta was granted self-government and the foundations of a basic social security system were laid down. Table 4.1 summarises the introduction of basic social policy and security concepts and legislation in the twentieth century.

An examination of Malta's development plans shows that most of the social benefits that are still in place today were introduced by the Labour government with the launching of a welfare state, as shown in Table 4.1. Schiavone (1991) recounts the role the Nationalist Party played in social policy from 1921 until the 1990s. The first and second development plans emphasised the infrastructural needs of the economy, leaving little space for social concerns. In fact, the first development plan stated:

> In Malta's present circumstances, since social services are already well developed, there is no case for a heavy capital investment in new institutions, when any capital available is badly needed for stimulating diversification of the economy. Indeed the high rates of recurrent expenditure, which such a development always entails, makes it necessary to postpone, so far as possible, substantial investment in this field until the economy, and in consequence, the ordinary annual budget, can sustain them.
>
> (Government of Malta, 1959: 5)

And in the second development plan, the economic prospects were considered to be so bleak that this left:

> [N]o room for social considerations especially when economic growth was assumed to remain weak. Though it would have been desirable from a social point of view to aim at a rate of growth at least as high as that achieved in the past, nevertheless, the size of the anticipated Services run-down does not make this possible.
>
> (Government of Malta, 1964: 14)

Nonetheless, three social areas, education, health and housing, were to a limited extent catered for in both plans.

The section on social policy in the third development plan (1969/1974) included the areas of education, health, housing and sewers, since '[i]n a development plan the human factor must be taken into account' (Government of Malta, 1969: 60).

The fourth development plan (1973/1980) was different from previous ones as it envisaged a paternalist role for the state with a nationalisation strategy and a welfare state. The government argued that one of its functions was to achieve social objectives since 'society is a single whole, and all parts are closely related to others.

> If undue privilege and social injustice persist, development will only accentuate inequalities and social unrest will eventually jeopardise all economic gains.
>
> (Government of Malta, 1973: 50)

The plan conceded that:

> The Maltese community is served by a good system of basic health services, which caters for all individuals for all the different stages of life, and the fact that these services are provided by the Government free of charge to those who cannot afford to pay gives Malta a lead in welfare concepts over many other developing countries.
>
> (Government of Malta, 1973: 50)

In the final analysis the fourth plan brought about significant social change, emphasising the benefits for the future:

> … with the principles of greater social cohesion which have been a characteristic feature of Malta's social legislation during the plan …The broad range of social measures has enabled the country to avoid the risks of social conflict which would have jeopardised the gains arising out of the development process. In this way the whole community participates in the fruits of economic progress and access to institutions and facilities that cater for educational development and personal health care depends exclusively on merit and needs and not on other considerations which have no place in Malta's new social set-up. By the restructuring and full democratisation of Malta's social climate, the plan's overriding social objectives have, to a very large extent been attained.
>
> (Government of Malta, 1981: 53)

In the fifth development plan (1981/1985), the government described the fourth plan as:

> ... a document of major social reform. For unlike previous plans, the seven year plan was not merely concerned with the development of the country's social infrastructure but also sought to introduce new trends in the country's social concepts … provision of a wide range of social overhead capital which enabled the development of a welfare state … the country's social foundations have been modernised while the social fabric has been considerably strengthened. (Government of Malta, 1981: 11)

According to the government, the biggest accomplishment of the fourth plan was not only the economic development of the islands, but social achievements for all Malta's people.

## Table 4.1. Important legislation and concepts in Malta's social security system

| Date | Legal basis | Comments |
|---|---|---|
| 1927 | Widows and Orphans Pension Act | For widows and orphans of deceased public officers |
| 1929 | Workmen's Compensation Act | First social security contributory scheme for payment of injury benefit |
| 1948 | Old Age Pensions Act (OAPA) | For people aged over 60 years, based on financial means test, not contributions |
| 1956 | National Assistance Act (NAA) | Social and medical assistance to the unemployed, including a rent allowance. Assistance to those with a chronic disease (not means tested) and free institutional care for the aged (means tested) |
| 1956 | National Insurance Act (NIA) | Covered sickness, employment injuries/diseases, unemployment, widows, orphans, old age |
| 1957 | Old Age Pensions Act (OAPA) | Repealed 1929 Act and extended 1948 Act to blind people over 40 years old, lowered to 14 years old in 1962 |
| 1965 | NIA | Extended to include self-employed and non-employed persons |
| 1972 | NIA | Annual bonus to all social security pensioners and recipients of social assistance |
| 1974 | NIA | Introduction of child allowances |
| 1974 | Non-Contributory Handicapped Pension | Included mental patients; in 1975 extended to other categories of disabled persons |
| 1979 | NIA | New contributory scheme for payment of a wage-related retirement pension. Introduction of a national minimum pension |
| 1981 | NIA | Introduction of maternity benefit (13 fully paid weeks) |
| 1986 | NAA | Payment of social assistance was extended to single and widowed females who were looking after elderly or disabled relatives |
| 1987 (Jan) | Social Security Act (SSA) | Consolidated the 1957 OAPA, 1956 NAA and 1956 NIA |
| 1988 | SSA | Disabled Child Allowance and a means tested Parental Allowance |
| 1989 | SSA | Family bonus and short-term emergency assistance for destitute females seeking temporary shelter |
| 1991 | SSA | Widower's Pension and Orphan's Supplementary Allowance |
| 1992 | SSA | Carer's Pension for all unmarried and widowed persons taking care of a bedridden or wheel-chaired parent |
| 1996 | SSA | Supplementary Allowance to low-income persons (below a certain threshold). Child Allowance revised and became means tested |
| 1997 | SSA | Amendment to the Service Pension |
| 1998 | SSA | Equalisation of widow and widower pensions and sickness benefits between men and women |
| 1999 | SSA | Social security contribution increased to 9 per cent of income |
| 2000 | SSA | Social security contribution further increased to 10 per cent of income |

**Table 4.1** (continued)

| Date | Legal basis | Comments |
|---|---|---|
| 2001 | SSA | Full rate (not 75 per cent) of social assistance paid to persons attending a rehabilitation centre |
| 2002 | SSA | Care Allowance for children living in institutions and with foster parents. Changes to non-contributory pensions by raising the threshold for the capital resources means test |
| 2003 | SSA | The threshold for social assistance and medical assistance similarly raised |
| 2005 | SSA | Child Allowance rate marginally increased for fourth and subsequent children, still means tested |

Source: Department of Social Security, 2006

A different perspective was offered for the social objectives of the fifth plan. While the fourth plan had launched 'a vast programme of social reform and legislation aimed at the restructuring of Malta's social system', the fifth was focusing on enhancing the quality of life, proclaimed as human development, seen to be possible through social consensus and collective responsibility.

The social package in the fifth plan included 'public health care, equality of educational opportunity, housing, shorter working hours, social insurance schemes and family allowances' and continued to build on the results obtained in the 1970s. New initiatives included the idea of sharing responsibilities, encouraging community and worker participation, a strengthening of family and youth policies and a new interest in the protection of the rights of citizens, including consumer protection and easier access to justice.

Although economic prospects were not good, nonetheless the sixth development plan (1986/1988) included an aspirational social programme, including health, education, housing, culture and welfare.

During the 1990s, social policy was seen from a different perspective, moving from a welfare state to a welfare society. This is the main message in the document issued by the government in 1990, entitled *A Caring Society in a Changing World*. In line with requests by the European Commission to all member states, in 2008 government issued a draft document (currently at the public consultation stage) entitled *National Report on Strategies for Social Protection and Social Inclusion 2008–2010*.

The role of the state remains significant, although there appears to be a move towards more devolution of its responsibilities in certain sectors, especially in housing, pensions, health and education. The services and benefits offered are wide-ranging and are changing from those focused on cash benefits to benefits in kind. This may change the culture of financial aid, but it will not change the culture of dependence on state-provided services or the expenses associated with it. Perhaps the biggest quandary is the health sector, which requires more efficient use of resources and perhaps more encouragement of private health insurance policies. The investment in education is important, but is not reflected in the poor results attained. In the employment field, there is also inefficient use of resources, resulting from the low participation rate, especially of women. This calls for more family friendly measures in the labour market and the enforcement of equal pay legislation to encourage women (especially professional ones, noting also that there are more female than male graduates) to rejoin the labour force after they have had children. Part-time employment seems to be filling this gap at the moment, but there is still inadequate utilisation of resources. Income declared does not equate with the life-style of a substantial portion of Maltese society and suggests that a significant proportion of incomes are undeclared and untaxed. Relative poverty is a new phenomenon in recent years and the rate of 15.1 per cent is quite significant when one considers that this would increase to over 30 per cent without social transfers. The level of poverty appears to be increasing and during 2010, the year dedicated to 'poverty and social inclusion', several studies emphasised these new realities.

The Ministry of Social Policy's national report argues that:

> … the main thrust of Malta's actions in social policy should reconcile institutional interventions with client demands to ensure more appropriate and sustainable approaches that sufficiently correct or compensate against social imbalances and inequalities within an overall sustainable public budgeting process. (Ministry of Social Policy, 2008: 10)

This hints at needed reform but does not spell out what is actually needed at this point in time. It also refers to the sterling work done in the social sphere by voluntary and religious organisations. The report suggests four measures to improve sustainability:

1. Reduce labour market exit
2. Introduce a second pillar pension
3. Keep separate accounts for social benefits and health
4. Strengthen the legal framework of private pensions

The future is thus likely to witness changes in the social environment of Malta, particularly in these areas.

## 4.1 Social expenditure

Projections of government expenditure for the second development plan amounted to £38.4 million; £10.2 million of this was to be allocated to what the plan termed social services. In the third plan, estimated expenditure over five years amounted to £48.4 million, of which £12.9 million was earmarked for 'social' policies, including emigration services. A breakdown is presented in Table 4.2.

The figures indicate that more than one tenth of the total budget was allocated to housing; there were still situations where more than one family lived in the same house and others were accommodated in substandard housing. The second biggest

**Table 4.2. Planned social policy expenditure, 1969–1974**

| Expenditure | Amount (£ million) | Percentage of total budget |
|---|---|---|
| Primary and grammar school education | 2.7 | 5.5 |
| Technical education | 0.6 | 1.2 |
| Higher education | 0.5 | 1.0 |
| Health | 3.1 | 6.4 |
| Housing | 5.2 | 10.7 |
| Emigration services | 0.8 | 1.6 |

Source: Government of Malta, 1969

item (7.7 per cent of the budget) was education, while health's share was 6.4 per cent. Emigration services included fares and the allowances given to emigrants (and refunded to the state if the emigrant returned to Malta within 24 months). The government estimated that the plan would result 'in a substantial increase in public debt', which already totalled £20.1 million in 1969 and was expected to increase to £40.3 million by 1974.

The fifth plan introduced various types of recurrent expenditure, as well as extensive social capital expenditure reaching £M34.8 million or 20 per cent of total capital expenditure. This included £M18 million for social housing and £M6 million for health.

Table 4.3 presents general government expenditure by function as a percentage of GDP for the period 1998–2009.

