Catholic Social Teaching, Economic Thought and Four Hundred Thousand Maltese

OCCASIONAL PAPERS: 9

Catholic Social Teaching, Economic Thought and Four Hundred Thousand Maltese

E.P. DELIA

AN
APS BANK
PUBLICATION
2010

First Edition, 2010

Produced by
Mizzi Design & Graphic Services
Printed in Malta by
Gutenberg Press, Tarxien

ISBN: 978-99932-697-6-2

CONTENTS

FOREWORD

APS Bank contributes to public debate on economic and social issues in the Maltese Islands by holding seminars on selected topics and publishing the proceedings or by circulating copies of studies on various subjects under the heading of *Occasional Papers Series*. The themes taken up to date are various; they cover demographic, economic, political and legal issues. *Occasional Papers: 9 – Catholic Social Teaching, Economic Thought and Four Hundred Thousand Maltese* – presents a study prepared by this writer following public discussion in various fora after the publication of Benedict XVI's encyclical *Caritas in Veritate* in June 2009.

Participants in such public debates often convey the general impression that solutions to social and economic 'problems' are readily available 'off the shelf'. Such misconception tends to obfuscate rather than clarify the complex set of inter-relationships that characterise every day transactions between one person and another in the home, in the market, domestically and internationally. Such a narrow view of events cannot contribute to the derivation of a pragmatic and sustainable approach to the issues that have to be faced by every generation. The Maltese Islands are members of the euro zone and have to abide by the rules that condition economic and financial behaviour within such a zone. Besides, they are also members of a single market space that is gradually expanding throughout the entire Mediterranean basin, even outside the European Union. And, like the rest of Europe, the Islands are going through a demographic transition that is witnessing the population ageing and, under present projections, also declining. This is, in brief, the context within which the main tenets of Catholic social teaching have to be assessed and implemented.

This publication brings together the three main areas involved in the subject, namely, Catholic social teaching, economic thought and the particular characteristics that make up the present Maltese economy and society, and, also the envisaged changes in such a community. These three 'components' have to be addressed together in order to appreciate the relationships between principles and applications, and the interaction of these and particular political and economic situations. Principles remain always basic points of departure. The challenge lies in their implementation in specific contexts at particular points in time.

Decision makers have to rely on the robustness of economic and anthropological knowledge as well as on data bases. Statistical information is many times incomplete; theoretical models compete among themselves; and, ultimately, it is the decision-makers' views and timing that determine the way ahead for entire communities. Such decisions are bound to influence the path and rate of economic growth, and in the process affect in several ways the well-being of the present and future generations.

The views expressed in this study are the author's. APS Bank has no corporate view on the interpretations given in this work. The Bank is publishing this study in order to encourage a wider discussion on the subject.

E. P. Delia
Chairman, APS Bank

October 2010

CHAPTER ONE

FROM PRINCIPLES TO APPLICATIONS

The publication of the encyclical *Caritas in Veritate* (Charity in Truth) in June 2009 by Pope Benedict XVI has led to a spate of commentaries and several seminars in the Maltese Islands that sought to examine the meaning and the utility for everyday application of the underlying principles enunciated in the document. On one such occasion, organised by the Foundation *Pro Pontefice Centesimus Annus*, the key speakers came from the two main political parties represented in parliament and the Catholic Church hierarchy. The Prime Minister and the Leader of the Opposition expounded what in their views brought together politics, economics, social and financial policy formation, and the teaching of the Catholic Church expressed in *Caritas in Veritate*. It was observed that there was a need to pursue further such analysis with the aim of spelling out the significance of basic principles, their relationship to the total development of a human being, as applied to the present (and envisaged) demographic and socio-economic realities in the Maltese Islands (vide: Department of Information, Malta, 2009: par.F).

This paper takes up this suggestion and seeks to explore three main areas of interest. First, the main tenets upheld throughout the past century in several documents that develop the social teaching of the Catholic Church. Quite expectedly, this teaching evolved in response to changing demographic and social conditions in the wake of a more pronounced intervention by governments in the economy. Secondly, the evolution of economic thought and the credibility/reliability of supportive statistical techniques that may reinforce or 'disprove' perceived economic and political propositions. There may be the tendency to keep believing in policy prescriptions based on very simple – almost naïve – analysis to the point of rendering them potential solutions to all issues under consideration. Thirdly, review the main demographic, political and economic highlights in the Maltese Islands in recent years; they are the foundation to meeting projected commitments in the near and the more distant future.

This triple, complementary exercise emerges from the nature of the topic itself. But it is also seen as imperative in the wake of the ongoing debate in Malta on several key policy issues that verge on ethics, politics, finance and economics. These subjects span the following areas of analysis: governance in the public sector; people's participation in policy decision making; fiscal consolidation; the re-consideration of the social contract in the context of the European Union's single market and the adoption of the euro in 2008; economic growth, income distribution, and personal empowerment in an ageing, and potentially declining, community. It is being asserted, for example, that notwithstanding the enhanced living standards recorded to date, the number of individuals/ families who may be considered absolutely poor may be on the rise. This claim, together with the suggestion that government has to re-consider the level of the national minimum wage and the present range of social services, triggered comments on the role of these two policy instruments, fiscal consolidation and the common good (Vide, e.g., Grima, 2010).

This consideration regarding absolute poverty incidence leads, in turn, to another statistical observation that one in seven (15%) may be defined as relatively poor, representing around 59,498 persons. This percentage share is increasing gradually over time; it is now marginally higher than the 13.8% recorded in 2005 and 2006 and the 14.2% of 2007. The at-risk-of poverty line was estimated at €5,728 in 2008, being sixty percent of the median national equivalised income (NEI) (NSO, 2010: xxiii). The relative share may be higher – even one in two – for certain sub-groups in the population. These data bring to the fore the factors that policy makers have to assess when devising programmes aimed at encouraging production/wealth creation and, at the same time, seeing that no one falls behind as a society moves on to higher income levels.

The total population in the Maltese Islands is projected to grow from the present 413,000 persons (of whom 395,500 are Maltese) to a high of 425,000 in around twenty years time, thereafter to fall back to circa 400,000 in 2050; hence the title of this monograph. One has to explore the true significance of the Church social teaching for a community that has seen steadily improving per capita income and material wealth, recorded a changing perception of individual freedom and a greater demand for selectivity in one's lifestyle, and faced with demographic projections that suggest an inverted population pyramid, in which, if projected trends materialise, the sixty plus will represent 33% of the group and the under fifteen will make up only around 12 % in 2050 (NSO, 2008, News Release, 125/2008, p.4). At present, they make up 21% and 16% respectively.

This community's future is closely tied up with that of the European Union and, more so, with that of the eurozone. The emerging policy scenarios following the global financial and economic upheavals of the past three years are focusing sharply on the very rationale of the euro, the world's second currency, and the macroeconomic implications of what is meant to belong to a currency union. Such soul searching cannot be limited solely to foreign exchange and interest rates matters but it has to be extended to fiscal performance and labour markets behaviour. Therefore, it leads to policy decision-making regarding supervision of both the public sector and the private sector in the EU as a whole and in every one of its political components. It implies assessing political processes at different geographical and administrative levels (Vide: Barroso 2010).

Analysts are facing a very complex situation which cannot be understood in its totality without simplifying, possibly heavily, the theoretical framework. In the end, they may end up with a set of measures that can cater for a series of issues but not necessarily for all of them at one go. This would be especially relevant where legal and political institutional set ups and decision making are involved. As a result, to borrow economic terminology, analyses may not lead to a first-best, optimal situation but rather indicate measures that lead from a second-best, sub-optimal position to another second-best condition. Such action may not represent an improvement on the point of departure; indeed, it may create even more problems in the years ahead for the group as a whole and/or for the individuals that belong to it.

In this scenario, it is instructive to identify the basic, underlying positions of the Church Authorities in the Maltese Islands in terms of the Catholic Church's social teaching. It is also useful to spell out the perceived relationships between such teaching and the series of policy stands that the two main political parties are either implementing or propose to introduce. One can take the pronouncements made at last November's seminar on the encyclical *Caritas in Veritate* as being representative of these positions.

Malta's Archbishop Paul Cremona sees the origin of all human action in the Christian vision of the creation of man in God's image. Mankind is entrusted with the surveillance of the environment. Globalisation, technology and growth are whatever humanity makes of them; they are neither positive nor negative. But at stake is the future of humanity itself. Therefore, to know what this role should be, one has to strive continually to search for Truth, and then plan action accordingly in the spirit of Charity. The Church has the responsibility to undertake this search mission and to proclaim it. This is one facet of the role of the Catholic Church in Maltese society.

The proclamation of the Truth has to consider the environment in which it is being pronounced. According to the Bishop of Gozo, Monsignor Mario Grech, the Church has to educate the upcoming generations. They may be already reflecting an upbringing of what may be termed 'a culture of weakness', which is based on doubting the meaning of life itself and the intrinsic value of a human being (Grech, 2010). To different degrees, the various age cohorts that make up the Maltese community may be demonstrating a 'nihilist philosophy', one that proclaims the non-existence of basic values and focuses only on functional utility even when referring to mankind itself. Complement this way of thinking to relativism, which seems to represent the underlying belief of contemporary societies, and it becomes clear that the process of educating for life is becoming an urgent task that all are duty-bound to undertake in earnest.

It is in this educational perspective, in the search of empowerment of every single human being, that the main tenets of the social teaching of the Church and their application to everyday political and economic reality have to be disseminated.

The Prime Minister, Laurence Gonzi, refers to the encyclical's distinction between the Church's mission in promulgating principles and governments' responsibilities in finding technical and pragmatic solutions to everyday tasks in the light of said (or other) principles. Mr Gonzi states categorically that his government's vision for the Maltese Islands is in sync with the social teaching of the Church. Common values include the total development of the human being, irrespective of conditions and orientation; the right to life since conception; the importance of the family; subsidiarity and solidarity even with future generations; the distinction between the Church and the State, the promulgation of the common good, and total respect towards all those who may disagree with this particular vision.

Mr Gonzi admits that finding solutions to real world problems is never an easy task. But through the 'tools' of dialogue, tolerance, wide search for options and loyalty to the common good, it is possible to develop a practical programme without losing sight of the fundamentals expressed above. He emphasised the role of ethical behaviour in business transactions – a factor that seems to have been one of the main causes of the global upheaval in finance and output of the past few years. Besides, he referred to the role of international migration and global development, in particular in the context of the phenomenon of illegal immigration, very conspicuous in the Mediterranean basin and other parts of Europe (Department of Information, Malta, 2009: par. B, C).

The leader of the Opposition, Joseph Muscat, took his cue from ideas expressed at a seminar held at the Bocconi University in Milan early in November 2009 later published in a book edited by Cardinal Dionigi Tettamanzi, Archbishop of Milan (Tettamanzi, 2009). It is possible to use effectively the market system in the interest of human kind, provided that we locate these market forces in a context of ethical behaviour. Only thus can the gains from output growth and trade expansion be distributed equitably in the interests of all, irrespective of who they are and where they happen to be.

Mr Muscat points out that his party's vision is of a society where conditions are such as to lead to the total development of a human being. The State is not seen to be above the individual; societies who considered the State as the end-all ended up in human tragedy. So, a government must strive to develop a structure of social networking that facilitates and enables the participation by all. It has to be ensured that no one abuses the economic system for personal gains but to the detriment of others (Muscat, 2009).

The above stands by both political parties reflect basic inspirational tenets. But they cannot be abstracted from the everyday realities that evolve gradually over time. These realities may be illustrated from data referring to particular situations as expressed in a report on the state of the environment (Malta Environment and Planning Authority and National Statistics Office, Malta, 2010). Visions have to depart from today's conditions and strive to strengthen, adapt, modify or delete according to the charted/desired way ahead. Given the tenets outlined above, it is presumed that the total development of individuals and the survival of a group in reasonable comfort will be achieved in harmony with nature, in a sustainable development context, in solidarity with future generations - these same future generations who are expected to create wealth on a scale to support an enhanced life-style for all, including a heavier retirement pension bill for a greater share of the population. We quote the MEPA-NSO report verbatim. They can be interpreted to be the 'output' (results) of the sum of decisions taken over time – including non-action or non-intervention - in the various areas of policy making.

i) 'Malta's population has largely met its basic material needs. However the way these needs have been transformed into demands is often placing unsustainable strains on natural resources and processes in Malta. Future food and fuel consumption patterns require more consideration in terms of sustainability.

ii) The number of vacant properties has continued to rise, with 22.4 percent of all dwellings vacant in 2005. Urgent measures, including economic instruments and re-orientation of the construction industry towards rehabilitation, are needed to address the issue in ways that do not place undue pressure on affordability and availability of housing, and take into account social and economic implications.

iii) Tourism is an important economic sector in terms of GDP but puts significant pressure on the environment due to additional consumption of resources, increase in waste generation and land take-up for tourism infrastructure. The tourism industry will need to focus on ensuring a quality product that prevents undue pressure on Malta's natural resources such as by attracting more tourists in the shoulder months and penetrating those niche markets that are generally more sensitive and supportive towards conservation.

iv) Malta's environmental targets and objectives related to air pollution and climate change can only be met by decoupling its growing total energy demand from economic growth. The Islands remain far from reaching EU renewable energy and energy efficiency targets. In order to reach these targets Malta will need to reduce consumption and develop widespread use of alternative technologies. In this regard, the preparation of plans in the energy sector, on renewable energy and on energy efficiency, are welcomed.

v) Malta's continued rise in vehicle numbers is a matter of concern due to the environmental and social impacts of private motor vehicle use, and the high percentage of imports of older and more polluting second hand vehicles is also of concern. The renewal of Malta's car fleet with smaller and more efficient vehicles is urgently required. There is an urgent need to make public transport alternatives at least as reliable and attractive as private car use.

vi) Although it is small in terms of employment and contribution to GDP, the agriculture sector is a major environmental player. Agricultural practices may have serious impacts in terms of pollution on the countryside. However good farming practices can positively influence countryside and landscape quality, and sustain key environmental resources such as biodiversity, soil and water.'

But it has to be pointed out that:

vii) 'Although Malta has made significant progress in upgrading its environmental policy capacity, its institutional capacity still needs to improve in terms of human resources and funding, as well as public and private sector investments to upgrade operations and infrastructure.

viii) Environmental policy continues to rise in importance on the national agenda, and public opinion polls continue to indicate high levels of concern about environmental issues; yet this level of concern is not often translated into individual action.

ix) Although there has been an increase in holistic and participative initiatives to promote environmental education, there remains the need for a national environmental education policy to guide formal, non-formal and informal educational sectors, and including making environmental education mandatory in the national minimum curriculum.

x) With some 50 economic instruments related to the environment, Malta is currently making notable use of environmental-economic instruments, but with varying degrees of success. A more coherent approach contextualised within the country's overall environmental management strategy and overall package of environmental-economic instruments is recommended.

xi) The National Sustainable Development Strategy represents an important road-map for achieving sustainability in Malta. Ownership of the Strategy by all policy sectors is crucial and these now need to take up the priorities of the strategy, particularly in terms of new policy, legislation and practices in key sectors such as energy, transport, land use planning and tourism. Administrative mechanisms are necessary to ensure this takes place.

xii) Further development of participatory approaches and the strengthening of civil society in general would help significantly with the ongoing democratisation of Maltese society with respect to decision-making that affects the environment.'

