

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

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

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

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

OBJECTIVES, TARGETS AND THE STRATEGY

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

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

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

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

POPULATION AND EMPLOYMENT

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

To create these 20,600 new jobs investment of about £M213 million is needed, which is about £M10,000 per job. This investment labour ratio³ which reflects the envisaged technology of new investment has been based upon past experience and international profiles.

¹ The Plan p. 50.

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

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

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

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

INVESTMENT, TECHNOLOGY AND OUTPUT

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

This investment target is derived from the employment objective of the Plan and the appropriate investment-labour ratio. The investment rate which is required to meet the investment target is 25% of Gross Domestic Product (GDP). The annual rate of growth of GDP resulting from this investment rate will be about 6%. The incremental capital output ratio which reflects the technological characteristics of envisaged new investment to be undertaken is therefore slightly over 4.⁴ The incremental capital output ratio, like the incremental capital labour ratio, has been based upon studies of past experience in Malta and requirements according to international profiles for investment projects, taking into account the special needs of Malta. Being a small size open economy, Malta has to compete in the international market with industrial commodities of modern industrial nations. This requires that export commodities of Malta should be of high technical standards and determines to a large extent the technology of the export industry. In addition to this the absence of any raw materials and energy sources whatsoever and a high population on limited land requires a relatively capital intensive technology.

Total investment required during the planning period amounts to

⁴ Incremental capital output ratio (K) is $\frac{I}{\Delta GDP}$ in which I stands for investment and ΔGDP for the increment in GDP. The growth rate of GDP, $\frac{\Delta GDP}{GDP}$ is determined by the investment rate $\frac{I}{GDP}$ and the incremental

$$\text{capital output ratio; } \frac{\Delta GDP}{GDP} = \frac{I}{GDP} / \frac{I}{\Delta GDP}.$$

In the Plan $6\% = 25\%K - k = 4.17$.

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

INVESTMENT FINANCE AND INTERNATIONAL ECONOMIC RELATIONS

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

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

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

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

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

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

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

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

STRUCTURAL CHANGES OF THE ECONOMY

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

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

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

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

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

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

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

THE SCOPE OF THE PLAN AND THE ROLE OF GOVERNMENT

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

⁶ Includes: agriculture, fisheries, construction, quarrying.

⁷ Includes: manufacturing, ship-repair and ship-building, government enterprises.

⁸ Includes: hotels, private services, public administration, other services.

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

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

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

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

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

SOME REFLECTIONS ABOUT THE STRATEGY AND POINTS FOR FURTHER RESEARCH

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

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

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

A SUPPLY-ORIENTED STRATEGY

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

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

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

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

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

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

STRUCTURAL INTERDEPENDENCE

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

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

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

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

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

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

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

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