**Table 4.3. Government expenditure, 1998–2009**

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| General public services | 5.8 | 6.2 | 6.8 | 6.6 | 6.3 | 6.2 | 7.8 | 6.8 | 6.7 | 6.3 | 6.8 | 7.2 |
| Defence | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 | 0.9 | 1.0 | 0.9 | 0.8 | 0.6 | 0.7 | 0.9 |
| Public order and safety | 1.9 | 1.6 | 1.6 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 |
| Economic affairs | 7.7 | 7.7 | 6.6 | 7.0 | 6.8 | 10.1 | 6.8 | 6.4 | 5.7 | 5.9 | 7.5 | 5.0 |
| Environment protection | 1.1 | 1.0 | 0.8 | 0.9 | 0.7 | 0.9 | 1.0 | 1.5 | 1.7 | 1.6 | 1.6 | 1.8 |
| Housing and community | 2.4 | 1.7 | 1.6 | 1.5 | 1.3 | 1.5 | 1.1 | 0.8 | 0.8 | 0.6 | 0.7 | 0.3 |
| Health | 4.7 | 4.7 | 5.1 | 5.3 | 5.8 | 6.1 | 6.2 | 6.5 | 6.4 | 5.7 | 5.5 | 5.6 |
| Recreation /culture/ religion | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Education | 5.7 | 5.6 | 5.4 | 6.0 | 6.0 | 6.1 | 5.8 | 5.7 | 5.6 | 5.4 | 5.4 | 5.5 |
| Social protection | 13.6 | 13.6 | 13.0 | 13.7 | 13.3 | 13.6 | 13.8 | 13.9 | 14.1 | 14.0 | 14.2 | 14.9 |
| Total | 43.8 | 43.5 | 42.3 | 44.2 | 43.2 | 47.8 | 45.8 | 44.9 | 43.8 | 42.2 | 44.4 | 43.3 |

Source: National Statistics Office, 2011b

The four biggest expenditure items have generally been social protection (including pensions, unemployment, family, housing assistance, and disability and sickness benefits); general public services (including executive and legislative organs, external affairs, debt interest payments, financial and fiscal affairs); health (all services provided on a collective basis, outpatient, inpatient and public health services, as well as the administrative costs associated with service delivery); and education (including all services at all levels provided on a collective basis and their administration). Table 4.3 also shows that government is a significant contributor to GDP, accounting for over 40 per cent, although there has been a slow downward trend in recent years. This is due to the commitment made by government to decrease its deficit in order to qualify for the adoption of the euro, which it did in 2008. (Nonetheless, figures issued in 2009 show that Malta's 2008 budget deficit was 4.7 per cent.) However, this trend is expected to continue downwards as the state relinquishes areas previously considered as its domain and continues to privatise and decrease its role in the economy. The biggest changes will arise from the state discontinuing various subsidies, in line with EU rules on state aid and subsidies, in areas such as water, electricity, gas, bread and public transport. This will put pressure on household incomes, and families may have to reorganise their priorities. It will either encourage more part-time work, which has increased in recent years, or lower the standard of living to which certain sectors of Maltese society have become accustomed. On the other hand, the redistributive process of the social security system has been abused and the system cannot be expected to continue to provide free services to those who can afford to pay for them or who do not really need them.

> Over time, the number of free riders increased. The end result was a culture of tax and welfare fraud, budget deficits, a greater allocation of tax revenue for interest payments, and a lack of sensitivity to the needs of those for whom the redistributive mechanism had been created in the first place. (Delia, 1998: 86)

Twelve years later the situation is even more critical.

## 4.2 Social protection

Social protection is described as 'all public and private initiatives that provide income or consumption transfers to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalised' (NSO, 2009a: vii).

In the post-independence period and particularly from the fourth development plan onwards, the Maltese state expanded the range of services it provided and introduced new ideas in the care of the disabled and elderly. This opened the floodgates to a multitude of social services and benefits that have continued to grow and expand. The result has been state assistance for a wide range of people, some of whom depend on the state as their main source of income. The government continued to build on the solid foundations of previous years by offering assistance to 'less fortunate members of society' (Government of Malta, 1973: 74).

The sixth development plan witnessed the consolidation of all the changes that had been introduced in the social security field, while also replacing previous legislation (namely the 1956 National Insurance and National Assistance Acts, and the 1957 Old Age Pension Act), culminating in the Social Security Act of 1987 (Chapter 318 of the Laws of Malta). The aim of the Act was:

> To establish a scheme of social security and to consolidate with amendments existing provisions concerning the payment of social insurance benefits, pensions and allowances, social and medical assistance, non-contributory pensions and the payment of social insurance contributions by employees, employers, self-employed and the State.

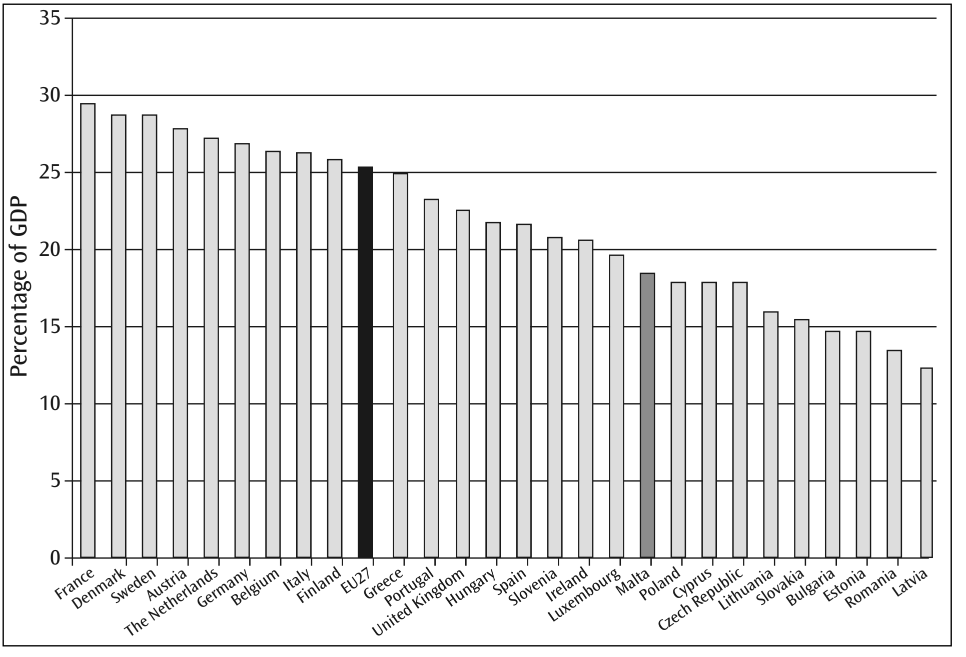
This Act was amended in subsequent years and is the basis for legal notices dealing with the social security field. However, it does not cover other aspects of social policy such as health, education, housing and welfare.

Malta's social security system is financed by current contributions from employers, employees and the state through the operation of a pay-as-you-go (PAYG) system. The system is comprehensive and includes both contributory (for which the individual needs to have made a minimum number of contributions) and non-contributory (based on socio-economic criteria and evaluated by means-testing) elements.

Social protection expenditure in Malta (18.6%) is lower than in the EU27 (25.3%). Figure 4.1 shows this expenditure as a percentage of GDP for all 27 EU member states for 2008. There are nine other countries which spend a smaller proportion than Malta. Changes have been occurring in most countries, with half of them seeing decreases in social protection expenditure as a percentage of GDP. Figure 4.2 shows changes which have occurred between 2005 and 2008. Malta has seen a slight increase in expenditure, although between 2003 and 2006 it has witnessed a small decrease. Countries such as Ireland, Spain and Greece, which were impacted by the global crisis, had to increase expenditure as unemployment rose. A national retirement scheme for all was introduced in the 1970s, guaranteeing what is termed the two-thirds pension (two-thirds of the average of the best three years of wage or salary in any of the last ten years of employment, provided the employee has paid enough social security contributions throughout their working life). The system requires at least 30 years of contributions (a pro rata system applies for workers with less). Differences in actual pensions are based on the salary earned by the retiree; however, a maximum cap is also in place (except for members of parliament and certain top judicial officers). About two-thirds of social protection expenditure in Malta is allocated to various types of pensions (Table 4.4). A recent reform has seen the pension age gradually rise from 60 (women) and 61 (men) to a maximum of 65 (phased in depending on year of birth). In order to encourage active ageing, the 2007 budget introduced a system whereby pensioners can retain the full pension and take on a full-time job without paying any further national insurance contributions.

However, there is continued pressure on government resources, particularly

**Figure 4.1. Social protection benefits as a percentage of GDP for the EU27, 2008 (per capita in PPS)**




Source: National Statistics Office, 2011c

**Table 4.4. Social protection expenditure by type, 2009**

| Type of expenditure | Amount (Lm '000) | Percentage of total social protection expenditure |
|---|---|---|
| Sickness and disability benefits | 101,985 | 11.8 |
| Old age pension | 486,945 | 56.2 |
| Survivors' pension | 107,690 | 12.4 |
| Family and children allowance | 73,582 | 8.5 |
| Unemployment benefit | 31,612 | 3.6 |
| Housing assistance | 9,225 | 1.1 |
| Social exclusion | 23,474 | 2.7 |
| R&D social protection | 24 | 0.003 |
| Social protection nec[a] | 32,227 | 3.7 |
| **Total** | **866,762** | **100.0** |

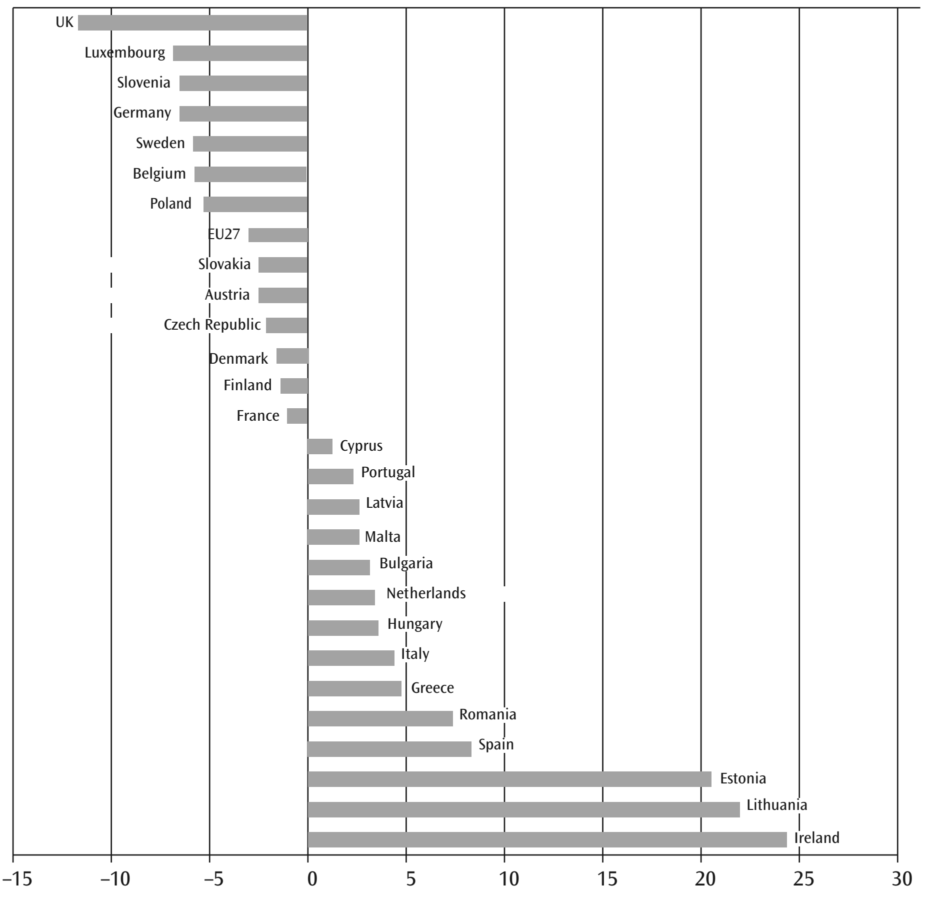
[a]Not elsewhere classified.
Source: NSO Press Release 18/2008

because there is no obligatory private pension scheme or other form of second pillar pension system. In 2005, the 65+ age group comprised 10.8 per cent of the entire population. The old age dependency ratio (65+ as a percentage of the 15–65 age group) was 19.2 per cent in 2005, increasing to 19.8 per cent in two years (2007).

Projections by government see the figure rise alarmingly to 40.6 per cent by 2050 (Ministry for Social Policy, 2008: 44). A report by the Pensions Working Group in 2000 contained a more disastrous projection for 2050, claiming the figure could spiral to 66.1 per cent. Tax incentives would encourage more people to invest in pension funds.

As in other European countries, the dependency ratio will increase as the number of pensioners increases in coming decades, which will extend the demands on pensions and old age services (particularly health and home care). The principle of self-help that was introduced in the 1990s will definitely acquire a more profound meaning.

**Figure 4.2. Percentage change in social protection expenditure for the EU25, 2008 compared with 2005**




Source: National Statistics Office, 2009a

The 1970s also saw the introduction of various types of allowances which alleviated the financial pressure on families. For example, in 1974 children's allowances were introduced until children turned 16. This puts less financial pressure on parents to provide for their children's needs. While the family is still considered as the basic social unit, government acknowledges that a complex society has placed new stresses on the traditional family. The PAYG system also sustains injury and sickness benefits. Sickness and disability benefits and family and children's allowances represent 21.3 per cent of social protection expenditure.

Table 4.5 gives a more detailed appraisal of the various services offered by the Ministry for Social Policy. One section shows the various types of pensions offered, the second looks at grants and gratuities and a third considers a range of benefits, allowances and assistance given by the state. The fourth is a more recent addition which focuses on services other than cash. These support services were mainly introduced since the 1990s, reflecting changes in society and a redirected government focus towards self-help and away from solely providing financial aid. However, if the intention was to replace welfare benefits with self-help, this has not been accomplished, with the result that additional resources have to be found to accommodate a new set of needs.