(Source: MEPA-NSO. 2010: (i) – (vi): page 6; (vii) – (xii): page 62)

These state-of-facts point at inadequate clarity/ specification of visions in the recent past and, equally important, at inadequate institutional set ups that gave rise to two factors. First, the emergence of a management scenario which lacks a holistic approach to viable strategies/actions with clearly identified demarcation of responsibilities and accountability. Secondly, the failure of institutions to collate data, assess the statistical and qualitative information, propose pre-emptive/remedial measures, gauge their impact and come out with counter-measures and draw the necessary resources to effect them.

The task ahead cannot therefore be considered to be easy at all, especially if one plans to derive inspiration from one particular source, Catholic social teaching. This is the subject-matter of this presentation. This is so, because apart from the administrative lacunae spelled out above, there is a perceived and 'recorded' shift in the underlying values of the Maltese towards life in general and Catholic teaching in particular. Recent data suggest that while they support the presence of Christian symbols in public places, they are increasingly being selective in what they uphold as inalienable basic tenets of belief – such as marriage, divorce, pre-marital sexual relations, life after death and Papal infallibility (*Maltatoday*, 2010:

4-5). The gap between the beliefs of the under-35s and those of Maltese in older age brackets is seen getting wider over time.

Contemporaneously, there has been an 'unrelenting decline in the Sunday Mass attendance during the last four decades', reaching 51% in Malta and 73% in Gozo in 2005. Again, the behaviour of the under-49 contrasts sharply with that of the over-50: less than 40% follow the Sunday precept compared to the 53% plus of the over-50 in Malta. The shares in Gozo are still high for all: 70% plus for all above 15 years of age (Discern, 2009: 43).

This trend is 'indicative of what, by Catholic standards, is a malaise in both personal and community religiosity' (Inguanez, 2009: 8). The Maltese Church is facing a situation which is marked by several problems. 'These include but are not limited to: ignorance of the sacred scriptures and doctrine, ethical ambivalence, increasing violent crime, private and public corruption, prostitution and extra-marital relations – with the consequent frailty of the family structure and out-of-wedlock pregnancies, the belated sexual revolution resulting in a rise of sexually transmitted diseases, the sustained substance-abuse, the superficial work/business ethic and incipient racism…If one considers the whole way of life in Malta, the situation looks pretty grim'(Inguanez, 2009:8). It has to be recalled that these mutations of personal and social mores are taking place in a community of around 400,000 people.

It is in the context of a transition towards a secular state in the Maltese Islands (Montebello, 2010:27) that an evaluation of Catholic social teaching as a source of inspiration for personal behaviour, inter-personal relationships and political, economic and financial policy formation has to be addressed. The Maltese Islands seem destined to continue lagging behind the ongoing social trends in mainland Europe; a reference to the 'belated sexual revolution' is opined by Inguanez in the above quote. It could well be that the secularisation gradually seen emerging in Malta is happening at a time when it is being suggested that Europe will experience a process of de-secularisation and move into a new era of religious politics – a phenomenon already observed in the United States of America. Demography may be the great driver of the re-sacralisation of the world. The 'west', Europe in particular, is projected to see its share of the global population falling to around 10%, with a resultant diminution of power. Those communities who record higher birth rates when they move from poverty to relative comfort will have an advantage over other groups (Kaufmann, 2009).

In turn, one has to discover the link between income and wealth growth, their distribution and significance of personal and group well-being ('happiness'). Policy makers' ability (or, rather, inability) to smoothen out business cycle fluctuations and 'ensure' sustainable income growth is bound to condition for better or for worse personal behaviour within a group and between groups (or nation states). One has to spell out the limitations of one's knowledge of economic policy formation, otherwise one ends up putting unwarranted faith in problem solutions that may never materialise. The basic assumptions on which decision making is based have to be critically reviewed from time to time and checked against advancements in knowledge about real-life experience.

To follow these queries, this monograph is developed as follows. Section two reviews the historical evolution of Catholic social thought and identifies several key propositions that demand closer observation in so far as they influence directly economic policy decisions. Section three goes through key economic and political stances that are bound to bear on the creation of economic resources and their allocation by the market and re-allocation by a government's fiscal programme. It is seen that there is a lack of general consensus among economists on even basic relationships; this condition renders an automatic 'pick and choose' approach impracticable. It means that ultimately a deliberate judgement will have to be made on possibly imperfect information in relation to policy targets that may be notionally 'clear' but very 'hazy' in terms of identifiable statistical parameters. Section four applies the insight gained in sections two and three to the Maltese Islands and spells out the meaning of certain policy decisions for personal empowerment, wealth creation and income distribution. Section five summarises the main arguments and observations.

The Maltese experience may be considered a case study of the dialectic between those who wield 'power' and those who feel 'powerless', between the abuse of power and the response of those who perceive themselves as powerless. It is an illustration of this continuous interaction for co-existence between them in Malta and Gozo. In the past decade, this struggle for balance took a new dimension following Malta's membership of the EU. The centre of political and economic power is shifting away from Malta with the result that those who had accumulated 'power' are gradually becoming a 'powerless' group in front of greater European and Mediterranean forces. And those who considered themselves 'powerless' in a closed-economy and society realise that their freedom to act has increased; their control over their life has become tighter. Their relative 'powerlessness' has diminished and they are getting stronger. It is in this evolving context that the social teaching of the Catholic Church has to be interpreted and implemented.

CHAPTER TWO

CATHOLIC SOCIAL TEACHING:
PERSONAL FREEDOM, SOLIDARITY, THE COMMON GOOD AND THE MARKET ECONOMY

Catholic social teaching is meant to guide personal and group behaviour on lines of action inspired from the teaching of Jesus Christ. Christians believe in a Trinitarian God, the Father, the Son (Jesus Christ) and the Holy Spirit. Debate on this belief has been ongoing for the past two thousand years on various issues related to the existence of God, the doctrines of the Trinity and Salvation. At times, a distinction is made between the Jesus of the Gospels (History) and the Jesus of Faith, God made Man, a distinction which seems to suggest that there are two persons – one 'real' and the 'other' the creation of a set of beliefs. If there is a search for the teachings of Jesus Christ, then the Jesus of Faith and the Gospel Jesus have to be one and the same: One Person being simultaneously divine and human. (Vide: Ratzinger, 2007) Otherwise we end up with a series of sayings that may act as guidelines for personal behaviour in various life circumstances but without the imprint of a greater weight emanating from the 'divine'. This is not a light idea; but if it is upheld then the responsibility of seeking to establish what to believe and interpreting/applying it in particular social and political contexts is accordingly greater. Such beliefs become the foundation upon which practical decision making ruling laws, social networks and economic behaviour will be devised, implemented and judged.

People understand concepts, meaning of words and symbols, in relation to their cultural milieus. The explanation of the mission of Jesus Christ on earth was interpreted in a language and in a historical context that can be understood and appreciated by the communities for whom the texts were intended. Addressing Jewish communities in Palestine required a different approach from the narration meant for non-Jews or 'gentiles'. Issues held strongly by one group may have no or little meaning for another, like the questions of circumcision and the choice of meat which demanded a clarification in the early years of Christianity. Every generation goes through this search process, basing its thinking on that of its predecessors while taking cue from developments in science and technology. But human beings remain human beings, and in two thousand years their inner selves appear to have changed very little, if at all.

The texts that narrate Jesus' life are indicative of man's nature and inter-societal relationships. These characteristics can form the building blocks of policy orientation once the basic tenets are agreed upon. The fundamental principle on which action has to be taken refers to the fact that all human beings, irrespective of age, gender and race, are equal in terms of dignity. Christians uphold that Christ died for the salvation of all no matter where and when they lived.

But in other matters, all individuals are different. Talents and charisma are not evenly distributed among people. They vary from one person to another. These aptitudes/abilities form the conditions on which individual contributions to the creation of wealth and its distribution can come about. Distribution has to be fair, rewards reflecting agreements between two transactors. But fairness does not exclude one from being generous with one's assets – if one wants to give more than agreed then one is more than free to do so. The sharing of one's wealth is not limited to one's inner circle, but open to all, whoever they may be, even when they come from outside one's race, social class or country. It even extends to those who may be considered as one's historical (though not necessarily personal) 'enemies'. The universality of charity/unconditional support is a fundamental characteristic of the Gospels.

But this teaching does not signify that human beings will automatically follow such desiderata. On the contrary, people will strive to jockey for key positions when perceiving opportunities for favouritism. They will side-track others to move on ahead. They can misread situations, and even decide to give up ideals and friends in exchange for cash or to avoid discomfort and embarrassment. Some will even offer other people's heads for a dance or reconcile differences at the expense of third parties; they may be cruel and hurt others. Some are foolish and may be unprepared, squander inheritance, or even fiddle records in the hope of securing future favours and revenue. But at some time they may reconsider their position and find enough courage to return to their more benign roots. At times they do so for purely selfish reason, one may add, to restore and rediscover their lost dignity and material well-being. But they act and move on, which is a positive factor.

And there is a lot of goodwill in all; it has to be tapped – whether they are political leaders, tax collectors, busy merchants, land owners, learned doctors of the law or astronomers, military personnel, farmers and fishermen, carpenters and housewives. They are patient, wise, try a second-time, and help others even when they come from afar. They believe, repent and forgive. The Gospels are replete with such examples. They represent the bright side of human nature. The Gospels emphasise the necessity for the creation of suitable environments where ideals can gain a hold and prosper: farmers prepare the ground before sowing seeds otherwise the seeds will die or be eaten up by birds.

Creating and possessing wealth is not a handicap, if one uses such resources to improve the lot of others besides one's own. And having a dual citizenship helps; it may come handy at some time to the individual although perhaps at a cost to Caesar. After all, citizens are expected to give Caesar his due (presumably, one may add, on the understanding that Caesar will honour his obligations towards the people. Governments seem inclined to reproduce the episode of the feeding of the five thousand with only five loaves and two fishes; they are prone to borrow and then resort to the printing presses to over-supply the currency which they control).

In short, there is a lot of human psychology to build on. It indicates the strengths and also the shortcomings that have to be addressed so long as one does not lose sight of the point of departure: no matter who they are, all human beings are equal in their rights since they belong to one big family that is humanity. But they need to be constantly reminded of both their rights and their obligations. Emphasising solely the former can distort their valuations and their ranking of priorities; there has to be a balance between the two in order to induce a receptive attitude from listeners. This balance is what the teaching of the Catholic Church conveys.

Such balance finds support from evolutionary biology, neuro-cognitive science and child development that reveal that human beings are predisposed to be empathic. Our core nature is shown not to be rational, detached, acquisitive, aggressive and narcissistic but affectionate, highly social, co-operative and inter-dependent (Rifkin, 2010). A claim that is also at the core of the Economy of Communion Model of production and distribution proposed by Chiara Lubich, the founder of the Focolare Movement. (Lubich, 2006:269-289; Delia, 2006: 3-26) These insights suggest that there is a lot of positive disposition on which one can work, provided that people grow in an environment that reinforces their empathic tendencies.

2.1 Catholic Social Teaching since *Rerum Novarum:* 1891 - 2010

Catholic social thought has to be seen as a continuum of ideas. Every document since Leo XIII's *Rerum Novarum* (1891) reflects primarily the issues that troubled people at the time of its publication. The past two centuries experienced relatively massive changes in political thought and industrial and social organisation. They witnessed heavy displacements of people, radical changes in life-styles, work habits and in the generation and distribution of wealth. They were replete with social conflicts as nations got their independence and re-organised their methods of production in agriculture and manufacturing. They were challenging and far-from-easy times.

The papal documents drew on the political and economic foundations of mainstream thinking as then understood. In part they were the product of the political and social orders as these had evolved initially in Europe and in recent decades throughout the globe. They were meant to diffuse desirable political and economic objectives that could be associated with the common good while, at the same time, emphasising the right to individual liberty and free choice. Hence they evolve in their geographical perspectives and in the proposals they put forward for the redressing and strengthening of social orders based on personal freedom, private property, family life, collective organisation, free trade, and social solidarity in a globalised world trade environment. In the process they consider such issues as minimum wages, the formation of trade unions, collectivisation and totalitarian regimes, liberal capitalism, consumerism, and international obligations and the environment, to mention several themes.

The above are the same issues that are being discussed the world over after the collapse of the communist regimes in Eastern European countries, the growth of China's economy under a single-party state, and the financial and economic crises of the past three years. This means that there is a repetitive pattern regarding matters referring to production-distribution trade-offs, good governance at the level of the firm and country, the ideal size of the public sector in an economy, and the evolving social contract. It seems that every generation has to take up this discussion. It can be claimed that we are facing on on-going task and, therefore, we have to learn how to set our vision and means in such a way as to render them manageable within a defined time frame.

The rest of this section, therefore, highlights the historical conditions and the main themes outlined in the papal encyclicals. It draws heavily on commentaries made in O'Brien and Shannon (2004) for the century 1890-1990. In turn, the key propositions are identified and explained. Finally, we link these themes to two exhortations that

Popes John Paul II and Benedict XVI made to the Maltese people while visiting the Islands. They lead to the next section on lessons from the history of economic thought.

2.2 The historical context and the main themes of the Encyclicals

Catholic thinkers in the eighteenth century attributed the problems that prevailed in many communities in Europe to secularism, particularly to the separation of political authority from its divine foundations and of economic life from moral and ethical influence. It was thought that excessive individualism had destroyed the rich group life of the Christian era and rendered ordinary people subordinate to absolute states and grabbing capitalists. Catholic leaders in various countries had different short-term solutions to these problems. But they tended to agree that contemporary issues could be overcome by a restoration of organic unity and direction of modern life through the reconciliation of society and culture with the church.

Leo XIII

The nineteenth century began and ended amid hostility towards the Catholic Church; it started with the aftermath of the French Revolution and witnessed the loss for the Church of the Papal States in Italy. The world of 1891 was not friendly to Catholicism. Still, Leo XIII sent a powerful message through *Rerum Novarum*. He opted for reform rather than counterrevolution, and tried to nudge European Catholics away from an apparently hopeless alliance with monarchy and preindustrial feudal economic ideals towards a more promising strategy of political participation and social reform. The Pope aimed to persuade Catholics to concentrate less on politics and more on the 'social question'. At times, his appeal sounds quite radical, reviving the earlier emphasis on the evangelical mission on behalf of the poor. But the goal was still the restoration of order and authority, and that precluded class preference or labour militancy.

In an even-handed manner Leo laid anathemas on both liberal capitalism, which released the individual from social and moral constraints, and socialism, which subordinated individual liberty to social well-being without respect for human rights or religious welfare. Economic life, like political life, should reflect the dualistic nature of the person, providing for bodily needs and facilitating the quest for salvation. It was a strong position from which to condemn wage slavery. Leo insisted that wages be determined not by economic considerations alone, but by taking into account the basic needs of the individual. Property, too, was subject to social and moral restraints; while all had a right to possess private property, none had the right to use that property without reference to the needs of the community.

Leo taught that the moral law – based on a rational understanding of human nature supplemented by revelation – had to be part of every economic system and indeed of every economic transaction. The criteria given by that law were justice, demanding equity in exchange and bargaining; balance between various economic sectors; and organisation of the constituent economic units. In general, justice demanded that the common good of the community takes precedence over individual gain in determining economic policy, without, however, necessarily infringing on legitimate rights. This in turn suggested a wider concept of economic organisation and governance, developed later on by Pius XI.

Leo initiated modern Catholic discussion of human rights in the economic order. The claim to a right to a living wage gave Catholics an opportunity to engage hostile social movements. But such discussion, if taking place at all, had to be guided by the church and its pastors. Catholics should dream of new things, but be cautious in bringing those dreams to life.

Pius XI

The world that Pius XI faced forty years later, in 1931, was very different from Leo's. Parliamentary democracies appeared almost helpless in front of the mass movements of fascism and communism. And the economies of the Western world lay in the grip of a worldwide recession. A better organised church, and more united than ever before, might be able to offer a credible alternative to a 'failed capitalism' and a 'fearsome socialism'. A return to the faith was offered as a way to resolve the several conflicts that troubled the world: the clashes between the state and the individual; political freedom and economic security; economic expansion and moral values; and the economic elite and the working classes.

Backed by religious sanctions and positive law, justice would be restored, rights respected, and harmony created. The term '*social justice*' was introduced in *Quadragesimo Anno* to describe the type of justice that demanded due recognition of the common good, a good which included, and did not contradict, the authentic good of each and every individual. In this way the church lifted human rights and human solidarity as the foundation for its response to both totalitarianism and capitalism. It provided the balancing of political and civil with social and economic rights and indicated a third way other than Left or Right.

Though positive, attractive and laudable, such an alternative did not succeed to relate to the hopes and aspirations of the working classes. For them the church was closer pastorally, but not pragmatically. For all its failings, liberalism induced aspirations and new hopes among masses of ordinary people; the church seemed to offer only a return to a former age, which many knew instinctively had been neither secure nor happy for most people.

Pius XII

World War II brought another turning point in the history of the West. The Catholic Church emerged from that terrible experience as one of the few transnational institutions left intact. Before the war was over, Pius XII began to offer a new affirmation of democratic political structures. The Papacy experienced a new prestige, and Christian democratic governments became major vehicles for the rebuilding of Western European society. That society, once perceived as threatening to the church, seemed the only available shield against a Communist threat as it turned viciously against the church in Eastern Europe.

Catholic social thought, under Pius XII's leadership, deemphasised the call for total reorganisation of society articulated by Pius XI and returned to the reformism and moderation of Leo XIII. Trade unionism, social insurance and the welfare state, even mixed economic arrangements of government and private enterprise, enjoyed the favour of the church and the Catholic political parties. A style of positive social action and liberal reformist politics became normative. The church began to look at itself through the lenses of new experiences.

John XXIII

John's encyclicals (*Mater et Magistra* – 1961; *Pacem in Terris* – 1963) are characterised by natural law. But he brought a new openness and style to that method that freed it from static assumptions. John shared the liberal assumption that new wealth could be created and that the first task of justice was to induce wealth, not equitably to distribute what was available. He also assumed that a wider distribution of property would narrow the gap between rich and poor. These assumptions were, in many ways, the assumptions of his age: an acceptance of the Western economic order, a reformist attitude to the status quo, and a wider role for the state.

Two significant features of John's teaching are his emphasis on socialisation – meaning an increase of the network or relations by which individuals are connected to one another - and for state intervention to ensure that property would achieve its social functions. Justice requires that property be used for the common good.

In *Mater et Magistra*, beside the social dimension of property broadened to incorporate a more effective distribution of goods and services, John extended the criteria of the just wage to take into account the contribution of the individual, the economic state of the enterprise in which individuals work, the requirements of every community, and the common good. He warned of the dangers of neo-colonialism, which re-enacted the political dominance of the poor by the rich. And Pope John developed a lengthy section on agriculture: health and crop insurance, price management, agricultural technology, and the relationship between market value and the necessity of a just wage for farmers.

Pacem in Terris, addressed 'to all men of goodwill', spoke in a language of fraternity, shared concern, and mutual responsibility. It develops four major themes: the rights proper to every individual, the relation between authority and conscience, disarmament, and the development of the common good.

In addition to traditional rights such as respect for one's person and religious freedom, John argues for some not accepted as easily: the right to freedom in searching for the truth and in expressing one's opinions, the right to choose freely one's state of life, the right to work, the right to free initiative in economics, the right of freedom of assembly and association, and the right to emigrate and immigrate. Such a listing sets out a social agenda and provides criteria for evaluation of social practices. They provide the background for the document's exposition on the relation between conscience and authority. While affirming the traditional doctrine that social positions imply social duties binding on all by natural law, John also provides a more democratic emphasis on participation. The pope argues that the state can oblige individuals in conscience only if its authority is intrinsically related to the moral order, that is, God. This view provides the basis for individual claims against a government.

Pope John argues that justice, reason, and humanity demand that the arms race should cease, that nuclear weapons be banned and that progressive disarmament begin. In the modern nuclear environment 'it is contrary to reason to hold that war is now a suitable way to restore rights that have been violated'. John uses the concept of the common good as a principle of integration. The common good of a community transcends the individual person's good but it cannot be divorced from the common good of the entire human community.

Paul VI

The Second Vatican Council, called by John XXIII and concluded by Paul VI, replaced the juridical, hierarchical definition of church with more biblical and symbolic images and clearly articulated a sense of the church as taking its form and function from its relationship to the kingdom of God. A second shift marked by Vatican II resulted from the long, agonising effort of church leaders to come to terms with liberal, democratic principles. The new emphasis on human liberties and human rights occupies a central place in post Vatican II documents.

In *Populorum Progressio* - 1967 and *Octagesima Adveniens* - 1971, Pope Paul VI focuses on the issues of social justice with which he had long been concerned. He argued for a pluralism of approaches to the problem of poverty and a greater role for the local church in identifying problems and responding to them.

Populorum Progressio placed the social question in its worldwide context. The pope rejected unequivocally many of the basic tenets of capitalism, including unrestricted private property, the profit motive, and reliance on free trade in a world economy. He emphasised the right in justice of the poorer nations to the aid of the wealthier nations and suggested quite explicitly that, in an extreme situation, the poor retain the right to a violent solution to their problems.

A major theme is Paul's vision of development, which takes place on an individual level and is oriented to a transcendent humanism; growth always open to further maturity. Development is also social because every individual is part of a larger whole. True and integral development includes the acquisition of knowledge, culture, and the necessities of life; the desire for cooperation and peace, with a corresponding recognition of human dignity; the recognition of supreme values and the destiny of the person; and the acceptance of faith, which opens individuals to union with God.

Other agenda of the encyclical included the recognition of the social dimension of property, an equitable distribution of the world's resources, and trade, a new area of attention. Here Paul focused on the problems of neo-colonialism.

Many agreed with the pope's description of the problems and even might have shared his sense of urgency. But, the exact direction the church and the world should follow was unclear. Poised in delicate balance between the church's role in the developed world and its moral commitment to freedom, justice and peace, Pope Paul VI attempted to provide leadership for the present with a sense of continuity with the past. It was a most difficult task.

Timed to coincide with the eightieth anniversary of *Rerum Novarum* and the tenth anniversary of *Mater et Magistra*, the encyclical *Octogesima Adveniens* was addressed directly to Catholics, urging them to incorporate more seriously the new sense of Christian responsibility in the world into all phases of their lives. The encyclical letter emphasised that action for justice was a personal responsibility of every Christian. This responsibility rested on Christian organisations and institutions and involved both the effort to bear witness to the principles of justice in personal and community life and acting to give those principles life in society.

Urbanisation is a new theme addressed by the pope. Paul VI sees individuals facing a new loneliness as a result of anonymity, poverty, indifference, waste, and overconsumption often found in cities. These situations lend themselves easily to new forms of exploitation and domination.

Another new issue is the environment. Given rapid technological advances and the resources needed to keep pace with this development, several questions about the future capacity of the earth to support the human race came to the fore. Thus the pope calls for a new sense of responsibility for the environment, which must support all of the inhabitants of the earth.

While recognising and voicing a high level of suspicion about the various ideologies that support many political programmes, this letter recognises the urgency of contemporary problems and argues that Christians are called to action and participation in the social and political processes of the countries in which they live. This new call to action recognises that Christians must become involved in social reforms as part of their mission as Christians. Although such a mission raises difficult political and practical problems, such difficulties do not absolve Christians of their duties. Rather, the urgency of the situation heightens the social responsibility of the Christian.

John Paul II

John Paul II, the first non-Italian pope for centuries, set in motion several sometimes contrasting currents. He was a strong advocate of justice and human rights, speaking forcefully on behalf of the poor. Yet, he appeared to be tied to aspects of the status quo, especially within the church, was hesitant about promoting structural reform, and at times gave the impression that liberation can be achieved by the conversion of the rich and powerful. He expressly prohibited priests and religious from participating directly in political affairs.

John Paul's social teaching can be better understood by referring to two prior encyclicals – *Redemptor Hominis* – 1979, and *Dives in Misericordia* – 1980, which presented his often original Christian humanism. The former provides the background for much of the pope's subsequent thought; there is a deep and thorough theological anthropology. This defines Christ as the full measure of the human, arguing that the human being can plumb his or her full depth as a person only through contemplation of the person of Christ. The fullness of the possibilities of the human are revealed in Christ who is the model of who we might become. For John Paul, the dignity of the person is an integral part of the proclamation of the gospel, and the church must stand committed to protecting true human freedom. Additionally, and even more important, the human being in the concrete circumstances of his or her life is the 'primary route that the Church must travel in fulfilling her mission; he is the primary and fundamental way for the Church'. In its care for the human, the church must be firmly located in history, in culture, and attentive to the nuances of the human, not in the abstract but in the concrete.

The pope focuses on the prevailing fears to identify areas where the church can be active and respond to the signs of the times. These fears are several: technological development may be beyond our capacity to restrain or direct; our products may destroy us; we ourselves may be out of control. Progress may not be actually progress, because it is not truly serving the human. And the global economy and the environment need attention so that humans can once again achieve their true dignity, freedom and self-mastery.

In *Dives in Misericordia*, John Paul reiterates his negative reading of many signs of the times, but puts them in a new context: mercy as the transforming virtue that will reveal humans to themselves and permit a personal healing not always effected by strict justice. Analysing the theme from the perspective of the Jewish and Christian scriptures, John Paul shows how mercy is linked to justice in the themes of creation, and how it characterises the reality of God by the reconciling act of forgiveness. In turn, mercy and love complement justice and keep it from becoming formal and legalistic. Justice focuses on 'objective and extrinsic goods while love and mercy bring it about that the people meet one another in that value which is man himself, with the dignity that is proper to him'. Mercy serves as the bond that unifies persons and establishes reciprocity between them based on their dignity and mutual love. Mercy leads justice beyond an external restoration of rights to the experience of reconciliation and thus makes people one. Human solidarity, our mutual dependence on one another, thus grounds our particular, specific concerns for justice and locates liberation in a global and communal context, recalling the earlier papal theme of social justice as concern for the common good.

By proclaiming mercy, the church seeks to recognise the dignity of all persons, especially by placing them in context in which reconciliation and love serve as the foundation for a relation of forgiveness on the basis of which justice will be served. This attitude will soften the edges of justice and instill a gentler quality in society, which can work to transform our primary approaches to one another. These ideas form the tone for the three social encyclicals that followed.

Laborem Exercens (1981), commemorating the ninetieth anniversary of *Rerum Novarum*, sets forth a philosophy and theology of work in the contemporary context. This analysis is grounded in the book of Genesis and focuses on the themes of subduing the earth, having dominion over the earth, and being responsible for the earth. John Paul distinguishes between objective work – the agricultural means, industrial processes, or microprocessing by which humans subdue the earth – and subjective work – the human capacity to act in a 'planned and rational way, capable of deciding about himself and with a tendency to self-realisation'. Work emerges from those who are expressing their nature and provides the grounding for the dignity of work. Work is for the person, not the person for work.

John Paul sees the conflict between capital and labour not as a class struggle but in terms of the exploitation of labour. Because the conflict is moral, not exclusively ideological or political, the pope can reject the concept of an inevitable and perhaps violent class struggle. Besides, since both property and capital are earned through labour, the pope thinks this will provide a way for cooperation between the two groups.

Reflecting the distinction between objectives and subjective work, John Paul proposes the principle of the priority of labour over capital: 'Labour is primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause'. Capital is both work and a collection of things, based as it is on natural resources, money, and technologies. Because it is instrumental, capital must always be subject to labour. This observation leads to the pope's argument against economism – the evaluation of labour only in accordance with its economic purpose – and materialism – the primacy and superiority of the material over the personal.

Four traditional rights of labour are in turn defended by the pope: suitable employment for all those capable of it; just remuneration for the work done; the organisation of the labour process to respect the requirements of the persons and his or her life; and the right to form unions. These rights are discussed within the context of the direct and indirect employer. The direct employer is the specific individual with whom the worker enters into a contract; the indirect employer sets the context in which the worker contracts with the direct employer. Any issues of wage justice or health care benefits, for example, must be established with respect to public policy, markets, and various structures of interdependence as well as with respect to a specific employer.

Finally, the pope identifies three values that labour brings: through work humans transform nature and personally fulfil themselves; work provides a basis for family life and the resources it needs; and through work persons affirm their membership in a nation and participate in attaining the common good. By working, human beings achieve a deeper realisation of their personhood through an intensive participation in community and the common good.

To commemorate the twentieth anniversary of *Populorum Progressio*, John Paul wrote *Sollicitudo Rei Socialis* in 1987. The encyclical reviews international relations and establishes the theme of solidarity as a central one. At that time, the lack of development was blamed on the East-West blocs. The Eastern bloc was characterised as a system of Marxist collectivism and the Western was based on liberal capitalism. Both were combined with industrialisation and, in the pope's view, both caused significant international problems: the stagnation in developing countries, unacceptably exaggerated concerns of security, arms trade, and the arms race.

John Paul proposes to focus on authentic human development as a remedy to these issues. He recommends the transcendence of the human being; a vocation to work, which is the ultimate grounding of development; and a framework of freedom and solidarity based on the dignity of the human person. Solidarity is a fruit of interdependence, which demands 'the abandonment of the politics of blocs, the sacrifice of all forms of economic, military and political imperialism, and the transformation of mutual distrust into collaboration'. The positive outcome is the development of a vision of a global common good based on recognition of moral interdependence.

The vision of solidarity leading to interdependence gives a new standard that can lead people and governments to self-examination. Several guidelines provide the structure for John Paul's vision. First is the preferential option for the poor, which applies not only to the internal life of the church but also to its social responsibilities. Second is the recognition that private property carries a 'social mortgage', which means that it has an intrinsically social function based upon and justified precisely by the principle of the universal declaration of goods. Third is the affirmation of religious and economic freedom, as well as the recognition of human rights through the rule of law. Finally, the pope affirms the necessity of developing nations taking responsibility for their own destiny by setting their own agenda, thus participating in the growing interdependence of the world.