The *National Report on Strategies for Social Protection and Social Inclusion 2008–2010*, which is presently on the discussion table, does refer to the need for a reform of the social benefit system. This is needed as some types of assistance have become 'incongruent with the objectives of increasing participation in the labour market', which may indicate an altered perspective on certain benefits such as unemployment benefits and health assistance. At the same time, government continues to shed employees from inefficient state companies or from companies before they are privatised by offering early retirement schemes, which is inconsistent with ideas of active ageing and making efficient use of Malta's main resource, its labour force.

**Table 4.5. Services and benefits offered by the Ministry for Social Policy**

| Support services | Benefits |
|---|---|
| Adoption | Children in care benefit (foster care and residential) |
| Court | Children's allowance |
| Family therapy | Disabled child allowance |
| Foster care | Injury benefit |
| Information and Advice Helpline 151 | Leprosy assistance |
| Looked after children | Maternity benefit |
| Programme 'Ulied Darna' (support for stressed families) | Sickness assistance |
| Psychology | Sickness benefit |
| Smart kids (education centre for families in depressed areas) | Social assistance |
| Social policy information centre (SPIC) line 159 | Social assistance for dependents of heads of households |
| Social work (generic offered at different centres round the islands) | Social assistance for drug addicts |
| | Social assistance for persons taking care of a sick or elderly relative |

**Table 4.5** (continued)

| **Support services** | **Benefits** |
|---|---|
| Supervised access visits | Social assistance for single parents |
| Supportline 179 (24 hour service) | Special unemployment benefit |
| | Supplementary allowance |
| | Tuberculosis assistance |
| | Unemployment assistance |
| | Unemployment benefit |
| **Pensions** | **Grants and Gratuities** |
| Age | Disability gratuity |
| Carer's | Marriage grant |
| Contributory retirement | Milk grant |
| Disability | |
| Disablement | |
| Invalidity | |
| Pension for the visually impaired | |
| Widow and widower | |

Source: Adapted from information on the website of the Ministry for Social Policy, Malta http://www.gov.mt/frame.asp?l=1&url=http://www.msp.gov.mt

## 4.3 Health

The first and second plans for health included the construction of a tuberculosis hospital and the modernisation of existing hospitals. By the end of the 1970s, government had introduced a national health service which was free and comprehensive to all Maltese citizens, covering all their basic needs, as well as community and hospital services. Although the scheme did not include a free general practitioner service, this was envisaged in the fifth plan in order to 'abolish the existing dual standards of care for patients' (Government of Malta, 1981: 53). The service was subsequently adopted in the various state polyclinics spread around the islands.

In the 1980s there were plans for expansion of services including hospital inpatient and outpatient services, domiciliary nursing and midwifery services, general practitioner services, home helps for the elderly and disabled, and the free supply of medicines for those suffering from chronic diseases and people on low incomes. The focus of health services was to be shifted to primary health care in order to alleviate pressure on hospitals. Primary health services included screening, education and primary diagnosis. This strategy was in line with recommendations made by the World Health Organization. To further relieve congestion in hospitals, the state was to open more publicly funded polyclinics, which offer general practitioner services on a 24-hour basis. There were plans to develop new surgical services, specifically in the fields of neurosurgery, open heart surgery and renal transplant, which were not yet performed locally and for which patients needed to travel abroad. The government also planned to make the provision of services more efficient by reducing waiting times for surgery (four weeks) and outpatient appointments (two weeks). A full coverage of health services was included in the plan: mother and child, geriatric, mental health, dental health, health information and education (schools, press, television, radio), and environmental health.

In Malta 100 per cent of the population were covered by public health insurance and only 21.3 per cent had private health insurance in 2002 (latest data available) (Ministry of Social Policy, 2008). However, by 2007 the WHO was apprehensive about the sustainability of the health service. Various problems have been identified. The first is the lack of adequate management of services, resulting in 'over-utilisation' of secondary care services. Another problem is the lack of co-ordination between public and private provision. Furthermore, the private sector is not well regulated. The increase in expenditure on medicine is another worrying factor. The government spent just under Lm1 million in 1980. Expenditure remained constant until 1986 but only a year later it had almost doubled to Lm1.8 million. By 1996 it had reached Lm4 million and by 2001 almost Lm10 million (Farrugia, 2002). The cost of publicly procured pharmaceuticals continued to increase sharply, spiralling to Lm43 million by 2007.

Total government expenditure on health as a percentage of GDP was 6.2 per cent in 2004, compared with the EU15 average of 7.1 per cent. The amount continued to decrease to 5.6 per cent of GDP by 2009. Almost two-thirds was accounted for by hospital services, including salaries of medical staff. Another hefty expense related to medical products and equipment, including medicine. Medicine is provided free for inpatients (except very expensive drugs, for example for some types of cancer) in all state hospitals. Other people are also entitled to free medicine, including those in low-income groups and chronically ill persons. Furthermore, other workers considered at risk because of their jobs (refuse collectors, soldiers, persons injured on duty, certain grades in the health sector and police officers below the grade of sub-inspector) and persons in specific organisations (inmates in charitable institutions, prisoners and members of particular religious orders) are also entitled to free medicine. The health sector also operates district dispensaries located around the islands. Outpatient services constitute a tenth of total expenditure and include specialised clinics, such as antenatal, postnatal, pain management, breast, gynaecology, ophthalmic, orthopaedic, pacemaker, psychiatric, surgical and thalassaemia (Table 4.6).

Primary health care is provided through eight health centres, which in addition to general practitioner and nursing services offer specialised services such as speech therapy, dental, immunisation, pregnancy and well-baby, diabetes and paediatric clinics. In the early 1990s, the government decided to build a state of the art new hospital that was to be both the main public hospital and a research and teaching facility for medical students in the nearby university. According to WHO, this project, especially as it took longer to complete and in the end was much more expensive than planned, led to the neglect of both primary health care and mental health care due to financial constraints (WHO, 2007). The hospital was finally opened in July 2007 after much debate about its growing costs. Moreover, the waiting lists that it was supposed to eliminate have lingered on, with the result that many people, even when they are not covered by private health insurance, continue to resort to private hospitals, which offer a faster service.

**Table 4.6. Health expenditure by type, 2009**

| Type of expenditure | Amount (Lm ’000) | Percentage of total health expenditure |
|---|---|---|
| Medical products, appliances and equipment | 51,402 | 15.9 |
| Outpatient services | 52,472 | 16.2 |
| Hospital services | 188,385 | 58.1 |
| Public health services | 6,540 | 2.0 |
| R&D health | 0 | 0.0 |
| Health nec[a] | 25,340 | 7.8 |
| Total health expenditure | 324,140 | 100.0 |

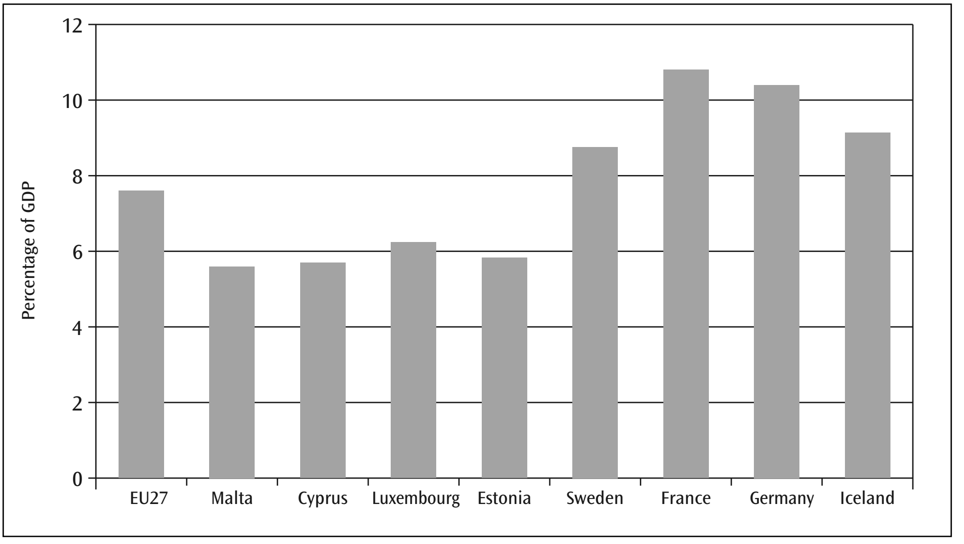
[a]Not elsewhere classified.
Source: National Statistics Office, 2011b

Malta had to bring the marketing of medicine in line with EU regulations, including product registration and market authorisation by the local medicines authority. This was strongly opposed and in the end led to a decrease in the number of products on sale and a big increase in the price of pharmaceuticals. The World Health Organization maintains that no system of price control exists. However, the Competition Policy Department does monitor prices. Nonetheless, the method of calculation adopted is flawed. Medicine prices in Malta are compared with 12 European countries, which are all richer and have a higher GDP per capita; countries with a lower GDP are ignored in the equation.

Figure 4.3 compares spending on health by selected countries during 2008. Data include both public and private spending. The figures indicate that small countries tend to spend less than larger countries. It also shows that Malta falls below the EU27 average, with which most of the comparisons are being made. However, it compares favourably with Cyprus and Estonia.

The government intends to set up a national insurance fund for health in the hope of being better able to manage the sector’s financial needs. The extensive range of services and the mismanagement of the system have led to overuse of secondary care facilities and insufficient use of primary care and prevention. In fact, this lack of educational input needs to be redressed in order to make more efficient use of the available resources and for the health system to be more effective. For example, even though the Health and Education Departments co-operate, the effect is mixed: all children are immunised and make regular visits to doctors and dentists, but they are also the most obese, eat more sweets and have the worst record for not brushing their teeth (WHO, 2004). More effective results are therefore needed in this sphere as well.

**Figure 4.3. Spending on health as a percentage of GDP, 2008**




Source: Eurostat, 2008

## 4.4 Education

The Constitution of Malta (adopted in 1964 and amended in 1974) refers to education and the role of the state, and proclaims that 'primary education shall be compulsory and in State schools shall be free of charge'. Those who are capable but without the financial means of attaining higher levels will be supported through scholarships, contributions to families and competitive examinations. Over time, not only has education at this basic level been provided free, but all levels and forms of education (kindergarten, primary, secondary, post-secondary, technical, vocational and tertiary full-time courses) are provided free of charge, including books at the lower levels.

The first and second development plans included projects such as the construction of a new university. The programmes envisaged a greater focus on technical education to prepare workers for the industrial development planned for the islands.

The compulsory school age was 6–14 years old from 1946; in the 1970s the age of entry was lowered to five years old and the leaving age was raised to 15, thus increasing school attendance by two years. Changes were also planned to reduce the number of years children spent in primary school and increase the years spent in secondary school. In 1974, the school leaving age was further raised to 16 from 15, while kindergartens for four- (and subsequently three-) year-olds were introduced to encourage more women to continue working after marriage. In addition, an experiment was launched in 1979 where students were exposed to industry and work situations as part of their academic courses, referred to as the student-worker scheme. At this time not only was tertiary education provided free of charge, but students were also offered a stipend (subsequently renamed a maintenance grant) to pay for academic expenses such as books. This was in the form of a small monthly allowance in order to encourage students from all walks of life to attend university, as social conceptions of class structure also pervaded the educational system, suggesting that tertiary education could only be attained by young people from families with professional backgrounds. This is given to all students, irrespective of parental income.

Since the government decided what types of professions were needed by the economy, some courses worked on a *numerus clausus* system, which limited the number of students on specific courses, depending on the needs of the economy at the time. Students in most courses could only enrol if they had found a 'patron' or 'sponsor' who would guarantee their employment after graduation. This led to accusations of discrimination from the opposition party; while the system was later abandoned for most courses, it still applies to some professional courses such as dentistry. Other European universities also use this system.

In the late 1980s, the aim of education was not only to fully develop the potential of every individual, but also to be relevant to national economic goals. Since the country was re-orientating its policy towards production that utilised higher technology, an emphasis on mathematics and science topics was called for (Government of Malta, 1981: 67). Private educational institutions in Malta would continue to offer their services. However, the plan decreed that these services would progressively have to be provided free of charge in order to ensure equal opportunity of access to all and thus avoid social discrimination. According to the government of the time:

> … the Catholic Church must be prepared to subsidise its private schools out of the financial and other resources left to it over the centuries by the Maltese people.
>
> (Government of Malta, 1981: 69)

This followed a bitter tug of war between the government and the Catholic church and subsequent agreement with the Vatican in April 1985.