Four years later, following the momentous year 1989 that saw the upheaval in Eastern Europe, and to commemorate the centenary of *Rerum Novarum*, John Paul wrote *Centesimus Annus*. The encyclical provides a comprehensive overview of the key points of Catholic social teaching as well as an application of them to specific issues. John Paul goes through the themes of the restoration of peace between social classes, the right to private property, just wages, the question of rights, and the relation between the citizen and the state. The continuing problems of workers and the poor come from the errors of socialism and an atheistic vision of life. Socialism subordinates the good of the individual to that of society and eliminates the 'concept of the person as an autonomous subject of moral decision'. Atheism deprives the human of his or her transcendent dignity which allows utilitarian, but ultimately inadequate solutions to human problems.

John Paul stands with *Rerum Novarum*'s assertion of the right to private property, but also recognises that this is not an absolute right and that property has a social function. He also recognises, but does not develop, a new form of property: the possession of know-how, technology and skill (32).

The pope notes that many of the problems raised by Leo XIII were still present and needed to be addressed. Regarding issues rated to economic development and recognising the legitimacy of profit and that 'the free market is the most efficient instrument for utilising resources and effectively responding to needs'(35), the pope does not give a carte blanche to capitalism. He argues that many human needs finds no place in the market and justice requires their resolution. He also evaluates the consumerist society and its impact on the poor.

The church values the main tenets of democracy, but only insofar as it recognises and implements appropriate human values. The role of the church is to promote those aspects of human behaviour which favour a true culture of peace. The 'social message of the Gospel must not be considered a theory, but above all else a basis and a motivation for action.'(55) Only through such action for justice will the vision of *Rerum Novarum*, now interpreted contemporarily through *Centesimus Annus*, be implemented.

Benedict XVI

The 'fears' that troubled John Paul II got accentuated in the five years that Benedict XVI has led the Catholic Church. The global financial upheaval of the past four years and the economic repercussions that followed in many developed countries are a strong eye-opener to all. Similarly, the incompleteness of major political-financial projects, like the introduction of the euro currency in some member countries of the European Union, and possibly the misunderstanding by many of what such initiatives truly imply for wealth creation and its equitable distribution, cannot be ignored for long. So is the strong interdependence of natural phenomena and multilateral global trade on which depends the welfare of many people living thousands of kilometres apart; this became clear to all in the wake of the eruption of a volcano in Iceland in April 2010. Mankind has to stop and consider the way ahead.

Distributed information and communication technologies are converging with distributed renewable energies creating the infrastructure for a third industrial revolution. In the coming decades, people will produce their own energy just as they now create their own information, and as with information share it with millions of others. The new communications revolution is bound to alter the way we think. We may be in the early stages of a transformation from ideological consciousness to biosphere consciousness. All life is deeply interdependent. So it could be that we may be witnessing the beginning of a shift from pure self-interest in national markets to a shared interest on the biosphere commons, and the corresponding move from the right to exclude others to the right to be included in global networks. But, as always, periods of transition, immediately pre-dating a major social upheaval, may be only hazily perceived by many and possibly resisted by most.

Benedict's contribution to social teaching is expressed in an evolutionary expansive fashion in three encyclicals revolving around the three cardinal virtues of Faith, Hope and Charity. These letters are: *Deus Caritas Est* – 2005; *Spe Salvi* – 2007; and *Caritas in Veritate* – 2009. They provide 'a set of fundamental guidelines offering approaches that are valid beyond the confines of the Church: in the face of ongoing development these guidelines need to be addressed in the context of dialogue with all those seriously concerned for humanity and for the world in which we live' (*Deus Caritas Est*, 27).

Deus Caritas Est relates a commitment to justice with the ministry of charity in terms of two basic situations. First, the just ordering of society and the State is a central responsibility of politics. A just society must be the achievement of politics, not of the Church. Yet the promotion of justice through efforts to bring about openness of mind and will to the demands of the common good is something which concerns the Church deeply. Fundamental to Christianity is the distinction between what belongs to Caesar and what belongs to God, that is, the distinction between Church and State, or the autonomy of the temporal sphere. And justice is both the aim and the intrinsic criterion of all politics. Therefore justice, rooted in ethics, has to be achieved 'here and now'. Catholic social teaching has no intention of giving the Church power over the State. 'Even less is it an attempt to impose on those who do not share the faith ways of thinking and modes of conduct proper to faith. Its aim is simply to help purify reason and to contribute, here and now, to the acknowledgement of what is just'(28a) This teaching argues on the basis of reason and natural law, on the basis of what is in accord with the nature of every human being.

Second, love – *caritas* – will always prove necessary, even in the most just society. There is no ordering of the State so just that it can eliminate the need for a service of love. There will always be suffering, loneliness and situations of material need where help in the form of concrete love of neighbour is indispensable. 'The State which would provide everything, absorbing everything into itself, would ultimately become a mere bureaucracy incapable of guaranteeing the very thing which the suffering person - every person - needs: namely, loving personal concern' (28b).

The formation of just structures is not directly the duty of the Church, because it belongs to the world of politics. But it is proper to the lay faithful. As citizens of the State, they are called to take part in public life in a personal capacity. They cannot relinquish their participation in the many different economic, social, legislative, administrative and cultural areas, which are intended to promote organically and institutionally the *common good* (29).

Spe Salvi develops the idea that the Christian message is not only 'informative' but 'performative': the Gospel is not merely a communication of things that can be known, it is also one that makes things happen and is life changing. But over the past two centuries, humanity sought a new correlation of experiment and method that enabled it to arrive at an interpretation of nature in conformity with its laws and seek to achieve 'the triumph of art over nature'. The new correlation between science and praxis would mean that the dominion over creation – given to man by God and lost through original sin – would be re-established. Science and praxis had replaced faith. The present day crisis of faith is essentially a crisis of Christian hope: it is faith in progress.

In turn progress has been associated with the growing dominion of reason and freedom; both have political aspects. 'Reason' and 'freedom' seem to guarantee by themselves, by virtue of their intrinsic goodness, a new and perfect human community. They were tacitly interpreted as being in conflict with faith and the Church as well as the political structures of the time. And, bearing the seeds of revolution, the two concepts lead to the overthrow of existing orders, but without indicating the way ahead. Man always remains man. Therefore, freedom always remains also freedom for evil. Not everything would automatically be put right, once economies are put right. It is not possible to redeem humankind from the outside by creating a favourable economic environment

Freedom presupposes that in fundamental decisions, every person and every generation is a new beginning. New generations can build up on the knowledge and experience of their ancestors. They can draw upon the moral treasury of the whole of humanity; but they can also reject it. The moral treasury of humanity is not readily at hand like tools we use; it is present as an appeal to freedom and a possibility for it. This means:

a) The right state of human affairs, the moral well-being of the world can never be guaranteed simply through structures alone, however good they are.
b) Since man always remains free and since freedom is always fragile, the kingdom of good will never be definitively established in this world. Anyone who promises the better world that is guaranteed to last

for ever is making a false promise; he is overlooking human freedom.(24a, b)

c) Every generation has the task of engaging in the arduous search for the right way to order human affairs; this task is ongoing. Man is not redeemed by science, but by love. While we must always be committed to the improvement of the world, tomorrow's better world cannot be the proper and sufficient content of our hope (25, 30).

Love in truth – *Caritas in Veritate* – is the principle around which the Church's social doctrine turns. The encyclical reviews the main tenets enunciated by the preceding social documents and highlights their importance for an orderly interrelationship within a society and among nations. The Church is engaged in promoting integral human development. Authentic human development concerns the whole of the person in every single dimension; without the perspective of eternal life, human progress in this world is enclosed within history and runs the risk of being reduced to the mere accumulation of wealth. While institutions are necessary for human development, they are not sufficient to deliver the desired objective automatically: integral human development involves the free assumption of responsibility in solidarity on the part of everyone.

The encyclical reviews several themes that bear directly on ethics, politics, economics and finance. These include: the meaning of solidarity and subsidiarity within a country and internationally; the role of the State, the market and the rule of law; the role of the United Nations Organisation, global interdependence and capital movements; trade, finance and the profit motive; gift-sharing and commercial exchanges; the environment;

migration, labour markets, and international tourism; technology, social communications and bio-ethics; and labour organisations. All these influence one large family, the human family, which is supported in its future's endeavours by a series of rights and duties, cooperation and understanding among its many constituents.

Benedict states categorically that 'the Church does not have technical solutions to offer and does not claim to "interfere in any way in the politics of States". She does, however, have a mission of truth to accomplish, in every time and circumstance, for a society that is attuned to man, to his dignity, to his vocation' (*Caritas in Veritate*: 9). So it falls on the lay faithful 'to work for a just ordering of society…As citizens of the State, they are called to take part in public life in a personal capacity…The mission of the lay faithful is therefore to configure social life correctly, respecting its legitimate autonomy and cooperating with other citizens according to their respective competences and fulfilling their own responsibility' (*Deus Caritas Est*: 29*). It is therefore up to the 'lay faithful' to identify and implement the 'technical solutions' that both reflect the principles spelled out in the encyclicals and that are consonant with the long-term political, social and economic development of a 'people'.*

In synthesis, the main tenets of Catholic social teaching over the past century may be stated in the ten principles below (Office for Social Justice, 2009).

1. Dignity of the Human Person

Belief in the inherent dignity of the human person is the foundation of all Catholic social teaching. Human life is sacred, and the dignity of the human person is the starting point for a moral vision for society. This principle is grounded in the idea that the person is made in the image of God.

2. Common Good and Community

The human person is both sacred and social. Human beings realise their dignity and rights in relationship with others, in community. They grow and achieve fulfilment in community. Human dignity can only be realised and protected in the context of relationships with the wider society.

How society is organised – in economics and politics, in law and policy – directly affects human dignity and the capacity of individuals to grow in community. The obligation to 'love our neighbour' has an individual dimension, but it also requires a broader social commitment. Everyone has a responsibility to contribute to the good of the whole society, to the common good.

3. Option for the Poor

The moral test of a society is how it treats its most vulnerable members. The poor have the most urgent moral claim on the conscience of a nation. Public policy decisions are judged in terms of how they affect the poor. The 'option for the poor' is not an adversarial slogan that pits one group or class against another. Rather it states that the deprivation and powerlessness of the poor wounds the whole community. A healthy community can be achieved only if its members give special attention to those with special needs, to those who are poor and on the margins of society.

4. Rights and Responsibilities

Human dignity can be protected and a healthy community can be achieved only if human rights are protected and responsibilities are met. Every person has a fundamental right to life and a right to those things required for human decency – starting with food, shelter and clothing, employment, health care, and education. Corresponding to these rights are duties and responsibilities – to one another, to our families, and to the larger society.

5. Role of Government and Subsidiarity

The state has a positive moral function. It is an instrument to promote human dignity, protect human rights, and build the common good. All people have a right and a responsibility to participate in political institutions so that government can achieve its proper goals.

The principle of subsidiarity holds that the functions of government should be performed at the lowest level possible, as long as they can be performed adequately. When the needs in question cannot adequately be met at the lower level, then it is not only necessary, but imperative, that higher levels of government intervene.

6. Economic Justice

The economy must serve people, not the other way round. All workers have a right to productive work, to decent and fair wages, and to safe working conditions. They also have a fundamental right to organise and join unions. People have a right to economic initiative and private property, but these rights have limits. No one is allowed to amass excessive wealth when others lack the basic necessities of life.

Catholic teaching opposes collectivist and statist economic approaches. But it also rejects that a free market automatically produces justice. Distributive justice, for example, cannot be achieved by relying entirely on free market forces. Competition and free markets are useful elements of economic systems. However, markets must be kept within limits, because there are many needs and goods that cannot be satisfied by the market system. It is the task of the state and of all society to intervene and ensure that these needs are met.

7. Stewardship of God's Creation

The goods of the earth are gifts from God, and they are intended for the benefit of everyone. There is a 'social mortgage' that guides our use of the world's goods, and all have a responsibility to care for these goods as stewards and trustees, not as mere consumers and users. How people treat the environment is a measure of their stewardship, a sign of respect for the Creator.

8. Promotion of Peace and Disarmament

Catholic teaching promotes peace as a positive, action-oriented concept. Peace is the fruit of justice and is dependent upon right order among human beings.

9. Participation

All people have a right to participate in the economic, political, and cultural life of society. It is a fundamental demand of justice and a requirement for human dignity that all people be assured a minimum level of participation in the community. It is wrong for a person or a group to be excluded unfairly or to be unable to participate in society.

10. Global Solidarity and Development

There is one human family. Personal responsibilities to one another cross national, racial, economic and ideological differences. All are called to work globally for justice. Authentic development must be full human development. It must respect and promote personal, social, economic, and political rights, including the rights of nations and of peoples. It must avoid the extremes of underdevelopment on the one hand, and 'super-development' on the other.

Accumulating material goods and technical resources will be unsatisfactory and debasing if there is no respect for the moral, cultural and spiritual dimension of the person.

2.3 Popes John Paul II and Benedict XVI and the Maltese Islands

John Paul and Benedict had a direct opportunity to express the Church teaching to the people of Malta and Gozo when they visited the Islands. John Paul was in Malta in 1990 and 2002; Benedict in 2010 on the 1950th anniversary of St Paul's shipwreck described by the evangelist Luke in the Acts of the Apostles.

While addressing workers in 1990, John Paul expressed his vision for the "Gospel of work" as follows:

'I invite you:

> Say No *to injustice* at every level of society;
>
> Say No *to the individual and class selfishness* that seeks its own interests without concern for the common good of the whole of society!
>
> Say No *to the materialism* that deadens conscience and the spiritual dimension of life!
>
> Say Yes *to a new solidarity* between all the members of the work force, and between workers and employers, between the world of work and the whole of Malta's people;
>
> Say Yes *to the full material and spiritual development of every inhabitant of these Islands*, with special provision for the poorest and neediest!
>
> Say Yes *to God's plan for creation and to his Truth* written in the nature of all things and in the depths of the human heart!'

(Media Centre, 1990: 37-38)

And, in his farewell speech in 2010, Pope Benedict reminded the Maltese to:

> 'Be an example, at home and abroad, of dynamic Christian living. Be proud of your Christian vocation. Cherish your religious and cultural heritage. Look to the future with hope, with profound respect for God's creation, with reverence for human life and with high esteem for marriage and the integrity of the family…'

On account of its geographical position in the heart of the Mediterranean, many immigrants arrive on Malta's shores, some fleeing from situations of violence and persecution, others in search of better conditions of life. I am aware of the difficulties that welcoming a large number of people may cause difficulties which cannot be solved by any country of first arrival on its own. At the same time, I am also confident that, on the strength of its Christian roots and its long and proud history of welcoming strangers, Malta will endeavour, with the support of other states and international organisations, to come to the aid of those who arrive here and to ensure that their rights be respected.

These noble goals depend on an unwavering dedication to the challenging task of dialogue and cooperation within the international and European communities, key forums in which Malta bears witness to the Christian values that have helped to shape its identity. Unity, solidarity and mutual respect stand at the basis of your social and political life. Inspired by your catholic faith, they are the compass that will guide you in the search for authentic and integral development. The treasure of the Church's social teaching will inspire and guide these efforts.

Never allow your true identity to be compromised by indifferentism or relativism. May you all remain faithful to the teaching of St Paul, who exhorts you to 'be watchful, stand firm in your faith, be courageous, be strong. Let all that you do be done in love (1 Cor 16:13 -14)'.(Kummissjoni Inter Djocesana – Zjara tal-Papa, 2010:119)

The two passages sum up the main themes that have been explored over the past century in the papal encyclicals on social thought. It remains to be seen how these ideas can be best translated into action in the Maltese Islands as members of the European Union in an extended European-Mediterranean dimension. But, before undertaking such an analysis, it is pertinent to comment briefly on the economic thinking that could have influenced the formation of social teaching of the Catholic Church during the last hundred years.

2.4 The Intellectual origins of Catholic social teaching on economics

Recent encyclicals acknowledge the positive contribution of market economics and the profit motive. They reflect the experience of improvement in life style in many countries over the past two hundred years. And experience, via the results attained in rising per capita incomes, longer life expectancy, enhanced health, extended literacy and a much wider educated population, shows that the Malthusian projections of a wage level around which population changes tended to rotate did not actually occur. Rather, economies can be made to grow in the interest of all, and not necessarily in the interest of the few. But certain conditions will have to be met for these positive results to be attained. Striking a balance between individual freedom, right to ownership and family formation, work, and rewards to all those who undertake initiative and generate wealth could lead to lasting improvement and happiness for all.

The popes do not footnote the economists from whom they get their basic economic thinking. But underlying their thoughts is an economic theory that does not readily match several economic schools of thought. The intellectual origins of the social teaching on economics reflect closely the German historical school, which doubted the 'scientific' nature of the economics discipline. This applies to the content and methodology: liberal market economics is seen as an ideology motivated by the economic greed of capitalists. (Luckey, 2000) The acceptance of the positive influence of the market since John Paul II may therefore indicate a change of mind on previous economic teaching (regarding the 'iron law of wages' based on a demographic/labour market scenario inspired by the teaching of Thomas Malthus, for example), and reflects analyses of a series of global political, social and economic results over a fairly long period of time. But, overall, the thinking of the Church may still be interpreted as being a philosophy that lives uneasily with market systems.

However, the 'scientific' basis of economics is a contested claim even among economists especially now after what had happened in the developed world over the past three years. It is not a 'remnant' of the German classical school of the nineteenth century, and the Papacy, but a query that practitioners make from time to time to assess the validity of their ideas and the way in which they are expressed and implemented. Atomic physicists do not as yet have a unified theory for quantum mechanics and the general theory of relativity. But they continue to theorise and address issues. The same is true for economics. Two quotations suffice to illustrate this position (Kay, 2010; Bissessur, 2010).

Thus, John Kay upholds that:

> 'The standard approach has the appearance of science in its ability to generate clear predictions from a small number of axioms. But only the appearance, since these predictions are mostly false. The environment actually faced by investors and economic policy makers is one in which actions do depend on beliefs and perceptions, must deal with uncertainty and are the product of a social context. There is no universal economic theory, and new economic thinking must necessarily be eclectic. That insight is Keynes's greatest legacy'

Sanjay Bissessur, however, maintains that:

> '.. Thomas Kuhn argues that scientific theory does not evolve in a straightforward manner, but from successive phases of paradigm shifts…. Recent qualifications (on the theories of efficient markets and rational behaviour) imply that economics as a science is at least in the pre-scientific phase of Kuhn. I have to agree that the current phase suggests that economics is not an exact science. However, if one allows for the development of economic theory, Kuhn would agree that an advancement is expected…. A serious empiricist would see the recent discussion as nothing more than the development of normal science'.

One can interpret the social teaching of the Church in the same manner: it promotes basic guidelines in the light of particular knowledge and social contexts. But the underpinning on which action is taken remains the integrity of the human being and the welfare of the group in which this being is raised and lives defined widely to mean the human race. Any limitations in knowledge and policy modelling can affect adversely personal development and social 'local' and 'global' welfare. But, in the circumstances, one can try to pass on the message to upcoming generations with the aim of minimising mistakes and their concomitant discomforts. It is then up to them to assess situations and undertake the necessary action to enhance or redress ongoing policies and procedures. Acting on imperfect knowledge must depend on 'hindsight' to discover the outcomes of past decisions and on courage and determination to re-act and change if need be. What remains 'solid' is the point of departure: to consider men and women as both individuals and social beings.

The following section considers several key lessons that may be derived from the history of economic thought. The aim is to integrate such insights in an evaluation of present-day Maltese society and economy. In turn one can then assess the claim that the social teaching of the Church is a prime factor influencing political decision making in Malta.

CHAPTER THREE

LESSONS FROM ECONOMIC THOUGHT: THE STRENGTHS AND WEAKNESSES OF ECONOMIC THEORY

The corpus of ideas summarised as 'economic theory' is seen to be in a continuous state of flux. While the basic generalisations, as happens always in all disciplines, appear valid, common-sense axioms, when it comes to critically assessing their significance for policy formation and evaluation they are found wanting. They need supplementing with experience, analysts' preferences for one theory instead of another, and, ultimately, the decision-makers' set of objectives to be reached when it comes to taking decisions. Academics may take their time redefining concepts, re-modelling structures, and simulating different scenarios; but 'applied economists' – read every single man and woman - have to decide on how to behave and act. And they do so, many times a day, on incomplete information and personal biases. Their actions reflect their underlying values, which cannot be subjected to mathematical analysis. It is the sum total of their decisions that keep economies going.

This evolving/adaptive condition of economic thought, with economics absorbing more and more insights from other disciplines, such as ethics and psychology, may be illustrated from a sample of research papers and correspondence published in the past few months. They refer to the nature of economic analysis itself, the limitations of existing knowledge, the constraint in search-questions that the analytical models themselves impose on the researcher and the policy dilemmas that arise as a result of these positions. They highlight an important observation: moving from general economic principles to everyday applications in a particular society and a specific political and economic context is far from being an easy exercise. Good intensions alone do not suffice; they have to be complemented by clear thinking, robust analytical tools and reliable data bases that record past decisions and their outcomes. Compiling information alone is already both time-consuming and costly. But, in the meantime, decisions have to be taken and implemented And, in the end, the process leads to key governance issues in parliamentary democracies and to the social and economic stability that these political systems are meant to induce.

3.1 The state of knowledge in economics

Several issues arise from the passages included in the nine quotes below. The first eight papers are 'representative' of the work in an area of research. They are chosen to demonstrate the 'uneasy' state of affairs in the respective sub-areas of economics. The ninth, based on correspondence in a British newspaper, highlight two points: first, the non-uniformity of interpretation of economic events and, second, the on-going search for the respective balance of power between governments and financial markets. Rather than simply highlighting ideas, we reproduce the views as written by the respective authors. These observations will in turn serve as background to the development of the subject in the rest of the chapter.

i) Irrationality and the Invisible Hand

'We're painfully blinking awake to the falsity of standard economic theory – that human beings are capable of always making rational decisions and that markets and institutions, in the aggregate, are healthily self-regulating. If assumptions about the way things are supposed to work have failed us in the hyperrational world of Wall Street, what damage have they done in other institutions and organisations that are also made up of fallible, less-than-logical people? And where do corporate managers, schooled in rational assumptions but who run messy, often unpredictable businesses, go from here?

We are finally beginning to understand that irrationality is the real invisible hand that drives human decision making. It's been a painful lesson, but the silver lining may be that companies now see how important it is to safeguard against bad assumptions. Armed with the knowledge that human beings are motivated by cognitive biases of which they are largely unaware (a truly invisible hand if there ever was one), business can start to better defend themselves against foolishness and waste.

Drawing on aspects of both psychology and economics, the operating assumption of behavioural economics is that cognitive biases often prevent people from making rational decisions, despite their best efforts…Behavioural economics eschews the broad tenets of standard economics, long taught as guiding principles in business schools, and examines the real decisions people make – how much to spend on a cup of coffee, whether or not to save for retirement, deciding whether to cheat and by how much, whether to make healthy choices in diet or sex, and so on….The word 'free', we discovered, is an immensely strong lure, one than can even turn us away from a better deal and toward the 'free' one.' (Ariely, 2009)

ii) Eclectic approaches to problem understanding and solving

'Psychologists, sociologists, and anthropologists have emphasised that the cognitive frames within which people view the world are both collectively held and malleable over time. Category systems have cultural roots and influence what attributes people perceive. The cognitive frames operative in a culture unconsciously influence, as well, how people interpret whatever information they register. Yet economists have generally neglected the role played by socially constructed cognitive frames. For instance, in rational expectations, each individual is assumed to use all relevant information in an unbiased way.

However, two economists have called attention to social constructs in accounting for development. Gunnar Myrdal (1968) argued that 'irrational beliefs' in South Asia bred social inertia. Douglass North (2005), drawing on cognitive science, argued that perception is always an interpretation that is shaped by the belief systems of the society. Drawing on economic history, he argued that those belief systems are a key determinant of economic development.' (Hoff and Stiglitz, 2010)

iii) Wealth creation and poverty elimination

'The World Bank's mandate is poverty reduction. Its dream is a world free of poverty. Long-term sustainable and inclusive growth is the driving force for poverty reduction. It is therefore crucial for economists at World

Bank to understand the mechanics and determinants of economic growth. Development economics has provided us with some remarkable insights. But as a sub-discipline of economics, it has so far been unable to provide a convincing intellectual agenda for generating and distributing wealth in poor countries. The global crisis is an opportunity not only to identify new areas of research on how to help the developed and developing countries cope with the challenges of the crisis and prevent similar crises in the future, but also on how to achieve sustainable, inclusive growth to developing countries.' (Lin, 2010)

iv) Expectations and reality

'It is generally accepted that government health expenditures should disproportionately benefit the poor. In practice, in most developing countries the opposite is the case, although there are exceptions…' The outcome depends on the 'key assumptions made when imputing subsidies in benefit incidence analysis (BIA): either that the unit cost of a government-provided service bears no relation to the out-of-pocket payments paid by the patient' or an alternative assumption 'that larger out-of-pocket payments for a given unit of utilisation reflect more (or more costly) services being delivered. Fees in many government-run health systems are not flat-rate but rather vary according to the quantity and costliness of the test, procedures, and drugs being administered' (Wagstaff, 2010)

v) Public sector debt and future economic growth

'Outsized deficits and epic bank bailouts may be useful in fighting a downturn, but what is the long run macroeconomic impact of higher levels of government debt, especially against the backdrop of greying populations and rising social insurance costs?...

The sharp run-up in public sector debt will likely prove (to be) one of the most enduring legacies of the 2007-2009 financial crises in the United States and elsewhere. We examine the experience of forty four countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt/GDP levels (90 percent and above) are associated with notably lower growth outcomes. In addition, for emerging markets, there appears to be a more stringent threshold for total external debt/GDP (60 percent) that is also associated with adverse outcomes for growth. Seldom do countries simply 'grow' their way out of deep debt burdens… (Reinhart and Rogoff, 2010)

vi) Economic growth and subjective well-being

'Economic growth has long been considered an important goal of economic policy, yet in recent years some have begun to argue against further trying to raise the material standard of living, claiming that such increases will do little to raise well-being. These arguments are based on a key finding in the emerging literature on subjective well-being, called the "Easterlin paradox", which suggests that there is no link between the level of economic development of a society and the overall happiness of its members… In contrast, there is robust evidence that within countries those with more income are happier.

The conclusion that absolute income has little impact on happiness has far reaching policy implications. If economic growth does little to improve social welfare, then it should not be a primary goal of government policy. Indeed, Easterlin (2005) maintains that his analysis of time trends in subjective well-being "undermines the view that a focus on economic growth is in the best interest of society". Layard (2005) argues for an explicit government policy of maximising subjective well-being. Moreover, he notes that relative income comparisons imply that every individual's labour effort imposes negative externalities on others (by shifting their reference points) and that these distortions would be best corrected by higher taxes on income or consumption.

Evaluating these strong policy prescriptions demands a robust understanding of the true relationship between income and well-being. Unfortunately, the present literature is based on fragile and incomplete evidence about this relationship .The difficulty of identifying a robust GDP-happiness link from scarce data led some to confound the absence of evidence of such a link with evidence of its absence. The ensuing years have seen an accumulation of cross-country data recording individual life satisfaction and happiness. These recent data (and re-analysis of earlier data) suggest that the case for a link between economic development and happiness is quite robust. The key to our findings is a resolute focus on the magnitude of the subjective well-being-income gradient estimated within and across countries at a point in time as well as over time, rather than its statistical significance or insignificance.' (Stevenson and Wolfers, 2008)

vii) Research tools condition the scope of analysis

'In recent years there has been increasing demands to measure the effectiveness of international development projects. This demand has emerged in response to two concerns: (1) Heightened criticism that most development agencies report only their outputs (e.g. number of teachers trained, kilometres of roads built) rather than outcomes; and (2) Concerns that, despite assurances that development resources have contributed to the reduction of illiteracy and poverty, little reliable information has actually been presented to show that this is in fact the case…

In the last decade there has been an explosion of quantitative impact evaluations of program interventions in international development. This has been driven both by trends within academia and pressure from international organisations like the World Bank, and has culminated in efforts to adopt the standards and methods of bio-medical clinical trials in making knowledge claims about the effectiveness of particular interventions. Some development economists have gone as far as to argue that randomised trials should be central to development practice, and that knowledge claims based on alternative approaches are not merely inferior, but inherently suspect…

None of the quantitatively oriented development participants…question the singularity of the econometric analysis of survey-based data as the core method of relevance for impact evaluations. Outside the context of impact evaluations, most work by economists on development questions also remains entirely econometric, though there is an increasing (and welcome) trend towards direct engagement in fieldwork and having survey data be analysed by the person(s) who collected it, which in turn has led to a deeper and richer understanding of development problems…

By restricting themselves to the econometric analysis of survey data, development economists are boxed into a Cartesian trap: the questions they ask are constrained by the limitations inherent in the process by which quantitative data from close-ended questions in surveys are collected. As such, they are limited in their ability to ask important questions about the social, cultural and political context within which development issues such as, for instance, the heterogeneity that underlies what are known as 'informal' economies (i.e. labour markets that function outside formal salary and wage structures) and tend to overlook marginal markets that are centrally important for policy – such as the market for drugs, political favors, and sex – all of which require a strong degree of rapport with respondents that a short visit to field a questionnaire will not provide. A related criticism is that many kinds of econometric analysis fail to examine what actually happens during the process of project implementation (the "black box") and consequently are unable to determine the extent to which failure to achieve intended impacts is due to "design failure" or to "implementation failure". In other words, their research questions are being shaped by their data instead of their data by the questions…' (Bamberger, Rao and Woolcock, 2010)

viii) Models that enable us to predict an important event

'The credit crisis and ensuing recession may be viewed as a 'natural experiment' in the validity of economic models. Those models that failed to foresee something this momentous may need changing in one way or another. And the change is likely to come from those models (if they exist) which did lead their users to anticipate instability…

There is an immediate link to accounting, organisations and society. Previewing the results, it will be found that 'accounting' (or flow-of-funds) models of the economy are the shared mindset of those analysts who worried about a credit-cum-debt crisis followed by recession, before the policy and academic establishment did. They are 'accounting' models in the sense that they represent households', firms' and governments' balance sheets and their interrelations. If society's wealth and debt levels reflected in balance sheets are among the determinants of its growth sustainability and its financial stability, such models are likely to timely signal threats of instability. Models that do not – such as the general equilibrium models widely used in academic and Central Bank analysis – are prone to 'Type II errors' of false negatives – rejecting the possibility of crisis when in reality it is just months ahead. Moreover, if balance sheets matter to the economy's macro performance, then the development of micro-level accounting rules and practices are integral to understanding broader economic development. This view shows any clear dividing line between 'economics' and ' accounting' to be artificial, and on the contrary implies a role for an 'accounting of economics' research field…' (Bezemer, 2009)

Agent–based models (ABMs) are also being suggested as possible replacement/complement to models now in use. Conventional models operate through the network of prices; ABMs are based on the idea that agents' behaviour may be determined by direct interactions between them. It is not easy to develop this class of models. But it is a sign that a radical way of looking at 'people in action' must be attempted with the aim of understanding better how do people behave and react to what is happening around them.(The Economist, 2010)

In summary

This search for solutions is bound to be ongoing. There is no ready-made, 'off the shelf' policy paradigm that can be relied on to secure stable, enduring profitability of a company or economic growth coupled to ethical fairness in income and wealth distribution and active participation at several political, production and distribution levels within a region and among regions. The wider the horizon (say, global heritage of mankind, or the EU's single market, or the Euro-med economic space), and the narrower the focus of attention (e.g. carry analysis with the aim of maximising welfare – or should it be happiness? – per individual), the more evasive will practical solutions turn out to be. Not in terms of concepts and theoretical models but in terms of administering decisions, monitoring them and rectifying shortcomings without losing sight of the original objectives. If the objectives change, the whole process has to adapt to such decisions.