The national education strategy aimed to introduce information technology (IT) and computer education was to become a significant addition to the national programme. Furthermore, it stated that the 'setting-up of software houses in Malta to write and compute high level programming for various applications will also be actively explored and encouraged' (Government of Malta, 1981: 71). This was to be attained with the assistance of foreign and international organisations. This resulted in the introduction of computers in every classroom from the late 1990s onwards. While these strategies have helped students become more computer literate, the reform has not produced any significant changes that show up in the data, as Malta continues to produce a very low number of science and information technology graduates. However, it is hoped that a new Faculty of Information and Communications Technology established in 2007 will bring some changes in this regard.

Quotas on university places were almost all removed in the 1990s and the number of students increased substantially. However, numbers remain disappointing when compared with other EU states. The strategy pursued by Malta's only university was to encourage problem-oriented research and to focus on science-based subjects (technology, informatics, electronics and telecommunications), while sustaining growth in social science disciplines based on communications. The government wanted to try to 're-awaken' awareness of traditional cultural values.

In 2001 the government established the Malta College of the Arts, Sciences and Technology (MCAST), a post-secondary institution that amalgamated within one framework existing vocational and trade schools, and introduced the significant new area of IT. MCAST is made up of nine institutes and a centre in Gozo for the sister island. In the first year the student intake was 1,539, and this has gradually increased. The college offers 122 certificate and diploma courses.

In recent years, reports emanating from government sources have emphasised the increased focus of the state on educational potential, promulgating ideas of lifelong learning and continuous development. The government would like to attract foreign investment that can offer high value-added to the country and the primary means of doing this is through the production of an educated and skilled human resource:

> In fact, there is a national consensus on the fact that education and training are major contributors towards economic, personal and social development and social cohesion as well as the basis for a competitive economy and sustainable growth.
>
> (European Commission, 2005: 3)

Table 4.7 gives a breakdown of public expenditure on education, which shows that the largest part is spent on secondary education. However, educational investment as a percentage of total government recurrent expenditure was only 5.5 per cent in 2009, down from 6.1 per cent in 2003 (Table 4.3 above). In money terms, the decrease in Maltese spending is even more prominent, from €304 million in 2003 to €204 million in 2005, the same amount invested in 1995 (Eurostat, 2008). In its competitors on the European mainland, public investment in education varies from a high of 7.83 per cent (2007) in Denmark to a low of 3.15 per cent in Luxembourg.

**Table 4.7. Education expenditure by type, 2009**

| Type of expenditure | Amount (Lm '000) | Percentage of total education expenditure |
|---|---|---|
| Pre-primary and primary education | 80,065 | 24.9 |
| Secondary education | 141,911 | 44.1 |
| Post-secondary education | 1,135 | 0.4 |
| Tertiary education | 48,192 | 15.0 |
| Education not definable by level | 332 | 0.1 |
| Subsidiary services to education | 5,472 | 1.7 |
| R&D education | 10,142 | 3.1 |
| Education not elsewhere classified | 34,481 | 10.7 |
| Total education expenditure | 321,731 | 100.0 |

Source: National Statistics Office, 2011b

## 4.5 Housing

After the second world war and the bombardments that Malta had to endure as a British naval base, the housing situation was disastrous. Although some buildings were rebuilt in a major phase of reconstruction (supported by US Marshall aid), the focus was more on converting and improving the substandard housing still standing.

According to the first development plan, 'housing conditions are noticeably better than in most Mediterranean countries' (Government of Malta, 1959: 77). In 1955 incentives were introduced to encourage the building of second storeys to make better use of restricted land (the 1957 census claimed that the island was densely populated with 2,623 persons per square mile), erect flats and recondition substandard houses. However, the impact on the housing situation was not very strong, primarily because of rent controls. These controls guaranteed low rents for families (4.7 per cent of the average family income compared to 7.2 per cent in other countries), but it discouraged the private sector from providing needed accommodation. The report also stated that 'about 60 per cent of Malta now has proper waterborne sewerage', while the rest had cesspits (Government of Malta, 1959: 81). The financing of certain housing schemes was prioritised in the development plans of the 1960s and early 1970s.

The focus on housing schemes in the 1960s brought about an increase in private dwellings from 73,619 (1957) to 87,060 (1967) (Government of Malta, 1969: 11). However, the situation was still considered precarious. The 1970s and 1980s also saw the introduction of new schemes which encouraged people to own their own homes. Therefore, the government commissioned the construction of new housing, including 5,000 new social dwellings, and set up a housing authority in 1976. Under the home ownership scheme, the government offered sites or plots of land to low-income groups at subsidised ground rents and low interest loans for owners to build their own homes. This was accompanied by the construction of council flats and terraced houses that were allocated to low-income families at very low rents and could later on be bought at very favourable prices. The buildings were similar in design and relatively plain, but were built in different localities and were much in demand. This had a crowding-out effect on the private sector market, which could only cater for those who did not qualify for social housing and for people with high incomes. In addition, funding was provided by the European Resettlement Fund to pull down and rebuild substandard housing. There were other housing schemes, apart from social housing, and an emphasis on increasing leisure facilities such as sports amenities and playgrounds.

In the late 1980s, the promotion of home ownership through easy credit facilities was still central to government strategy, but this was accompanied by a system of rent subsidies to encourage owners of vacant premises to make them available for people needing accommodation. To put less pressure on old people's homes (at the time run solely by the state), the government offered grants for simple home modifications (grab rails, raised seats, etc.) to encourage the elderly to remain in the community and lead independent lives. Community services such as nurses were an adjunct to this scheme.

The 1990s saw a more liberal government, which still maintained social housing for disadvantaged families. However, for the greater part the provision of housing was now delegated to real estate agents and the private sector. Previous policies were considered to have created anomalies in the general housing market. 'Social housing polices in Malta have highlighted "equity" at the expense of efficiency' (Delia, 2001).

> The majority of occupied dwellings were constructed between 1971 and 1990. In fact, of all the occupied dwellings that were enumerated, 49,107 units, or 35.3 per cent, were constructed in this period. (NSO, 2005b: xv)

This is shown in Figure 4.4. However, the data show that the 1990s were also significant in this regard, although the report ignores this fact.

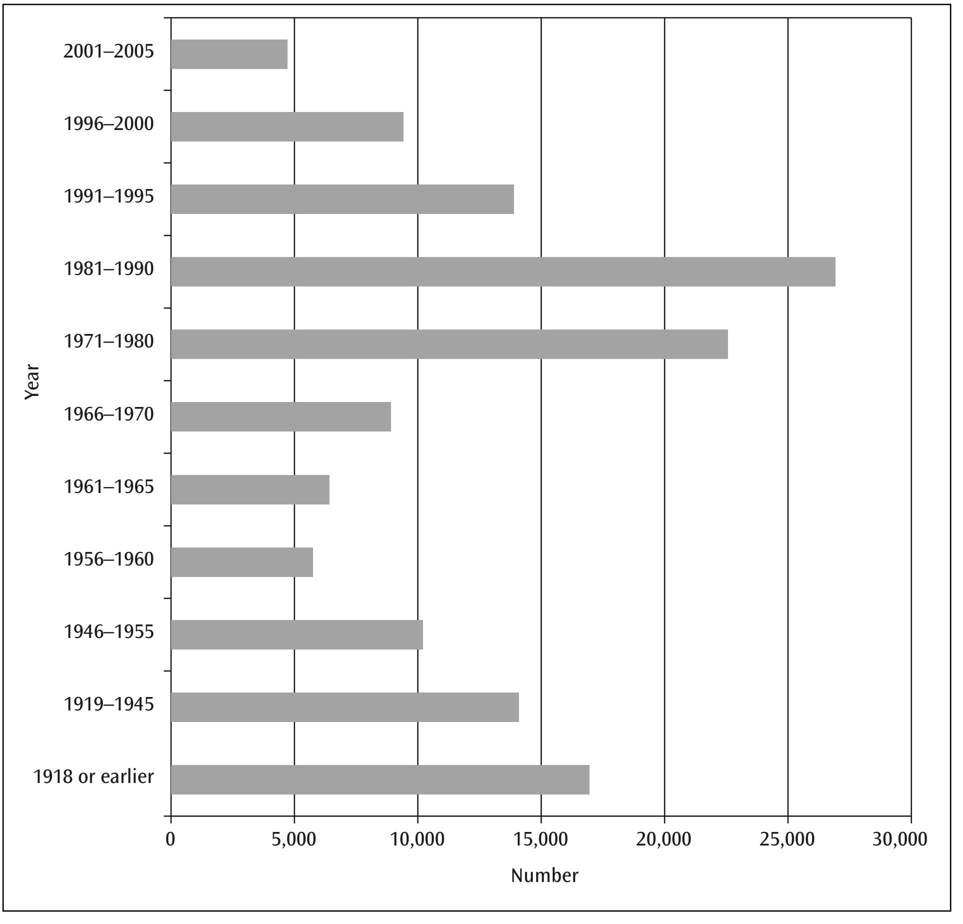
The majority of Malta's current housing stock is terraced houses, followed by flats and maisonettes, as shown in Table 4.8. Furthermore, 75.2 per cent of such occupied dwellings are owner occupied, while the rest are rented or inhabited free of charge. This trend towards home ownership was stronger in earlier years. The increasingly high price of housing is gradually leading to a decline in home ownership. Further, families are nowadays taking out large loans in order to afford some form of accommodation.

The current government has a different perspective on social housing. The Ministry for Social Policy's website has a section on social housing. However, the aim is not to provide accommodation for all those who cannot afford to buy their own homes, but to define the target groups that merit attention to their housing needs.

Therefore, all those who claim they cannot afford to buy or rent a house are not considered as a target group for the provision of social housing, but only those who cannot afford decent accommodation, either because they are strictly below the relative poverty line or because of other social problems. The general dilemma of housing affordability is a problem that calls for political concern and attention, but it is addressed separately from the issue of social housing (Tabone, 2001).

The housing situation is slowly becoming a problem. Although government has some schemes through the housing authority that provide grants for people to upgrade their substandard dwellings, they are limited. House price inflation and the problem of affordability are likely to put more pressure on families to seek rental property rather than aim for home ownership in the future. The break-up in the traditional family structure is also leading to a new phenomenon in terms of homelessness. Problems in the social fabric derive from 'domestic violence, matrimonial difficulties, child abuse, mental health problems, unemployment, substandard housing – and homelessness' (YMCA, 2008). The authorities are not always able to allocate alternative accommodation to people in housing need, and they then turn to NGOs, such as church organisations or YMCA Homeless, which claims to help about 9,000 individuals a year. This is a bitter pill to swallow when one considers that there are 53,136 vacant dwellings (27.6 per cent of total accommodation) in Malta.

**Figure 4.4. Occupied dwellings by period of construction**




Source: National Statistics Office, 2005b: xiii

**Table 4.8. Occupied dwellings by type, 2005**

| Type of accommodation | Number | Percentage of total |
|---|---|---|
| Terraced house | 54,714 | 39.3 |
| Semi-detached house | 6,105 | 4.4 |
| Detached house | 3,534 | 2.5 |
| Ground floor tenement with own airspace | 9,266 | 6.7 |
| Maisonette | 30,894 | 22.2 |
| Flat/penthouse | 32,569 | 23.4 |
| Farmhouse | 1,261 | 0.9 |
| Suite of rooms in a housing unit | 447 | 0.3 |
| Other | 388 | 0.3 |
| **Total** | **139,179** | **100.0** |

Source: Compiled from National Statistics Office, 2005b

## 4.6 Employment

In 1974 a national minimum wage was established in order to begin narrowing income differentials. The minimum wage varies according to age (16–18-year-olds receive a lower rate) and type of work. In 2008 the minimum wage for an 18-year-old was €142.43 per week or €7,404.6 per year. An annual bonus for all employees was introduced in 1975 and in April 1976 the government declared there should be wage parity between males and females, beginning with the public sector. Other changes relating to the work environment were made in the 1970s, such as the standardisation of vacation leave entitlements across all economic sectors, while periodic wage rises began to be determined by government, with increases linked to inflationary pressures.