Anyway, at all times the outcome rests with those who have to decide on strategies and their implementation. These decisions are as effective as the ability to read the situation correctly; in policy making what matters most is whether decisions taken can lead to reaching one's goals. They can only work if the reading of the situation, its diagnosis and prescription complement one another and turn out to be correct. Two recent 'evaluations' of economic performance in Sweden and the United Kingdom illustrate this dilemma. Both countries are EU members but not in the eurozone. There is usually more than one way of interpreting events. This means that there are at any one time competing views on the economy's performance and, as a consequence, competing 'solutions'. This position is the direct outcome of the observations raised in the above quotes, which will be examined further in the following sections.

ix) There will always be competing views of events and, hence, competing plans for action. In turn, these views give rise to 'social experiments' which can turn out to be very costly in human and resource terms

a) 'In an interview with Anders Borg, the Swedish minister of finance, much is made of the structural reforms and spending cuts that reduced a 12 per cent gross domestic product deficit to a balanced budget. Successive Swedish governments deserve credit for this transformation. The real revolution, however, occurred when Sweden abandoned the fixed currency exchange rate regime and gave independence to the National Bank. Prior to this Swedish economic policy was a failure for a quarter century, including my time at the helm of the National Bank.

Before the Exchange Rate Mechanism crisis the Swedish National Bank tried to use monetary policy to maintain a fixed exchange rate and the government attempted to stabilise the business cycle and wages using fiscal policy. The parliamentary decision-making process created long lags and an expansionary bias. High inflation undermined the competitiveness of industry. Once the krona was permitted to float, the economy began to heal. An initial drop in the value of the currency restored competitiveness, decreasing the budgetary costs of unemployment. The new exchange rate regime also changed the roles of the National Bank and government.

The independent National Bank focused monetary policy on a 2 per cent inflation target, which reduced economic fluctuations. The government could leave wage bargaining to the employers and unions as excessive salaries eroded the exchange rate not competitiveness. Union demands were tempered by the fact that high nominal wage increases would drive inflation and be countered by the National Bank.

When fiscal policy again became a tool of government aims such as economic reform and income distribution, the policy discussion changed and focused on proposals to increase growth. Political competition then naturally resulted in measures to balance the budget and reform the economy.

The switch to a floating exchange rate was the key to restoring competitiveness and budget balance. In this context, the only lesson Sweden has to offer is on the benefits of a floating exchange rate and strict inflation targeting by the national central banks. An option closed to eurozone countries.' (Wohlin,2010)

b) 'In 1974, Edward Heath asked: "Who governs – government or trade unions?" Five years later British voters delivered a final verdict by electing Margaret Thatcher. The equivalent today would be: "Who governs – government or financial markets?" No clear answer has yet been given, but the question may well define the political battle ground for the next five years.

In one sense, next week's emergency budget is simply the logical working out of an intellectual theorem. The implicit premise of the coming retrenchment is that market economies are always at, or rapidly return to, full employment. It follows that a stimulus, whether fiscal or monetary, cannot improve on the existing situation. All that increased government spending does is to withdraw money from the private sector; all that printing money does is to cause inflation.

These propositions are a re-run of the famous "Treasury view" of 1929. By contrast, Keynes argued that demand can fall short of supply, and that when this happened, government vice turned into virtue in a slump, governments should increase, not reduce, their deficits to make up for the deficit in private spending Any attempt by government to increase its saving (in other words, to balance the budget) would only worsen the slump. This was the “paradox of thrift”. The current stampede to thrift shows that the re-conversion to Keynes in the wake of the financial collapse of 2008 was only skin-deep: the first story remains deeply lodged in the minds of economists and politicians.

But this story alone does not explain the conversion to austerity. Politicians clamouring for cuts to public spending do not cite Chicago University economists. They talk about the need to restore “confidence in the markets”. The argument here is that deficits do positive harm by destroying business confidence. This collapse of confidence may come in several forms – fear of higher taxes, fear of default, fear of inflation. Deficits thus delay the natural (and rapid) recovery of the economy. If markets have come to the view that deficits are harmful, they must be appeased, even if they are wrong. What market participants believe to be the case becomes the case, not because their beliefs are true, but because they act on their beliefs, true or false.

The parallel with what happened in 1931 is irresistible. In February of that year, Philip Snowden, the Labour government’s Chancellor of the Exchequer, set up the May Committee to recommend cuts in public spending. The committee projected a budget deficit of £120m, after raised to £170m, the latter figure amounting to about 5 per cent of gross domestic product, and proposed raising taxes and reducing spending to “balance the budget”. The international financial crisis caused by the collapse of the Austrian Credit Anstalt bank in July 1931 brought huge pressure on the government to act on the May Report. In a notable display of patriotic fervour, the financial and political establishment united to demand cuts in unemployment benefits to "save the pound".

Keynes was one of the very few who stood out against the herd. Of the May Report authors, he wrote: "I suppose that they are such very plain men that the advantages of not spending money seem obvious to them." They had ignored the fact that their proposed cuts would add 250,000 – 400,000 to the unemployed and diminish tax receipts. "At the present time", Keynes continued, "all governments have large deficits. They are nature's remedy for preventing business losses from being…so great as to bring production altogether to a standstill."

When the Conservative-Liberal coalition that had succeeded the Labour government introduced an emergency budget in September 1931, Keynes again stood out against the chorus of approval. The budget was, he wrote, "replete with folly and injustice". He explained to an American correspondent that "every person in this country of super-asinine propensities, everyone who hates social progress and loves deflation, feels that his hour has come and triumphantly announces how, by refraining from every form of economic activity, we can all become prosperous again".

Conservative spokesmen often claim that fiscal consolidation causes economies to recover. If so, the effect of the outbreak of public frugality in 1931 was curiously roundabout. Cuts in salaries produced a "mutiny" of naval ratings at Invergordon, suggesting that the empire was crumbling. This was enough to force Britain off the gold standard. A combination of sterling depreciation and lower interest rates revived exports and started a housing boom. But there was never a complete recovery until the war. Such evidence for the success of the cuts is the stuff of castles in the sky.

We are about to embark on a momentous experiment to discover which of the two stories about the economy is true. If, in fact, fiscal consolidation proves to be the royal road to recovery and fast growth then we might as well bury Keynes once and for all. If however, the financial markets and their political fuglemen turn out to be as "super-asinine" as Keynes thought they were, then the challenge that financial power poses to good government has to be squarely faced.' (Skidelsky, 2010)

3.2 Policy objectives and tools

Policy objectives do change over time. And so does the search for the tools that best can lead to the attainment of these objectives. But such policy targets tend to emanate from economic events that highlight certain needs or reflect particular beliefs. For example, historically governments considered to be their responsibility the safeguarding of the value of their currencies – the purchasing power of money and credit. They pursued policies that focused on the creation of money and credit via the supply of precious metals (gold and silver) and a banking network that facilitated the movements of such metals and the timely intermediation to smoothen credit creation. Such a framework tended to lead to relative general price stability in a region, which in turn lead to inter-regional competitive pricing outcomes over time. This second condition 'regulated' the flow of inter-regional (or international) trade and induced movements in the stock of precious metals and financial credit. So governments sought to attain two policy objectives:

balance of payments 'equilibrium' and relative price stability. It was thought that these two targets would suffice to generate inter-temporal economic growth.

But the experience of the global economic depression of the late twenties and thirties, with the social distress that it induced, led to a re-consideration of the way in which societies organised their public finances. Once again, they re-addressed the role of the governments in an economy, the role of central banks, money creation and competitive exchange rate movements, the target for fiscal balances, and the re-focusing of these institutions and instruments to generate employment. Job creation was raised to a primary policy objective status together with movements in the general price and rates of exchange level.

Full employment was attained globally through the massive recruitment world-wide that emerged from the large scale hostilities that made up the Second World War. At the time, it was fear of world stagnation represented by a huge shortfall of demand that gained importance. And focus shifted from a 'static' full-employment objective arising from deficient demand in a region to a dynamic global - and hence national further down - growth over time. Economic growth became the fourth objective and, as one means to attain it, emerged two institutions, the International Monetary Fund and the World Bank, and a rate of exchange regime based on fixed parities with a narrow margin for potential fluctuation.

In the fifties, following the cold war experience and a greater awareness of the need for equity considerations in income re-distribution, the redistribution of income became the fifth policy objective. It gave rise to ample welfare programmes in cash and kind to empower individuals, facilitate economic restructuring, encourage international trade in goods and support rising incomes per head.

Strong economic growth and rising consumption of goods and services, lead in turn to a preoccupation with environmental issues and economic sustainability. Societies and their governments were meant to give attention to the quality of life through considering the impact of their actions on the physical/natural environment with the aim of countering the depletion of natural stocks of minerals, vegetation, land and marine life. A sixth objective was added.

These six policy aims actually can be re-grouped under two headings: Production or wealth creation, and Distribution. *Production* will combine considerations related to Full Employment, Economic growth, the Environment, and the External sector (balance of payments equilibrium). *Income distribution* will comprise the average price level and income distribution and re-distribution. Price level considerations, especially relative price movements, do influence production and international competitiveness. But changes in the purchasing power of currencies affect also the redistribution of assets and income. For example, governments may be tempted to fuel inflation to erode the costs of high national debts thereby effecting transfers of resources from the private sector to the public sector. At the same time, rising general price levels affects negatively all but hit hardest on those with low incomes and those on fixed incomes like pensioners. Hence they may be considered a Distribution parameter.

There are times when these two main goals move together in the same direction. But at times they move in opposite direction, in which case policy makers will have to decide on a trade-off: take measures to boost output and incomes and relegate income redistribution to a secondary factor. Or, instead, they may emphasise income redistribution even at a cost of slowing down the rate of economic growth. Economic sustainability, safeguarding the natural environment for future generations – points that will have to find themselves expressed in production set up and the costs of exchange – bear on a social factor reflecting inter-generational solidarity. This is also the basis on which several social welfare schemes, financed through a Pay As You Go system, are based. So, this 'quality of life' criterion may be considered a hybrid objective bearing on both production and re-distribution considerations.

These evolutionary trends in objectives may be also illustrated from the targets on which Monetary Authorities focus on. Thus, the Federal Reserve Board (FRB) used to focus primarily on the generation of employment as a policy parameter. But since the seventies it included an inflation target of x% per annum. It has the difficult task of deciding on a monetary policy tool level (the rate of interest) that aims to encourage economic growth without heating the economy. Two targets and one policy tool will not go. Now, following the financial turmoil of the past few years, the FRB is being urged to consider also the stability of the financial system. There has been a gradual widening of the policy objective spectrum from one to three that arose from particular real-world experiences. The more objectives, the more policy tools are required. There has to be learning periods for familiarisation during which regulators become adept at juggling successfully with multiple objectives at one go. Similar considerations apply to the European Central Bank that has the responsibility to safeguard a monetary target (Inflation of 2%) but which found itself having to encourage employment creation and stave off currency and financial network instability with one monetary instrument and moral suasion.

Such objectives have to be met through the market and the political system. The former refers to all those activities that are exchanged through the medium of the private sector economy; the latter refer to all activities that are distributed through the 'political market' which ultimately depends on the 'ballot box'. In parliamentary democracies, citizens are meant to vote for political programmes that spell out the 'implicit social contract': the amount and composition of resources flowing from the private sector to government through taxes, charges and appropriation; and the volume and array of resources flowing back from the public to the private sector in the form of employment compensation in the public sector to provide services and transfers in cash and kind. This contract demands more resources as the role of Government grows over time; its share is seen increasing gradually as long as it can be supported by rising revenues. This series of considerations, reflecting personal welfare, production, redistribution, and political decision-making are synthesised in the diagram opposite.

Diagram 1 represents a two-person (two-group) model, with the welfare of person A on the vertical axis and the welfare of person B on the horizontal. Curve PP is made up of a series of first-best combinations of goods and services, produced in the private and public sector, which emanate from the production possibilities open to firms that respond to the needs as reflected in effective demand by the two consumers A and B. These consumption decisions are the outcome of personal tastes, incomes and prices of goods and services. The SWF (social welfare function) represents the combined welfare level of A and B, being the 'society' in this model. It represents a given

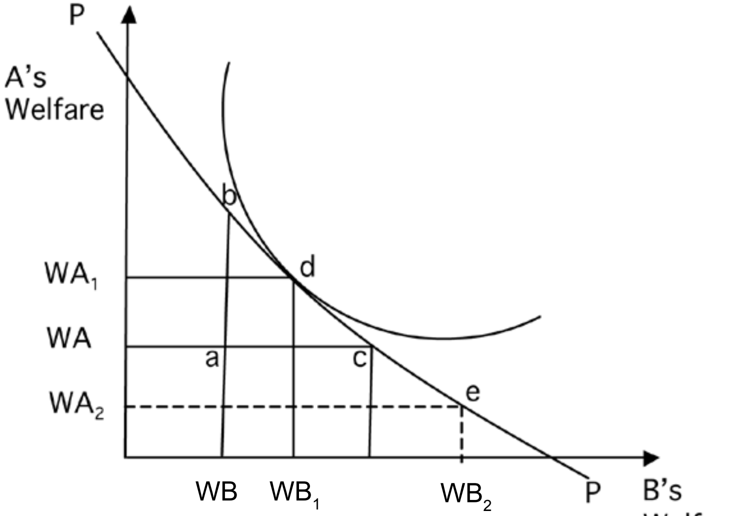

Diagram 1

level of welfare, being one level of many that, together, give the welfare ranking of this two-person society. The SWF represents a value-loaded judgement, which is the outcome of a political process.