**Table 4.9. Employment situation, 1980**

| | Males | Females | Total | Percentage of labour force |
|---|---|---|---|---|
| Direct production | 38,800 | 15,300 | 54,100 | 43.95 |
| Market services | 27,300 | 11,300 | 38,600 | 31.36 |
| Public sector | 22,000 | 4,400 | 26,400 | 21.45 |
| **Total occupied** | **88,100** | **31,000** | **119,100** | **96.75** |
| Unemployed | 3,400 | 600 | 4,000 | 3.25 |
| **Labour force** | **91,500** | **31,600** | **123,100** | **100.00** |

Source: Government of Malta, 1981

Table 4.9 provides employment data for 1980 which show that female employment was still low compared to the rate for males and that the public sector accounted for just over 21 per cent of total employment. Women continued to give up their jobs on marriage, which was a 'wastage of trained human resources' (Government of Malta, 1981: 194). The government therefore introduced 13 weeks paid maternity leave in both the public and private sectors to encourage women to carry on working. Concurrent with this was the fear that an increased population would put pressure on existing services; family planning programmes were therefore instituted and children's allowances were restricted to the first three children. This was meant to discourage larger families and produce small family units, encouraging women to remain in the labour market.

Important for the government in the fourth plan was the 'ruthless eradication of irrational discrimination in social status between blue and white collar labour … as every worker makes an important contribution towards national development' (Government of Malta, 1981: 173). Although this may be a reasonable ideal in a social sense, it has often been argued that it can inhibit private initiative in white collar professions. The fourth plan operated a wages policy which guaranteed a flat rate increase to everyone in order to reduce inequalities. That having been achieved, the fifth plan suggested 'differential rewards for special skills, responsibilities, initiative and effort' as a subsequent stage in the country's development strategy.

In the late 1980s, maintaining a rather Keynesian philosophy, the state continued to provide employment in infrastructure projects in order not to allow 'Malta's pool of labour to waste away its time and resources'. A Council for National Progress was established whose role was that of a 'national consulate body to monitor the country's economic and social performance'. The Council included officials from government departments, and representatives of the trade union movement, industry, tourism, agriculture and other organisations involved in economic decision-making.

One of the goals of the EU Lisbon Agenda is an employment rate of 70 per cent and a 60 per cent rate of female participation. Malta is far off the target on both the employment and female participation rates (Table 4.10). The table shows that there a substantial amount of resources are not being utilised. The harsher competition emanating from increased integration has forced a spate of retraining to make workers employable. The European Commission reported that 'Malta's employment rate is only 54 per cent, despite significant potential gains that could be achieved from the development of human capital' (European Commission, 2006), while the female participation rate was a low 33.5 per cent in 2004 (20 per cent of whom work on a part-time or reduced hours basis). This rate remains the lowest in the EU27 (European Commission, 2007). Furthermore, unemployment was also high at 7.4 per cent (2004). However, the government has launched various programmes to try to entice more workers, particularly women, into the workforce. These include telework, part-time working, flexi-time, tax breaks and other incentives to employers. Retraining and lifelong learning possibilities have also become clichés, especially following the closure of several textiles companies and the knowledge that it is only an educated labour force which can attract high value-added foreign investment. Such programmes appear to have had some effect, as unemployment fell to 6.4 per cent and the female participation rate reached 38.5 per cent in 2007. After the 2008 global recession, unemployment marginally increased again to 6.8 by September 2010. However, jobs were also created, since female employment increased to 40.7 per cent, although this was mainly in the part-time sector.

The government publishes two unemployment rates: one is the rate of registered unemployed based on records kept by the Employment and Training Corporation (ETC). (There are different types of registration as well: Part 1 includes new job seekers, re-entrants and workers who have been made redundant; Part 2 includes those dismissed from work, those who left of their own free will, those who refused work or training opportunities and illegal workers who have been struck off the register of Part 1.) The second rate is based on the Labour Force Survey, using the method adopted for comparative analysis with other EU member states according to International Labour Organization (ILO) methodologies. Unemployment in Malta is below the EU average.

Table 4.11 provides data on full-time employment by sector of economic activity.

**Table 4.10. Employment situation in Malta (selected years)**

| Indicator | Percentage |
|---|---|
| **Employment Rate (15–64)** | |
| 2002 | 54.2 |
| 2004 | 54.0 |
| 2007 | 55.2 |
| 2009 | 59.4 |
| **Female participation in the economy** | |
| 1956 | 15.2 |
| 1959 | 17.1 |
| 1962 | 18.2 |
| 1973 | 29.5 |
| 2002 | 33.9 |
| 2004 | 32.7 |
| 2007 | 38.5[a] |
| 2009 | 42.0 |
| **Unemployment rate[b]** | |
| 1960 | 4.0 |
| 1970 | 5.0 |
| 1991 | 3.6 |
| 2002 | 7.5 |
| 2004 | 7.4 |
| 2007 | 6.4 |
| 2009 | 7.4 |

[a]About 25 per cent of whom have part-time employment as their main job.
[b]Registered unemployed: the Labour Force Survey figure is 12.9 per cent (NSO Press Release 173/2008).
The data for female participation from 1956 to 1973 are based on development plan data.
Source: Eurostat and National Statistics Office

The figures show that the primary sector does not even account for 2 per cent of total employment. Manufacturing has seen a decline from 20.18 per cent in 2002 to 14.6 per cent seven years later. Restructuring, inefficient companies closing down when faced with competition in 2004, and later on the closure of textile companies have led to this decline. However, employment has continued to increase, mostly in the services sector. The sector which has seen a significant rise is real estate. Other increases in retailing, education, health and community services were more modest.

Small states often have large public sectors that offer employment opportunities to a significant number of people. The government has often been accused by the private sector as being bloated and characterised by underemployment. Together with the need to decrease the government deficit, this has meant that the government has not replaced all workers who retire, resulting in a decrease of over 5,000 public sector employees (4.7 per cent of the workforce) by 2007, but had more than regained them by 2009 (Table 4.12). The female participation rate has marginally increased,

**Table 4.11. Full-time employment by sector of economic activity**

| NACE[a] Code | Economic activity | 2002 | 2002 % of total | 2009 | 2009 % of total |
|---|---|---|---|---|---|
| 1–5 | Agriculture and fisheries | 3,180 | 2.31 | 2,570 | 1.6 |
| 10–14 | Mining and quarrying | 503 | 0.36 | 852 | 0.5 |
| 15–37 | Manufacturing | 27,825 | 20.18 | 23,765 | 14.6 |
| 40–41 | Electricity, gas, water | 3,138 | 2.28 | 3,496 | 2.0 |
| 45 | Construction | 11,362 | 8.24 | 12,728 | 7.8 |
| 50–52 | Wholesale and retail[b] | 20,002 | 14.51 | 24,549 | 15.1 |
| 55 | Hotels and restaurants | 8,885 | 6.44 | 13,235 | 8.1 |
| 60–64 | Transport, storage, comm. | 11,491 | 8.34 | 13,016 | 8.0 |
| 65–69 | Financial intermediation | 5,025 | 3.64 | 6,052 | 3.7 |
| 70–74 | Real estate, renting, etc. | 8,509 | 6.17 | 11,020 | 6.8 |
| 75 | Public administration | 10,683 | 7.75 | 15,561 | 9.6 |
| 80 | Education | 11,103 | 8.05 | 14,137 | 8.7 |
| 85 | Health and social work | 9,107 | 6.61 | 13,637 | 8.4 |
| 90–93 | Other community services | 5,778 | 4.19 | 7,845 | 4.8 |
| 95 | Employer of domestics | 1 | – | 175 | 0.1 |
| 99 | Extra-territorial bodies | 188 | 0.14 | 280 | 0.2 |
| – | Apprentices, trainees | 1,083 | 0.79 | 0 | 0 |
| | **Total gainfully occupied (including apprentices)** | **137,863** | **100.00** | **162,918** | **100.00** |

[a]NACE Nomenclature statistique des activités economiques dans la Communauté Européene (Statistical classification of economic activity in the European Community).
[b]Includes also the repair of motor vehicles and household goods.
Source: Compiled from National Statistics Office, 2010a

but women still account for less than one-third of the working population. About 13 per cent of the full-time employed have their own businesses.

Part-time employment has significantly increased in the past eight years from 31,725 in 2002 to 45,876 in 2007 and again to 52,720 by August 2010. For 57.4 per cent of part-timers the job constitutes their primary employment; this figure increased from 54 per cent eight years earlier. Certain sectors (hotels and restaurants, retailing, real estate, education, health and community services) appear to be more attractive for women who seek part-time employment as their main job. Employment in hotels and restaurants is often seasonal, peaking in the summer and requiring more part-timers. A significant number of women work as freelancers or on a commission in the real estate industry. Schools that teach English to foreigners often employ part-timers, as do small private clinics, which may open only in the afternoon and evening.

Like other countries, Malta is witnessing a decrease in union membership. In mid-2005, union density was 59.2 per cent, down from 63.2 per cent in 1990. The majority of collective agreements signed were in the services sector, the majority being renewals. Only 9.7 per cent were actually new agreements (NSO, 2006).

**Table 4.12. Full-time employment by sector, gender and type of employment**

| Category | 2002 | 2002 % of total | 2007 | 2007 % of total | 2009 | 2009 % of total |
|---|---|---|---|---|---|---|
| Private sector | 89,975 | 65.3 | 98,999 | 70.0 | 114,446 | 70.2 |
| Public sector | 47,888 | 34.7 | 42,483 | 30.0 | 48,472 | 29.8 |
| Men | 98,194 | 71.2 | 97,969 | 69.2 | 107,506 | 66.0 |
| Women | 36,669 | 28.8 | 43,513 | 30.8 | 55,412 | 34.0 |
| Self-employed | 15,660 | 11.5 | 16,729 | 11.8 | 21,137 | 13.0 |
| Employees | 122,203 | 88.5 | 124,753 | 88.2 | 141,781 | 87.0 |
| Total | 137,866 | 100.0 | 141,482 | 100.0 | 162,918 | 100.0 |

Source: National Statistics Office, 2010a

Overall, the main issue in Malta is to try to encourage more people to participate in the labour market. This would increase government revenue through taxes and social security contributions and bring about a decrease in social benefits, which would mean there was less pressure on pensions. Official employment statistics are not very buoyant; however, a considerable percentage of economic activity remains undeclared, but raises the average income of some households.

## 4.7 Conclusions

As the above sections have shown, the greater part of Malta's social welfare system was introduced in the 1970s and early 1980s; for this reason, the system is often associated with the socialist ideology of the Labour Party, which was in power at the time. However, some social services were introduced in the late 1980s and the 1990s, although to a lesser extent, at the same time as some welfare benefits were removed or became means-tested. Schiavone (1991), in *B'Imhabba u Solidarjeta* (*With Love and Solidarity*), has tried to dispel this image by outlining the role of the Nationalist Party in the formulation of social policy from 1921 until 1991. The following paragraphs summarise some of the issues he raises, dealing with the period 1987–1991, when a new Nationalist government was returned to power. Details on the 1950s and 1960s have been presented above. Schiavone identifies five main areas as worthy of focus: education, social policy, health, housing and the elderly.

**Education:** some new schools were opened; there was an increase in the number of languages taught; a new topic on 'systems of knowledge' was introduced to widen the knowledge base of students; a new upper secondary college opened; a technician apprenticeship scheme was introduced; and teachers were given professional status.

**Social policy:** increase of social security spending of 43 per cent between 1987 and 1991; introduction of the children's allowance; improvement in widow's pension; removal of military and labour corps; decrease in unemployment; increase of 7,402 jobs over the five-year period; increase of the minimum wage from Lm32 (1987) to

Lm41 (1991) per week, reflecting the increase in inflation rather than increases in real wages; the establishment of the National Commission for the Handicapped and also institutions for drug rehabilitation.

**Health:** new units in the general hospital (burns, hyperbaric oxygen therapy) and a helicopter pad; new equipment for radiotherapy and a special baby unit; additional equipment for the mental hospital; new health centres and pharmacies; promotion of medical staff.

**Housing:** 2,400 couples benefited from home ownership schemes (remaining plots of land covered by previous schemes were reissued), with the inclusion of a cash grant of Lm3,000; and slum areas were demolished and replaced by flats.

**The elderly:** a new specialised service for the elderly in their homes through the engagement of casually-employed social assistants; introduction of a 'lifeline' service, a neck-hanging device which when pressed by an elder in trouble directly contacts relatives; opening of community centres; new physiotherapy and occupational therapy departments in existing old people's homes; and the start of a 'meals on wheels' service providing hot meals for the elderly living alone.

These five areas indicate the direction the new government intended taking in terms of social policy: setting up an institutional framework to support those who are really in need and pushing for self-help aided by community services. The institutional set-up for the social welfare service was consolidated with the establishment of the Foundation for Social Welfare Services in 1998. It incorporated existing and new services under three specialised agencies: SEDQA (for alcohol and substance abuse problems); APPOGG (for children and families in need and providing other specialised services for the community); and SAPPORT (community and residential services for persons with a disability).

This analysis of earlier documentation regarding social policy in Malta shows how it has developed over the past decades. The system started very modestly in the 1920s, made a significant impact with the widening of the allowances and pensions offered in the 1970s and expanded even further in the 1990s, with a slight shift in focus from a welfare state to a welfare society. This changed the focus of services towards those offered by social workers and civil society, to accommodate problems associated with a new turbulent lifestyle which impacts on the very fabric of society and social cohesion. In March 1990, the Ministry for Social Policy issued its proposals for a social welfare strategy for the 1990s and beyond. The objective was to strengthen social justice, not financially, but rather by trying to make people more caring and supportive towards each other, since the future was suggesting 'new psychological and cultural necessities'. According to the Minister, this needed a 'new culture in the social area'.

The first step was the setting up of various institutions, including the National Commission for the Handicapped, the Commission for the Advancement of Women and the Secretariat for the Equal Status of Women, and the Interdepartmental Commission against Drug Abuse and Illicit Trafficking. The second step was to move away from centralisation and co-ordinate different service providers under the umbrella of the Central Social and Family Welfare Agency. The church and other voluntary organisations had started to increase their services to the community, and in the 1990s data showed that 40 organisations with 3,500 volunteers were catering for 40,000 people in need. The government included them as members of the agency to incorporate their contribution in the social area. By 2004, the number of social welfare-oriented non-governmental organisations (NGOs) had grown to 149, employing 1,444 people (up from 1,218 in 2001) and having 5,749 volunteers (down from 7,231 in 2001). These NGOs had 47,856 members, of whom 3,125 were on a residential basis.

From the early 1990s onwards the focus shifted from financial aid to psychological support. The government's programme formulated five key ideas: *participation* (active participation by recipients of assistance); *solidarity* (ties between members of society); *empowerment* (empowering people to be more active not through financial means – resources were limited – but through curative and preventive assistance); *subsidiarity* (there was no need for the state to provide services when they could be offered by NGOs, who could nevertheless be assisted by the state); and *decentralisation* (a co-ordinated network of services rather than one government department). Although the programme also included a draft Social Welfare Act, this never came into being. However, in 2004 social workers were regulated through the Social Work Profession Act.

Whether these ideas have been effective over a period of almost 20 years is debatable and there has been no academic analysis. It is perhaps safe to state that the culture of dependence, that was supposed to end after political independence, was sustained over the years, first financially and then psychologically. In 1990 the number of welfare officers (in welfare, health and education departments) was 66. By 2008, this had increased to 273 with new job descriptions of welfare officers, care workers and home helps, in additional to traditional social workers. Furthermore, 762 casual social assistants now work on a part-time basis. Although some of these services are provided for a small fee, in reality these continue to be state-subsidised services.

The mission statement of the Department of Social Security is 'to provide correct financial assistance and other benefits to eligible persons in time' (Government of Malta, 2006: 5). Social security expenditure has continued to increase – from €326 million in 1996 to almost €500 million in 2005, and over €661 million by 2009, excluding administrative expenses. The bulk (€341 million) was allocated for pensions for 63,803 pensioners in 2005, further increasing to accommodate 70,543 beneficiaries in 2008. A full description and the rates of assistance provided under the Social Security Act are provided on the website of the Ministry for Social Policy, *Social Security in Malta: A Synopsis*, at http://gov.mt/frame.asp?l=1&url=http://www.msp.gov.mt.

The Malta Council for Economic and Social Development (MCESD) is a consultative and advisory body established in 1988 and formalised by an Act of Parliament in 2001 to serve as a national, inclusive forum for social dialogue on economic and social development issues. There are 14 council members representing government, employers, unions and other interested bodies. The Council also has three specialist working committees and a civil society committee. The establishment of the Council is a positive step towards consultation. Its actual impact on decisions taken by government is mixed. However, it can be strengthened by making available research on the economic and social problems that the country faces.

Maltese society has progressed and has reached the stage where education and health services are free, as explained above. While children's allowances were restricted through means testing in 1995, one of the pre-election promises of March 2008 was the re-introduction of such allowances to all children regardless of parental income. The range of social benefits is wide and includes unemployment assistance, medical assistance, social assistance, electricity rebates, university exam aid, treatment abroad, marriage grants, maternity benefits, sickness and injury benefits, and allowances for children with disabilities. There is also a variety of pensions, including retirement, invalidity, widow's and pensions for the disabled and visually impaired, in addition to reciprocal pension agreements with Australia, Canada, the UK and the Netherlands. The caring for the individual from the womb-to-the-grave loop is complete. The continuous sustainability of that loop is, however, under threat as it has over the years been overstretched. The next section analyses the strategies that different governments have adopted in times of crisis.

# 5

# Crisis-coping Strategies

In every decade in the history of a country there is some significant event that impinges on its socio-economic environment. For a small state, these normally emanate from the international sphere. Thus for Malta the 1960s meant a transformation of the economy due to the British decision to decolonise; the 1970s were hit by big price hikes in commodities and fuel; the 1980s saw a slow-down, turbulence and uncertainty in global economic activity; the 1990s witnessed sluggish growth in Europe, international financial crises and the information technology revolution; and the twenty-first century is increasingly volatile with harsher global competitive forces, new price fluctuations in fuel and certain commodities, and a wave of recession which may yet offer some surprises.

Malta is a very open economy, with a trade ratio of over 160 per cent of GDP. Figure 5.1 presents data on the trade ratio for 1970–2009. As an EU member state, Malta is both vulnerable and resilient in the face of external shocks. The most recent example of the 2008/2009 financial crisis did not drastically hit Malta: according to the World Economic Forum, it has the tenth soundest banking sector of any country in the world, mainly due to the conservative stance of local banks. However, the economic crisis did have an impact and the real economy did not remain unscathed (Azzopardi, 2009). Some companies resorted to a four-day week; others asked for financial assistance from government. Most saw decreases in external demand and this impacted on exports and imports, both of which dipped in 2009. The national manufacturing sector was not the only victim; services, especially tourism, were also negatively impacted (for a fuller analysis see the latest IMF reports). Inflation continued to influence local demand, with households requesting compensation from government because of further hikes in tariffs for gas, electricity, water and certain basic food items such as bread and milk. Further, value added tax in recent years has increased from 15 to 18 per cent. Another controversy involved the high price of medicines, with the result that where possible these were being bought by consumers via the internet from abroad. The Government held discussions with the importers and over time some prices were reduced. However, medicines were often unavailable and the Government finally announced that it was creating a specialised agency to procure medicines directly (instead of buying them from importers). Meanwhile, the Government continued with the pension reform and employees with gross annual salaries over €17,000 will also see increases in social security payments in 2011, in order to guarantee them a higher pension. Discussions regarding reforms in the health sector and education (specifically on the viability of free tertiary education and stipends provided for post-secondary courses) have resurfaced in local discourse. However, the political implications may be so tough that they rule out such reforms. A controversial debate in the 2010/2011 budget surrounded the annual increase in weekly worker compensation, which is linked to inflation. This was a miserly €1.16 per week for 2011; however, the compensation provided to ministers and other members of parliament with an executive role increased by over €500 per week. In such dire times, when the Government was being advised by the EU to further consolidate its fiscal position, this jarred with certain sectors of society, especially those in the lower income bracket. The controversy resulted in some members of parliament deciding to either refuse the pay rise or to give it to a charitable organisation. In such a hostile and unstable environment any reforms which will decrease the social services offered by the Government are likely to be opposed and considered controversial and untimely.

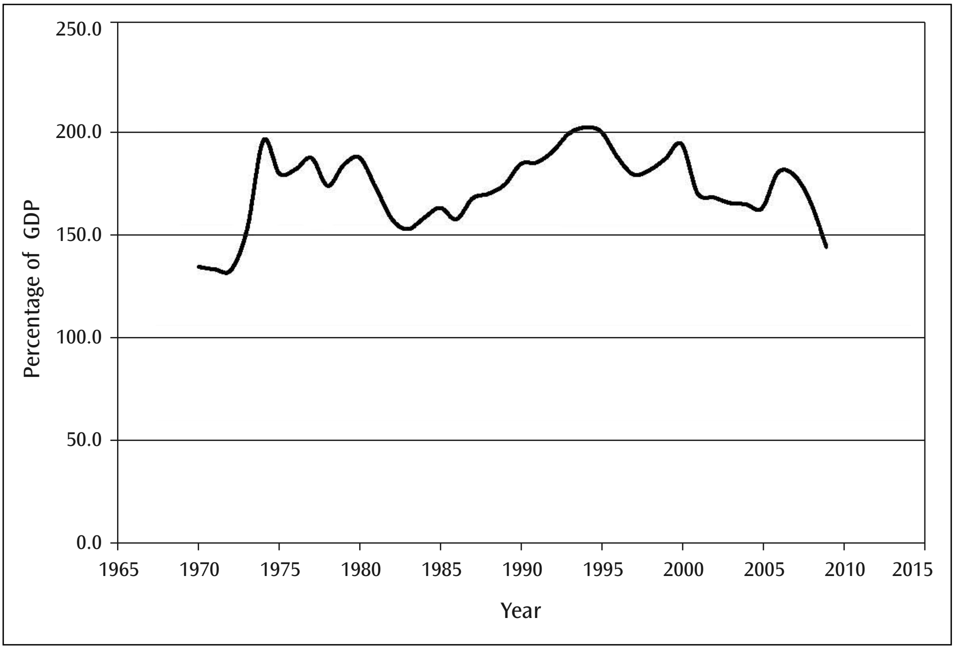
Whenever requests are made for compensation because of hardships, the focus is on those 60,000 persons at-risk-of-poverty, but at the same time, the middle class is feeling continuous being squeezed out of the lifestyle it has become accustomed to. A feeling of widening inequality is sometimes referred to, although this is particularly difficult to ascertain. It is much easier to perceive however other forms of social injustice such as the lack of meritocracy, particularly within the public sector.

Each decade has been characterised by different forms and intensity of crises. During the 1950s and 1960s, the main problem was the transformation of the economy, with the pressure of population growth and increase in unemployment. The strategies adopted by Malta at the time were twofold: outward migration of excess labour and dependence on external funding for capital projects, coupled with closer association with the European continent.

> Emigration on a large scale has been a feature of Maltese life since the early years of the nineteenth century, but when the mad fury of the Second World War finally abated organised and subsidised emigration became a basic policy of those who ruled the Maltese from 1945 to the middle years of the 1970s. (Attard, 1997: 13)

The first strategy on migration managed to alleviate the immediate pressure of excess labour and unemployment was kept low, though the skills that were lost were incalculable. (Balogh and Seers, 1955; Attard, 1997)The skilled youths who left were 'Malta's loss and somebody else's gain' (Attard, 1997: 120). Table 5.1 provides data on population and migration figures from 1946 until 1992. The mid-1950s and mid-1960s saw the greatest number of migrants, while the trend was reversed from 1975 onwards with more returned migrants than outward bound ones. From 1945 to 1979, about 140,000 people out of a population of about 300,000 'left their land of birth' (Attard, 1997: 13). The government tempted people to leave by paying their fares, providing them with a small allowance to start a new life abroad and providing allowances for family members left behind. Data for 2008 show that 1,436 Maltese citizens emigrated, while 1,178 immigrated, signifying a net migration of 258 persons (NSO, 2009). However, travelling for work to other EU countries is not considered as migration and therefore the figures are not realistic. Recent 'migration' has meant

**Figure 5.1. Malta's trade to GDP ratio, 1970–2009**




Source: World Bank, *World Development Indicators*

that highly skilled labour (particularly in the medical and IT fields) has moved to other EU countries where returns on their expertise are higher. This brain drain is different from the brawn drain associated with the migration of the 1950s and 1960s. The lack of recent data makes analysis of the impact of migration difficult.