If the level of welfare is at point **a**, it is an indication that welfare can be enhanced through further output and consumption expansion up to the boundary represented by PP; position **a** represents a sub-optimal situation. If the SWF plateau is relocated to point **b**, then person (group) A will be better off without making B worse off; this movement generates a Pareto improvement, meaning a position where one person's welfare is enhanced without making someone else worse off. Point **b** is located on the PP frontier; hence it represents a 'first best' or optimal position. The same situation arises if the plateau shifts to point **c**; in this instance person B is better off, but A's welfare remains unchanged. By moving to point **d**, where the SWF is depicted being tangent to the PP curve, both

A and B will be better off. Movements within triangle **bac** are tantamount to welfare enhancement for the group.

Issues referring to both resource allocation and equity (income distribution) arise if the SWF plateau is shifted outside the triangle **bac**, say to point **e**. At **e**, it is seen that B's welfare grows, but at the expense of A's welfare; the former rises to WB_2 while the latter falls to WA_2. The decision to favour one person (group) at the expense of another is the outcome of the political market, the ballot box, reflecting voters' support for one programme rather than another. For example, raise income tax on certain income brackets and reduce VAT on goods and services consumed by families in lower income groups; or reduce benefits to farmers and raise those accruing to operators in the manufacturing sector; or raise retirement pensions while decreasing financial support to students.

Diagram 1 highlights three important areas of discussion in political economy, areas that have aroused interest and discussion over the years. These refer to issues related to Production and Exchange; Equity and Wealth and Income Distribution; the Decision-making Process in a society governed through parliamentary democracy. There are various sub-themes under every one of the three headings, some of an economic others of a socio-political nature. These are examined below.

3.3 Some issues related to Production and Exchange processes: Markets – Contestable, Parallel and Virtual

Production and exchange are not hypothetical issues. People produce goods and services with the specific intention either of consuming these commodities themselves or for exchanging them, via a monetary system, with other commodities that they will need in future. A central topic in economics is the identification of those conditions that free individuals to maximise production, facilitate exchange in domestic and foreign markets, and encourage consumption and further expansion of the production base. The query also includes issues that refer to ownership of assets and decisions regarding consumption, the role of the pricing mechanism or the price system, and the contribution that the society can make, in specific groups or as a whole, through representative producer/consumer organisations or government at various levels of political structures.

In production and exchange it is important to retain separate two interconnected but distinct issues, namely, the market system (often referred to as 'the market') and market structure, that is, the environment for production and carrying out trade wherein the price signals and other non-price factors involved in production, exchange and consumption are exercised.

The *market system may be described as a process of discovery that involves search or transactions costs*. *It is a rationing device that allocates resources through prices of intermediate and final goods and services*. It operates on two basic principles: *the principle of revealed preference, which expects all those who want to buy or sell to express the conditions on which they are willing to undertake an exchange* – all those who want to buy or sell something search for details on the goods or services they want to acquire or to dispose of. Such details include the monetary price – representing the value of resources used in the production plus a reasonable return for organising the activity of 'creating' the commodity – at which producers are willing to part with the good or service. Buyers will match this price with their needs (final or intermediate) and decide whether to finalise the deal or not. *The principle of exclusion, which signifies a party to an exchange has to pay the price that is demanded; willingness to pay is not enough.* 'Private' markets work efficiently on these two simple rules, which market clearance mechanism reflects the working of an 'invisible hand' when market players pursue their own interests. It leads to the maximisation of the interest of all, under certain conditions, even though all players seek their own personal interest.

It may be thought that all stand to gain by enhancing this system of information dissemination – e.g. by widening its distribution, ensuring that the prices are correct and reflect willingness to exchange – in whichever environment trade takes place. Searching for price information is costly in terms of time used, adaptability, and knowledge on how best to interpret these price signals. Economics text-books tend to simplify this process of search and acquisition by focusing on market clearing conditions that lead to 'equilibrium' or balancing of the two sides referred to as supply (producers or providers) and demand (final or intermediate buyers). Texts assume a final price that clears a 'market' meaning that no one has an incentive to induce a change from the 'balancing' price.

Life is more complex than analysts may like to think as quote (i) in Section 3.1 above points out. Buyers and sellers can be seen thinking 'in stages'. They absorb bits of information on price and quality, form an opinion and possibly act on it. Information picked up at a later stage may change their overall assessment of the deal, but they would have already acted (one may add 'impulsively' or 'irrationally' from a holistic welfare perspective). So the role of pricing system operated by producers/providers has a bearing on trade and, therefore, on economic activity and, eventually, overall economic growth in a region.

A recent study illustrates the way buyers behave in relation to search time, monetary outlay on a commodity and the manner in which sellers provide information on prices. In the end the consumers' welfare is affected (Office of Fair Trading, United Kingdom, 2010). Decisions regarding the purchase of goods or services are seen to be more complex than many may think, even though all of us act as consumers daily. The OFT study suggests that price frames matter for consumer decision-making and welfare. Consumers who participated in this controlled experiment made more mistakes and achieved lower consumer welfare under several price frames (*baseline* or straight per unit price; *drip pricing*, where only a part of the price component was revealed; *sales* in which a sale and pre-sale price are given; *complex pricing* where the unit price requires some computations like 'get three for the price of two'; *baiting* in which sellers promote a special price but with a limited number of goods actually available at that price; *time limited offers* where the special price is only available for a pre-defined short period of time).

When compared to baseline values, subjects may search 'too much' or 'too little' between shops before making a decision; consumers may buy 'too many' or 'too few' units of a good given their utility (or pay-off) function; and they tend to learn over time as 'errors' generally decline. These observations or results went against the predictions of standard economic theory. Price frames matter. So, when one refers to the 'price' or 'market' system and the information content of a 'price' one has to recall that such a statement refers to a 'general' condition that demands further information on the various 'price options on offer' before one may proceed with commenting on the utility of this intellectual exercise or model for policy formation.

The 'price' in question represents only one possibility in a range of scenarios that influence consumer behaviour, sales, sellers' profits, and output production and/or distribution. If this is true for an ordinary 'daily' transaction involving the purchase of household goods, it is bound to be equally true for other transactions including inordinate 'once in a while/lifetime' exchanges. So the 'pricing' and complexity of financial assets or the pricing, financing and quality of real estate, the subjects of much debate in recent years worldwide, follow similar considerations. The same applies to the information referring to monetary rewards in the labour market – again a moot subject in connection with bonuses paid to executives in the financial sector – and to the pricing and quality conditions tied to the flow on goods and services across national boundaries and even in single-market regimes like that of the European Union. For markets to behave as text-books describe them, they have to be flexible and peopled by players who are informed and who can enforce contracts. Many a time these three conditions do not hold as the OFT study on price frames and consumer/supplier performance points out.

The more we learn about human behaviour, the more varied (kaleidoscopic) personal decision making is seen to be. While the 'reliability' of prices as signals to sell or buy is a necessary condition for a trade to be considered, yet it is the way potential buyers and sellers perceive them and react to them that matter – how is the information distributed by the price matrix utilised by those who are interested in it at a time. It is the sum total of these reactions that actually constitutes 'the market' for a good at a point in time in a specific locality. Technology speeds up decisions, extends the geographical territory over which commodities travel, and as a result changes the way trade is carried out. These new possibilities give rise to new 'markets' for services; these depend on the volume of trade and human enterprise. Production and distribution chains change over time. 'Markets' are created or destroyed in the process.

Market systems may be compared to radio waves that are emitted by different stations using transmitters of varying capacity. These radio signals must travel through natural interference agents and their reception depends on the receivers' apparatus. Even if this natural 'noise' is set aside, there are other competing forces that may boost or weaken the original signal. It is up to those responsible to regulate the transmission network to ensure that signals are of the right strength to be received by whosoever is interested. Failure to secure this factor would mean that the signal may be distorted to the point of being unintelligible if not outrightly blocked by whoever has an interest to intercept and lock it. The usefulness of these signals is determined by those who transmit them and those who receive them. Receivers may ignore the signal, play it low, or loud. Receivers do not necessarily act uniformly, although they may do so at times.

The ability to 'control' or regulate the flow of signals in the markets is determined by market structures, which can bound a player's ability to choose and at what price can the exchange take place in both product and factor markets. It is buyers' and sellers' behaviour that create markets not the other way round. So market structures are expressed in terms of players' ability to dictate their own price on all those who want to buy the commodities they are offering for exchange. They reflect the ability to segment markets. The lower this control, in the extreme case it is nil, the more attractive is this exchange environment meant to be from an efficiency and fairness perspective. Indeed, the 'ideal' or 'optimal' market framework is represented by a situation where trade in a homogenous good is carried out among many buyers and sellers who are well informed of what is going on and who are free to start trading or wound up their operations. This 'perfect competitive model' is marked by the following conditions pertaining to costs and prices:

Producers are assumed to be profit maximisers. (They may not be so.) This 'operating/pragmatic' condition is met when the additional revenue collected from the last unit produced and sold (Marginal Revenue) is equal to the additional cost incurred in its production (Marginal Cost). To simplify, assume that 'costs' include the impact production has on third parties and that prices therefore reflect such a condition. This point will be taken up in section 3.4 below.

Secondly, producers equate their unchanging price – because they are price takers – to their marginal costs. Therefore, the consumers who purchase this particular good or service are paying a price – meaning giving up resources equal to the monetary value reflected in the price of the good – which matches the value of the resources that went into the production of the last unit.

Thirdly, producers are edged to move towards their least-cost position so that they can ensure their survival and do not entice new producers to the market. This least-cost per unit value is matched to the price charged to consumers. If there are producers that are so efficient that they can sell, at a profit, quantities of a good at a price that is much less than that of the other producers, then this supplier will enjoy additional profits in the short term and possibly change the nature of the production-distribution chain. The market structure will change as a result.

The simultaneous attainment of these three conditions imply that consumers are being charged a fair price; suppliers are producing at an efficient level and so prices cannot be reduced further; and profits are at a maximum. These are summarised below.

Marginal Cost	= Price	(1)
Minimum Average Cost	= Price	(2)
Marginal Cost	= Marginal Revenue	(3)

Since the motivation to compete and be efficient to survive in the market is encouraged and the choice for consumers is wide, given the homogeneity of the product, this model is considered ideal for guidance in the formation of policy. If these conditions prevail also in the factor market, they lead to a situation where it is not possible to improve the welfare of any one person without making someone else worse off. These market conditions lead to a first-best position.

However, this condition represents only one possibility, optimal in principle though it may be. There are other scenarios, which have to be benchmarked with the perfect competitive conditions summarised in the three equations above. One such market situation is that represented by either a single producer, a monopolist, or a single buyer, a monopsonist. In the case of a monopolist, for example, conditions (1) and (2) above are not generally met, with the result that consumers are made to pay a price which is higher than marginal costs; there is a claim that they are being exploited. And because the level of production does not correspond to minimum average cost, the monopolist is said to operate at output levels which are not optimal.

Real life experience is not as easy as the text-book model, based on the working assumption of profit maximisation

– equation (3), implies. Monopolists need not exploit consumers; they may be operating in sectors where initial entry costs are very high, and there are cases where they can lead to innovation and economic growth. They may be agents of 'creative destruction': with the control they have on economic activity in a sector, they may use that command position to renovate processes, introduce new products, change work practices and channel savings (retained profits) into other areas of activity in a particular country or globally. Unless these monopolists are government controlled, they can be monitored by public regulators who can approach the conditions expressed in the competitive model – for example, adopting marginal cost pricing rules, or break-even rules or ensuring a reasonable rate of return on capital apart from monitoring the quality of the service or good on sale.

Similar considerations apply to market structures characterised by few suppliers (oligopolistic structures) where products are differentiated and producers tend to follow a leader and possibly compete by non-price factors. Or in the situation characterised by many suppliers but differentiated commodities that rely on branded goods and services (Imperfect competition). In these cases, the findings of the OFT study on price frames become even more poignant and illuminating since consumers have to 'compute' in their judgement several parameters before deciding where and how much to purchase, if at all. Such decisions are compounded if they buy on credit, in which case they have to make up their minds in terms of the final good being considered and the terms of borrowing with which to finance the purchase - both of these two decisions may take place in oligopolistic market structures which are run on varying price frames and quality of services.

When for valid reasons there may be situations where one or few producers can meet the demand of consumers, it pays to think of such market situations in terms of a long-term contract between those who provide the service and those who buy it. Owing to uncertainty and other problems, both parties to the contract limit future options in order to achieve optimality over time. Contracts serve to provide procedural mechanisms for adjudicating future contingencies. By increasing the producers' right to serve makes the contract more attractive to producers while simultaneously making the contract less attractive to consumers. The opposite holds if the consumers' interest in the right to be served is accentuated. A regulator can act as a proxy for such agreements. Long-term contracts are difficult to define and enforce because it is costly to delimit, ex ante, their many provisions. A monitoring agency can continually define the relationship between consumers and producers over time in much the same way that courts of law continually interpret rights and obligations of citizens vis-à-vis other citizens and the state (Delia, 2006a:68 – 73).

Legislators, efficient regulators and courts of law or arbitrage may encourage selected 'market contestability' by inducing pressures from potential competition. The underlying model on which *'contestable market theory'* is structured remains basically a static analytical tool - inspired from both duopolistic or perfect competitive scenarios – and may not be readily supported from real life experience (Martin, 2000). For example, the deregulation of the airline and banking industries in the United States was recommended on market contestability arguments. Or the support the Malta government gave to the setting up of several non-Maltese owned supermarkets was also implicitly given on the understanding that new outlets of European-based traders would inject competition in 'controlled' retail markets. Such new pressure could, in turn, contain price increases over time for basic goods, thereby toning down rises in the aggregate average price level and, as a result, check the legally mandatory wage and social service benefit adjustments to compensate for purchasing power erosion. Market contestability, affecting the performance of selected economic sectors, is seen as a tool to support a region's competitive edge given the other policy parameters – like the Cost of Living Adjustment Mechanism (COLA) – in place. Life may not truly work as 'envisaged' by policy makers. But there could be instances where injecting elements of competition may contribute to efficiency in production and distribution in the medium to the long term and, hence, also in gains to producers and consumers and to a society's balance of trade with the rest of the world.

Indeed, competition may arise from many types of activity that go underground, remaining unrecorded in official data for market performance, labour supply and gainful employment, tax revenue and international trade. In extreme cases, a parallel economy may develop within the official or recorded productive set up. Its presence may fill a temporary gap in the production-distribution chain, but because of its 'official anonymity' it may retard the integration of a region on sustainable long-term development basis. One particular evolutionary growth example of such a regional *underground economy*, geared to tight prices reflecting low wage economies rather than a country in the world's top-ten league, happened in the region around Naples. Supplies of material and manpower extend even to far-away China with the European Union being the main consumer destination (Saviano, 2008). This linear relationship linking cost (mainly wages and related labour taxes) - supply of resources - final commodity price (and sales taxes) is also a market system reality that has to be contended with in many regions. It is also a response to the price mechanism, entrepreneurial drive, availability of human resources, and the presence of large markets for consumer goods.