> Outgoing migration data has again undergone quite some changes since the Labour Department dismantled its section of emigration in January 1995. The data hence encountered deficiencies in record availability. The only sources for prospective emigrants were those from the Embassies and the High Commissions. Since the year 2000 only the High Commission of Britain was complying with our requests. (NSO, 2002: 1)

The second strategy was the financing of capital projects, initially by the decolonising British government. However, according to the UN Mission, UK assistance 'is a necessary condition … but it is not a sufficient condition. There must in addition be a will to change in all sectors – government, business and unions' (Stolper *et al.*, 1964: 259). Though the island professed to have a free market economy, 'the attitude of the business community is that the best help it can receive from the government is to be given capital and protection against competition' (Stolper *et al.*, 1964: 13). In fact, the economy remained behind a protective shield for several decades. Nonetheless, this did lead to significant economic growth in the 1960s and 1970s as

**Table 5.1. Population and migration, 1946–1992**

| Year | Population | Migrants | Returned migrants | Year | Population | Migrants | Returned migrants |
|---|---|---|---|---|---|---|---|
| 1946 | 295,247 | 1,278 | 282 | 1970 | 302,820 | 2,696 | 317 |
| 1947 | 303,998 | 2,446 | 304 | 1971 | 303,161 | 2,798 | 143 |
| 1948 | 308,929 | 3,150 | 131 | 1972 | 303,114 | 3,163 | 202 |
| 1949 | 312,722 | 5,368 | 109 | 1973 | 302,219 | 4,059 | 230 |
| 1950 | 312,447 | 8,503 | 495 | 1974 | 301,892 | 4,189 | 535 |
| 1951 | 312,646 | 7,692 | 470 | 1975 | 306,551 | 1,624 | 2,957 |
| 1952 | 316,764 | 5,342 | 1,009 | 1976 | 311,150 | 1,107 | 2,472 |
| 1953 | 320,613 | 4,532 | 949 | 1977 | 315,466 | 1,237 | 2,261 |
| 1954 | 315,952 | 11,447 | 950 | 1978 | 318,320 | 1,577 | 1,678 |
| 1955 | 313,955 | 9,007 | 861 | 1979 | 322,535 | 1,303 | 2,289 |
| 1956 | 316,239 | 4,492 | 388 | 1980 | 325,721 | 1,374 | 1,753 |
| 1957 | 319,957 | 3,285 | 1,671 | 1981 | 328,375 | 1,966 | 1,644 |
| 1958 | 323,667 | 3,152 | 899 | 1982 | 331,859 | 938 | 1,193 |
| 1959 | 327,218 | 3,265 | 465 | 1983 | 335,169 | 641 | 1,052 |
| 1960 | 328,938 | 3,841 | 382 | 1984 | 338,276 | 629 | 654 |
| 1961 | 329,763 | 3,580 | 551 | 1985 | 340,907 | 731 | 700 |
| 1962 | 329,326 | 3,641 | 525 | 1986 | 343,334 | 737 | 622 |
| 1963 | 326,130 | 6,579 | 536 | 1987 | 345,636 | 670 | 365 |
| 1964 | 320,620 | 8,987 | 496 | 1988 | 349,456 | 561 | 936 |
| 1965 | 316,440 | 8,090 | 530 | 1989 | 352,430 | 399 | 722 |
| 1966 | 318,109 | 4,340 | 193 | 1990 | 355,910 | 160 | 858 |
| 1967 | 302,218 | 3,971 | 36 | 1991 | 359,543 | 140 | 1,124 |
| 1968 | 302,340 | 2,992 | 343 | 1992 | 362,823 | 155 | 820 |
| 1969 | 302,486 | 2,648 | 282 | | | | |

Source: Attard, 1997: 136

shown above in Figure 2.1, p. 8. With the possibility of British funding petering out, the government sought a closer relationship with the European Community to guarantee market access for its products and signed an association agreement in 1970.

The 1970s government did not encourage migration at a time when the island needed its best resources to begin its industrialisation phase.

> It is significant to note that the reports of Government Departments covering the period between April 1, 1972 and July 31, 1973, give only three paragraphs to emigration when previously emigration had occupied the thoughts and minds of those who planned the future of the Maltese people. (Attard, 1997: 122)

In fact, the Emigration Department did not at the time even have a person in charge, such as a director or a senior official. The government indicated that it would follow a mixed economy approach, although critics maintain its policies were more those of a command economy. The main strategies adopted during the 1970s were diversification of international relationships and a centralised approach to economic management. The government sought help in the form of financial aid and expertise from the widest and perhaps the most unlikely corners of the world, ranging from the far east to Arab states, while at the same time demanding more resources for its naval base and extending the final departure of British troops to 1979. Such a strategy of wide-ranging relationships was made easier by the political decision to adopt a position of neutrality and non-alignment. Malta also signed five financial protocols with Italy between 1979 and 2007 (shown in Table 5.2), which is a good example of the type of aid that Malta sought from friendly nations. However, it did not pursue the customs union track incorporated in the association agreement with the European Community, judging ‘the trade concessions and the level of Community financial assistance insufficient’ (European Commission, 1993: 9).

Malta’s second strategy was to assume a more central role for the state in the economy, with nationalisation programmes and the centralisation of the import of vital goods such as wheat and fuel. Essential for this strategy to work was the indisputable authority of a leader who managed to alleviate pressure on the weakest element within society, the worker, by sustaining a social security system that guaranteed basic needs, whilst discarding luxuries as unnecessary and therefore prohibiting their importation. This frustrated the better off and led to a thriving underground economy. This may have been a rather paternalistic attitude, but it succeeded in keeping government expenditure in check and the balance of payments in a more favourable situation. The Central Bank of Malta was formally established on 17 April 1968, again following the advice of the UN Mission. However, the pegging of the Maltese currency to sterling was discontinued in July 1972, and subsequently the exchange rate was determined on the basis of a trade-weighted basket of currencies. This change also implied the imposition of exchange controls, which gave the state a greater degree of control, as indicated above. It was more than 20 years later, in 1994, that the Central Bank was formally given greater autonomy; it was declared independent in 2002 in line with EU directives. On accession to EU membership in 2004 all capital controls were eventually removed (Central Bank of Malta, 2008).

**Table 5.2. Five Italo-Maltese financial protocols, 1979–2007**

| Protocol | Total | Grants | Loans | Comments |
|---|---|---|---|---|
| First, 1979–83 | £M33 m | £M28 m | £M5 m | To attract foreign investment |
| Second, 1987–90 | £M47.5 m | £M37.5 m | £M10 m | Various projects |
| Third, 1990–94 | £M66 m | £M53 m | £M13 m | Plus three patrol boats and helicopters to aid in illegal drug trafficking |
| Fourth, 1995–2000 | £M60 m | £M60 m | Nil | Various projects |
| Fifth, 2003–07 | €75 m | No information | No information | 13 projects – to upgrade to European standards |

Source: Website of the Italian Embassy in Malta

This strategy of government control extended to checks on the level and type of imports that were allowed to enter the island, which gave local producers a protective shield. Also in operation were policies of import substitution, while incentives were given to export-oriented companies. This was in spite of advice from experts in the 1960s that 'protection of the home market … will not work in Malta' (Stolper *et al.*, 1964: 7), since there was no market to protect. Even so, protection of the home market was sustained well into the 1990s; in fact the 1995 *Economic Freedom Index* presents the country as 'mostly unfree'. This protection, in the form of subsidies and state aid, continues to be slowly dismantled in line with EU regulations. According to the European Commission, Malta 'stands out' since its sectoral state aid was 12.5 times higher than that for the EU15 (European Commission, 2006: 36).

While government intervention had managed to relieve the pressure of exogenous shocks in the 1970s, the shocks of the beginning of the 1980s proved a harder test for the island. The waning of economic growth, a people with higher expectations and imported inflationary pressures led to an increase in government control of the economy. Two strategies were adopted: increased focus on the benefits of labour flexibility and a wage/price freeze. The government tried to instil the idea that the economy needed a flexible labour force and people who were easily adaptable to changes in economic structures which were no longer profitable in a volatile environment, which left the island at the mercy of external events. The student-worker scheme, under which university and vocational students spent time in the workplace, was one way of bringing future employees and entrepreneurs into close proximity with each other early in their courses, in real working environments and situations away from purely theoretical foundations. However, how much actual work was entrusted to them and just how much they learnt from this experience has often been questioned. The spotlight turned on the development of human capital, with increases in the vocational and technical courses offered at different institutions. The government also resorted to Keynesian economics by directly employing people in public works and services in military and labour corps.

This suggests that flexibility and social cohesion (through equity programmes), both characteristics regarded as advantages of small states, coupled with sound policies, were positive influences on the rebuilding of the island after independence. This is consistent with the argument that 'in small, relatively homogeneous countries, public choices are closer to the preferences of the average individual than in larger, more heterogeneous countries' (Alesina and Spolaore, 2003: 1029). These ideas build on those of Dahl and Tufte (1973) and their emphasis on the 'benefits of cultural homogeneity' in small communities.

The second strategy, of a wage-price freeze, came about as a result of spiralling inflation in the early 1980s, which threatened to disrupt the economy. A wage-price freeze was therefore imposed by the government, and this infuriated both importers, who incurred the increased costs of goods coming from abroad, and the trade unions, who were prevented from winning higher wages for their members. Inflation increased to 15.75 per cent in 1980, but the freeze saw lower inflation between 1983 and 1985, which contained the inflationary process; the government managed to keep inflation below 2 per cent until 1989 (Central Bank of Malta, 2007).

The government's overall strategy in the 1990s was to achieve EU membership. The downturn in global economic activity in the later part of the decade led to negative growth in 2001 and 2003, thus putting the government in a precarious situation just before the planned EU membership was achieved. However, the uncertain situation also played in the government's favour, as the EU could be represented as a benevolent haven whose financial resources could (hopefully) solve some of the island's problems. The culture of dependence has thus been sustained.

In conclusion, certain events in the post-independence period must be viewed as a shock to Malta's socio-economic system, demanding urgent attention, a redirection of resources, diversification of economic activity and adaptation to a new set of rules. EU accession is the latest systemic shock which is acting as an incentive to change and to a transformation of the way the economy is managed. But it has been argued that 'perhaps the greatest challenge to the adaptation process arises out of the lack of party political and societal consensus on the issue of EU membership itself' (Cini, 2000: 268). EU membership is thus the latest test for the small island's social fabric, although the regional integration project is positive for economic growth and development.

The more recent global economic crisis did not drastically affect Malta in the same way as it impacted on other countries in Europe. Although the island witnessed negative growth, and decreases in tourism and trade, total output fell less heavily than in the eurozone and increases in unemployment were more modest. The Government found itself in a position where there was no need to aid the conservative banking sector, although some assistance was given to certain companies in order to provide for their continued operation during the crisis. However, in certain respects, the crisis did accentuate the need to correct certain fiscal imbalances and this was pointed out by the European Commission and the IMF, both of which called for prudence and a strategic approach to ambitious fiscal consolidation. Indirectly, this has led to the acknowledgment of further steps to prevent abuses of the social security system, the need to guarantee that the system is maintained for those who are most in need and disadvantaged in life, to ensure that all due taxes are collected, and to ascertain a fairer redistribution of resources and opportunities. Calls are being made for more solidarity within society (with relevant messages shown even on street billboards) and for government to take steps to encourage a wider social dialogue. Social cohesiveness, considered a virtue of the Maltese, is still evident when requests are made to give donations to countries hit by natural disasters, and also during the Christmas period, when a national campaign to donate money to poor people is organised. However, the glue is not as strong as it used to be and social injustices are apparent, which provide for a rethinking of a community-based society, rather than the individualistic attitudes taking over the Maltese society in general.

So the big question remains: what makes Malta resilient in the face of crises? The island has shown that it can cope and overcome problems which shock its small economy. Through a mix of strategies it has reached a satisfactory level of development, although inequality is increasing and this may yet test the cohesiveness of the small Maltese community. This cohesiveness has been one of its most positive and important characteristics, even in the face of internal divisions based on opposing ideological views. Nonetheless, in times of crises, the people by design or by chance have faced the music as one nation.

# 6

# Thematic Considerations in Malta's Development Strategies

The following four paragraphs analyse Malta's development strategies in the context of the thematic papers by Bertram (forthcoming) on the welfare state and Jenson (2010) on social cohesion. Jurisdictional capacity has helped all governments take tough decisions, for example, when 'strange' allies were sought or price and wage controls were put into place or when the decision to apply for EU membership was taken. In the context of Malta, the analysis so far shows that this jurisdictional resourcefulness dates back a long way, as Malta has long counted on its strategic location on a major transport route, which has been exploited for centuries. As in many other small states, natural resources have been limited; in particular, Malta lacks a significant agricultural sector. However, the island has relied on a number of other strategies to foster development. Baldacchino (forthcoming) describes how Malta succeeded in moving on from its dependence on a British naval base by implementing policies that provided manufacturing incentives, such as tax holidays, subsidies and exemption from customs duties, as well as promoting the tourism industry and niche markets, for example in decorative glass. In addition, migration has been used as a strategy to alleviate the pressures of excess labour. Lastly, Malta has exploited its colonial ties with the UK, as well as diversifying international relationships to ensure sufficient financial support. Overall, Malta's strategy has always been to utilise the resources made available by outsiders to compensate for its lack of domestic resources.

> … the island's heavy reliance on capital flows from abroad which traditionally sustained the island's economic life. … Before the British occupation Malta derived its foreign revenues from the Christian kingdoms of Europe with whom the Order of St John had strong religious and political affiliations. Under British rule Malta's foreign exchange earnings came mainly from expenditure by the British Armed Forces in the form of local purchases and wages and salaries paid to Maltese employees.
>
> (Government of Malta, 1981: 2–3)

In this respect the power of jurisdiction, that is the ability of a country to make decisions, conduct negotiations with other countries and choose appropriate, even if at times controversial, national policies has been a noteworthy resource, which was exploited by Malta as a small state.

This does not imply that true democratic values have always accompanied such decisions. Sometimes direct democracy was only evident during elections. At other times it has been found wanting by a section of the population, for example the accusations levied at government, especially during the early 1980s, but also in more subtle ways in later years, where democratic norms have not been evident in the social and economic realms. (For example, accusations of nepotism, patronage and perceptions of corruption persist.) Governments have not always been found to be accountable for their actions and allegations of arrogance have not been missing over the years.

> If democratic decision-making can start to challenge social exclusion and structural inequalities, then democratic processes go beyond including the interests of a range of elite groups in existing policy making processes; policy processes themselves may have to change. (Hintjens, 2008: 47)

The welfare state in Malta has developed, but different focuses have accompanied its development. In the post-independence period, and particularly since the 1970s, Malta has been characterised by a comprehensive welfare state with free health and education available to all, and a wide range of social assistance and protection measures. As argued by Baldacchino (forthcoming), an omnipresent welfare state of this kind improves resilience to external shocks. In recent years the government's aim has been to transform the welfare state into a welfare society with more emphasis on self-help, voluntary work and prevention, rather than curative services. In line with Bertram's analysis, Malta as a microstate falls within the I+II+III model, but threats of disintegration are evident from various directions. The Maltese government is constrained in its use of fiscal policy, especially since it joined the EU and eurozone, but mostly because of the escalation of public debt since the early 1990s (Figure 2.2, p. 17). The World Trade Organization (WTO) has emphasised that too little attention has been given to the primary health sector, resulting in overuse of Malta's secondary health services. The EU has been influential in its demands for the downsizing of Malta's big public sector, leading to privatisation. It is now pointing its finger at two significant areas of state expenditure: pensions and health.

The Maltese people are individualistic by nature, but they display a collective conscience in times of crisis, especially when the crisis emanates from outside the country. When the island has been hit by internal predicaments, the result has been an internal split usually based on political affiliation. The imminence of a possible change in the status quo helps to reinforce these divisions and gives power to the political parties to shepherd in their flock. Due to this political divide, social cohesion has not featured as a resource which is exploited on a daily basis, but only when an emergency demands it, such as the current issue of illegal immigration.

# 7

# Policy Implications

> Welfare states start modestly, then commence growing in the size and the range of benefits they provide. However, social and political reasons create a ratchet effect which prevents substantial reductions or withdrawal of benefits once introduced. (Delia, 1998: 8)

Malta's first step towards setting up a social welfare system was in 1927 with the introduction of a pension for widows and orphans of deceased public officers. National assistance and national insurance acts were introduced in 1956, to be developed in the 1970s and finally consolidated in 1987. However, it was mainly in the 1970s that a wide-ranging social security system was set up providing for the basic needs of everyone, building a basis for the boosting of the working class and providing access to certain economic sectors that had previously been unattainable. A marked difference in this respect was access to health care and to tertiary education. The health system, coupled with free immunisation and even the provision of free milk and cod liver oil to all children at school, provided access to basic daily food supplements with complementary visits to the dentist and doctor, also during school hours. Hitherto tertiary education had been generally restricted to students from higher class families (fees were eliminated in 1971), often with parents from a professional background. The free tertiary education element, coupled with a monthly stipend, encouraged other young people from lower-income backgrounds to attend further education as this financial aid put less pressure on their families. With the removal of the *numerus clausus* in most courses in the late 1980s more people were encouraged to believe that they too could succeed. Thus, by 2010 the number of students at university had increased to over 10,000, all receiving monthly stipends. This has to be compared with the time when the system was introduced, when there were only a few hundred students. Over time, the provision of stipends was also widened to cover other post-secondary students such as those at the Junior College (two year pre-university course), Malta College for the Arts, Science and Technology, which provides mainly certificate and diploma courses in technical and vocational spheres, and other higher education institutes.

In the mid-1990s, when the situation was already showing signs of unsustainability, the government introduced means testing of one particular allowance. In 1995, children's allowance (for the under 16s) was withdrawn for a large number of families and given only to those families with a joint annual gross income of less than Lm10,000 (€23,300). In practice this meant that only families with a single working member or a couple who were earning the minimum wage continued to qualify. This was seen by some people as the beginning of the erosion of the welfare state, while others saw it as a promising step towards ensuring that only those who deserved state help would actually qualify for it. However, political exigencies supersede financial common sense, as Delia (1998) maintains. In fact, before the March 2008 election, the government as a strategic tactic promised to restore the allowance to all children regardless of parental income.

The level of development of the country and the standard of living which the Maltese have become accustomed to over the years makes any changes or cuts to services even more difficult to undertake. When the government in 1996 introduced a minimal fee of 50 cents (equivalent to €0.22) for those who were provided with free medicine every month (costing Lm4 million in 1996 and spiralling to Lm43 million in 2007), this was met with hostility, and a change in government two years later led to the fee being removed. At the beginning of the twenty-first century the government commissioned a report on the sustainability of the health sector and the possibility of introducing fees for specific services, following the recommendation of the WHO. However, when these plans were exposed in the pre-election period, the government had to back down, with the result that the problem lingers on. Putting them back on the agenda would equate to political suicide at this point. Yet pressure on state finances has in the past few years seen the introductions of subtle increases in fees related to various types of permits, rental values of telephone lines, electricity and water meters, road taxes, car licences and similar minor costs. The government's recent decision to remove subsidies on electricity (in line with EU regulations), after a recent introduction of a fuel surcharge on the electricity bill, following increases in the international price of fuel, is facing opposition from all its social partners, both employers and unions. The government has partially backed down in relation to the big companies, who will now see the subsidies phased out in three years' time. Small businesses have a directive from their union not to pay the extra increase. Protectionism is thus still demanded and remains in place, at least for strong lobby groups. The government revised the rates downwards in April 2009.

The huge expenditure on health and education becomes even more onerous when one considers that these services are offered free of charge to all local residents, irrespective of wealth or income. The 2006 EU-wide Savings Tax Agreement (under which EU and some non-EU countries share information and are bound to pay part of the proceeds from interest paid to non-residents) has brought to light millions of euros stashed away abroad by Maltese citizens, for example in Switzerland (€90 million) and Jersey (€74 million) (Camilleri, 2008). This situation has been exacerbated by the common knowledge that there is tax evasion and abuse of social benefits. Although in recent years the government has managed to make some headway on the tax evasion front by better regulating the underground economy, the situation remains unacceptable from a social justice perspective.

How has the system been sustainable up to the present time? The social services provided by the government derive from the social security contributions system, whereby employees pay a monthly contribution from their wages or salaries. Before

1999 this contribution was about a twelfth of salaries, or roughly one month's pay. (Some variations and cappings exist for different income levels.) In 1999 the contribution was increased to an eleventh of the annual salary and a year later this was further increased to one tenth.

As described above, the social security contributions of the higher income group have further increased in 2011 in an attempt to increase current revenue and make future pension expenditure more sustainable. This has been coupled with an earlier decision to increase the retirement age to 65 (from 60 for women and 61 for men) and to pass a law which enables pensioners to continue working full-time if they desire.

As has been raised elsewhere in this paper, the sustainability of the free for all system has been questioned, with fears that it has become too extensive and abused by society. In order to deal with these concerns, better monitoring is needed to ensure that erroneous benefit claims and tax evasion, which takes place on a large scale, are reduced. In addition, efforts to increase the labour force participation rate, particularly of women, should be continued, to ensure effective domestic mobilisation of resources and thus maximise tax revenue. Social policy has developed extensively over the past decades, but it has not been managed well.

# 8

# Conclusion

Malta's role as a strategic hub in the Mediterranean was by and large the cause of its success during its colourful history under foreign dominion. Its independent life over four decades, with sometimes a resemblance to a roller-coaster ride with quick changes in policy and strategies, must also be viewed as something of a miracle. Sedate growth at certain periods of its young life and spectacular progress at others have put Malta in the high-income group of developed countries. Changes in government and ideology have all impacted on the road to development followed by this small island state.

When the state was much more intrusive in economic planning, Maltese consumers may not have had the option of 30 types of cheese or different varieties of toothpaste, but they were cushioned against external shocks by generous provision in their daily lives in terms of health, education, water, electricity and housing. Their basic daily needs were catered for, even the provision of vitamins and milk to school children. But the country could not afford luxuries and made them unavailable by restricting the import of such mundane objects as chocolate and colour televisions. This may have encouraged contraband, but many people were happy in their unawareness of alternative expensive lifestyles, although it irritated the rich element of society. Over time, restrictions were removed, people began to want more and so they had to work harder for it, while the subsidies remained in place, assuring the provision of basics. People's expectations also increased and subsequent governments increased the provision of goods such as free medicine, with the result that the public debt started to increase alarmingly. The reality brought home by EU regulations, increased regional and global competition, and a heavily indebted government hit the country hard.

The cushion has to go and go soon. The cushion takes various forms, including an inefficient and unaccountable public sector, a complacent population able to accept such a situation, a system which does not provide recourse to whistle-blowers to reveal corrupt practices, abuse of the social security system, subsidised services even for people who can afford the service, especially in the higher education and health sectors, and a negligible gap between social security benefits and the minimum wage. How the country will face this situation is a million dollar question and the strategy that is being adopted means that the poverty level will increase, at least in the short run (recent studies by Caritas Malta sustain this assertion). Emigration may alleviate the problem, but the brain drain will be detrimental to the future running of the economy. Although the state is slowly reducing its support, in the short run reform is bound to impact heavily on low-income families and middle-class families will descend a few rungs on the ladder of success. The latter may need to accept a standard of living lower than the one to which they have become accustomed, as they are the prime targets for government tax increases.

Since its independence, other countries and international organisations have done their share in helping Malta to realise its plans. In the twenty-first century, the major strategy adopted by government in pushing through its agenda for European Union membership focused mainly on the financial aid which would pour in from EU coffers. Other benefits were not deemed to be that influential in convincing people of the case for EU accession. This flow of funds has in fact materialised and the EU is presenting significant opportunities for projects, networking and job prospects. However, the author feels that not enough attention is being paid to the need to restructure the economy and the focus continues to be on the external aid which is guaranteed at least until the next EU financial round (7-year budget) that will end in 2013. Perhaps external funding remains the entrepreneurial strategy of the Maltese, acquiring and utilising external financial resources to make up for local shortcomings and lack of significant resources.

Malta's overall strategic approach for the future is explained by reports submitted to the European Commission. In the latest report on social protection and social inclusion providing country profiles on each member state, the Commission accepts the good intentions of Maltese authorities.

> The Maltese government has confirmed its commitment to ensure adequate social protection and to consolidate social cohesion. Increasing the overall employment rate (with special attention to measures favouring the participation of women) by investing in human capital, strengthening the welfare system through pension reform, improving access to health-care services and guaranteeing quality health services for all are the four pillars of the Maltese strategy. The strategy is sufficiently ambitious and well focused on the key priorities for Malta, with a good comprehensive approach.
>
> (European Commission, 2007: 154)

However, the strategy is criticised for offering 'little quantification of expected results and indicators are supplied sparingly' (European Commission, 2007: 155).

> In general, the strategy explains that Malta is going through a comprehensive reform, marked by a shift from government provision to a growing emphasis on the responsibilities of the individual. (European Commission 2007:156).

This signals a new approach to social policy formulation in the future, a reform that is perhaps well overdue.

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