Technology is contributing to another type of market, a 'virtual' one. The so-called *virtual worlds* allow online subscribers to create fictitious characters that 'live' and exercise daily activities in these worlds. Users can transact material goods and services utilising unofficially recognised currencies. The latter, however, indirectly correlate to real money. Virtual economies are therefore consenting to the transfer of resources from the real world to the virtual world, possibly creating a haven for tax-free commerce. In the first quarter of 2010 alone, in one popular site, over $160 million user-to-user transactions were carried out. It is an indication of the growing expanse of the virtual world domain.

Virtual worlds do not fall under any jurisdiction; individual countries have to determine how best to approach this emerging phenomenon. The existing legislations and regulations do not cater for this type of market which is multi-flavoured and multi-faceted. This contributes to the creation of non-trivial perplexities to those trying to evaluate such markets. As a consequence of this, the development of the appropriate laws and rules is being stalled and/or delayed. In the meantime, the virtual markets continue to grow.

A singular 'side effect' of the virtual world concept is that well-known multinational brands are feeling the need to exhibit and commercialise their products in the virtual market. Indeed, the hefty transactions and the ever-increasing subscriber-base are inducing these multinational brands to craft their presence in the virtual worlds as a means of interacting with their consumers. The 'real' market is therefore starting to protrude into the 'virtual' one.

Undeniably, technology has created a grey area in the market. Virtual markets are not direct competitors to the real markets; material goods will always be needed by subscribers, irrespective of their online presence and 'virtual needs'. Virtual economies have created high turnovers to those offering the virtual services. However, they have also opened an easily accessible window to those wanting to evade tax and carry out unrecorded and anonymous transactions, transactions of virtual goods. The real market risks losing track of what is going on in these virtual worlds if it does not react fast.

To add to the complexity of the 'markets' it has to be recalled that not all economic decisions are driven by the desire to create wealth. Some resources are specifically used to appropriate what is termed the 'surplus' arising as an offshoot of the market mechanism. Consumers are often willing to pay a higher price for some goods than the one they are asked to pay by suppliers. This additional amount is referred to as the "consumers' surplus". Similarly suppliers may be willing to sell for a lower price than the one they actually obtain from market transactions. This extra gain is referred to as "producers' surplus or economic rent". These subjective gains arise out of market behaviour and most of the time they remain 'hidden values'. But there could be occasions where the buyer or seller may be compelled to identify and reveal them. Or make use of their availability to safeguard a market niche that a supplier may have. Suppliers who can command certain market prices may use the surplus gains to keep entry under check by encouraging legislation and/or administrative decisions that are advantageous to their own interest. They seek to generate for themselves directly unproductive profit.

The relationship between market structures, surpluses, welfare losses and the market system is synthesised in diagram 2. It compares the final positions under monopoly, perfect competition, consumer surplus, deadweight loss, and the value of the potential directly unproductive profit. Diagram 2 highlights the complexity of issues that are succinctly summarised as the 'market'. It also points at the need to refer to this phenomenon with the due attention that it deserves.

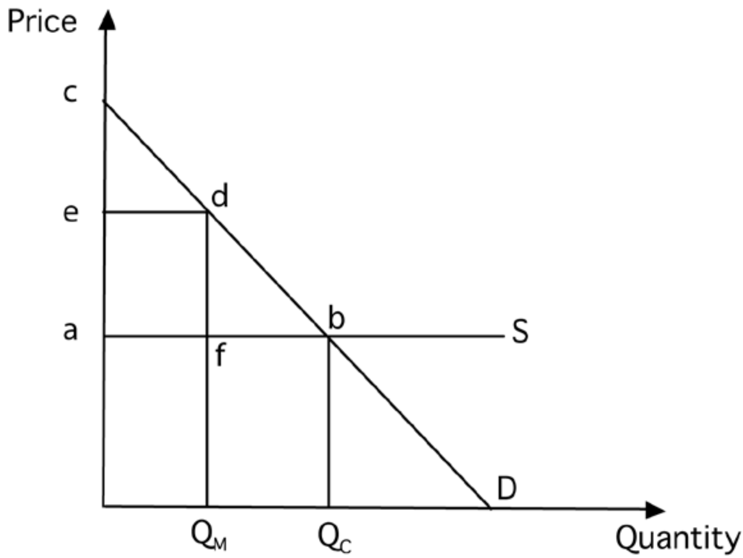

Diagram 2

Under a perfectly competitive market setup, output is Qc at a price of Oa per unit. Total money outlay equals ***Oa.Qc***. But the total worth to consumers exceeds this value by the amount that they consider that units Qc are worth to them; this value is equal to the money they pay to purchase the commodities and the additional worth, measured roughly by triangle ***abc*** that represents the 'hidden surplus'. This 'consumer surplus' approximates a value equal to ***.5(ac.Qc)***. The value of sales under the monopoly market conditions equals ***Qm .Oe***, of which ***afde*** represents 'excess' profits or 'monopoly rent', that is profits that arise because a monopolist controls output, thereby keeping price high, in order to maximize profits. The consumer still enjoys a surplus represented by triangle ***edc***, which is much less than the former surplus ***abc*** obtained under the perfect competitive market conditions. Part of the former surplus is transferred to the single producer; this is equal to the area represented by rectangle ***afde***. But a value equal to triangle ***fbd*** is lost because no one appropriates it. This value represents the 'deadweight loss' arising from the switching from a perfectly competitive market structure to a monopolistic set up, from a business environment where those who participate in the exchange are price takers to one where one/some producers can influence price.

But apart from this deadweight loss, there may be other resources that are inefficiently used in order to consolidate the monopolist's position. The monopolist may allocate resources up to the value represented by rectangle ***afde*** in order to preserve the market dominance position. The initiatives undertaken to shield monopoly rent, such as lobbying to support the status quo and contain competition, are referred to as *"directly unproductive profit seeking" (DUP)*. Such lobbying is carried out to influence trade policies by pressuring for tariffs and quotas, or to obtain a bigger share of government spending, or to fall under tax-avoidance categories, thereby escaping from taxation; or, still, to go for government regulation. The resources dedicated by firms in this manner represent a loss to society over time. They are difficult to identify, because they generally end up being disguised under the setting up of long-winded bureaucratic procedures. Over time, bureaucracies (and politicians) in welfare states turn themselves into 'monopoly service providers' (say in health and education) and strive to justify state-provided/produced services. In the long run it pays no one to support such measures if productive efficiency and fairness are put at risk.

In summary

The market system may be considered a system of discovery by all those who may be interested in carrying out a transaction, either as buyers or as sellers of goods and services. It disseminates information on prices of commodities to all those who think they need it. How this information is used then depends on all those who search for it and get it. Different potential 'dealers' vary in the time and resources used to compile such information, which is costly, and in the speed with which they come to a decision. So by rendering such information less costly and more widely diffused one will be rendering the market system more useful for users. Some use this system effectively, in relation to their needs, present or future. Others use it less so, with the implications that one has to understand the many ramifications of the system of markets before effective policy measures can be devised. Otherwise, all measures taken have to be considered as 'approximations' and the outcome will then depend on the particular circumstances in which they are implemented.

Market structures evolve according to historical and emerging trends. But they are always buttressed, in the end, by legislation. Indeed, the law, its interpretation and implementation reconfigure and delimit 'markets' except where technology moves faster than the legislator. This is happening right now with the 'virtual markets' which span nation states, are entirely global and, as a result, cannot be regulated. They are a new phenomenon that, linked to underground/parallel economies, can even threaten the workings of the real, known markets. When one speaks of 'the market', therefore, one is referring to a very, broad generalisation which truly means many things to many people. Commentators have to recall this fact when debating 'market versus state'.

In turn, the implementation of a programme of actions in part reflects the balance between private sector (households and firms) and government institutions that can include also profit-seeking corporations. It reflects the distribution of asset ownership in a community and, therefore, the source of decision-making processes within firms, sectors and the economy in general. The role of asset ownership and control of the inputs that produce or distribute a society's wealth generation is taken up below. It refers to the on-going debate on how best can societies organise themselves to sustain the living standards of their individual members in dynamic demographic, environmental and economic contexts.

3.4 Decision Making, Asset Ownership and Control: Capitalism, Socialism and Worker participation/ Co-operative Models

Ownership of assets and decision making in a society impact on the way in which resource allocation takes place: either via the market/price system based on choice and competition or the political market system based on alliances and vote collection at the ballot boxes. Modern societies have to operate under both systems with fluctuating influences between them over time.

More specifically, the debate sought to establish the relative merits of alternative industrial structures from both economic and political perspectives. Industries were identified in terms of their ownership composition and the resultant distribution of rewards to respective factor inputs, primarily, their profitability – capitalist, socialist, or co-operative, the latter term used to incorporate other forms of worker participation beside co-ops.. The effectiveness for employment creation, efficiency, and future growth via investment and re-cycled profits (surpluses) was assessed in terms of a combination of political and social backgrounds as well as economic resources.

In reality, modern economies have a mixture of all three. And, more so, they even have variants of what may be classified as 'capitalist, or 'socialist' or 'co-operative'. The structures that fall under these headings are not unique; they evolve over time and therefore comprise variants taken from more than one category.

For example, *modern capitalism* may be broken down into two major eras. The first, *managerial capitalism* began in the nineteen thirties and was defined by the then radical notion that firms ought to have professional management. The second, *shareholder value capitalism*, is the outcome of the mid-seventies. Its main premise is that the purpose of every corporation should be to maximise shareholders' wealth. If firms pursue this goal, it is claimed that both shareholders and society benefit. However, we can now move into a third era, *customer-driven capitalism*: companies should seek to maximise customer satisfaction while ensuring that shareholders earn an acceptable risk-adjusted return on their equity (Martin, 2010).

And, yet, one can equally claim that the above classification is based on myth that is propagated from one group of researchers/academics to another. Take the idea of shareholder capitalism. Research on the *legal foundations of capitalist/shareholders rights* suggest that the shareholders do not own the corporation, which is an autonomous legal person. Besides, when directors go against shareholder wishes – even when a loss in value is documented – courts side with directors the vast majority of the time. Directors are to a great extent autonomous. However, many directors claim that they will do everything possible to increase profits in the interest of shareholders. There is a communication gap between the 'owners' and the 'decision makers' of a capitalist company. (Heracleous and Lan, 2010)

Again, one can argue in terms of '*creative capitalism*' or '*humanistic capitalism*', by spreading the fruits of capitalist ownership of firms to the billions who have been left out (Gates, 2008). It is an 'attempt' to answer a critical question: how can we most effectively spread the benefits of capitalism and the huge improvements in quality of life it can provide to people who have been left out? And renowned successful businessmen are responding to this concept. For example, the billionaire investor, Warren Buffet, donated shares worth $40 billion between 2006 and 2010 to the Gates' foundation. These funds will go direct to fund initiatives in many countries, in a way by-passing the public sector. Experience shows that such an approach can be very effective in improving the quality of life of groups in need and in complementing public-funded projects in food or medical research. (This 'humanistic capitalism' can be seen in the Maltese Islands in the various philanthropic institutions set up in the nineteenth century by wealthy Maltese to build homes/institutes and finance in part their upkeep, which organisations cared for orphans, the elderly, the sick and emigrants.)

There are several queries that emerge from this approach to wealth distribution that arise from a capitalist system. But there is one important observation that has to be noted: we are constantly witnessing models of production and distribution, which are tucked under a generic heading of, say, 'capitalism', models that are evolving in scope and, possibly, means. Debates and analyses often tend to lag behind reality: people may be arguing in terms of ownership and management systems that 'had been', which therefore belong to the past, at least in some regions. Awareness of these evolutionary processes is imperative for constructive discussions on such systems.

On a similar vein, if one were to assess the 'effectiveness' of a particular model by identifying the outcomes of such models, then one is faced with a matrix of, say, capitalisms as these emerge in various social contexts (Casey, 2006). Analysis suggests that the mode of capitalism practised in some countries may have remained largely unchanged, but in other states they have transformed considerably. Surprisingly, the movement may not have been uniformly towards greater liberalisation, as studies on globalisation may indicate, but could have become more co-ordinated. *Capitalist economies, contrary to mainstream economic theory, are not uniform and interchangeable.* Markets are embedded in specific institutional, regulatory and social structures that shape national development. *Actors in capitalist economies may face common issues* – managing industrial relations, gaining access to finance, securing trended manpower, dealing with suppliers and clients – *but they developed diverse institutional means to resolve them.*

Different models of capitalism have different strengths and, by emphasising these strengths, they can continue to prosper without altering their core institutional framework (Barber, editor, 2009; Minford, 1998).

Similar considerations apply to the notion of *social pacts*, deals over integrated public policy packages negotiated by governments, trade unions and employer associations. *Such pacts are often the outcome of weak governments who are unable to pass reform on their own.* They therefore seek to attain social accord as a way of procuring both the legitimacy and societal support they need at a structural policy change. Social compacting may be sold as an exercise in 'collegiality'. But it is generally a pure political phenomenon: the government's decision to involve the social partners is shaped by the electoral and strategic configuration of the political system, while the *actors' decision to commit themselves on a negotiated solution is the result of an internal political struggle* (Baccaro and Lim, 2006)

Again, one can refer to the *model of a social market economy* based on the principles of individuality, solidarity and subsidiarity. The liberal rights of the individual and the economic freedom are seen as a frame in which social justice and solidarity are implemented. The Social Market Economy aims to balance the market-principle and the social principle. Hence it is an economic, social and political programme. But, if one were to follow the history of the post-war Social Market economy model in Germany, for example, one will find several phases. As the German economy evolved and prospered, in the wake of global economic prosperity, based as it is on a predominantly export-oriented economic growth model that reflects the post-war realities, so did the balance of the three pillars that constitute the model and the policy components that went into it. It saw the state expanding, then partially withdrawing. It can be seen as a pragmatic way of incorporating several objectives at a particular point in time in a specific region. It cannot be transplanted automatically from Germany to another region (Rösch, 2009)

In the case of *welfare states*, various interpretations of the term are in circulation. They refer to situations where the state assumes primary responsibility for the welfare of its citizens, with resources raised from the private sector via taxation. Schemes can be selective or means-tested or universal meaning all citizens have a 'right' to state support in cash or kind. The term could also mean simply the creation of a social safety net on minimum standards of varying forms of welfare. Support may not come directly from the state but provided by voluntary organisations or even for-profit units who enter into agreement with state organisations. At times, the term *welfare society* is used, but there is still some confusion on how each term should be defined. Given the spectrum of support set up, there cannot be one single model that applies to all countries. Welfare states, therefore, become country- and time-specific (Delia, 1998; 2006b: Sections 1 and 4).

Since welfare states contribute to people's well-being in several ways, it is rather difficult to bring the various contributions together under one heading. A recent suggestion has been to reduce all measures under a common metric of *temporal autonomy*: the freedom to spend one's time as one pleases, outside the necessity of everyday life. People's temporal autonomy is the time at one's disposal after deducting the time that is strictly necessary to spend in paid labour, unpaid household labour, and personal care. Fiscal measures (taxes and transfers) impact differently on persons/households according to the gender and welfare regimes in place in different countries. Thus emphasis is being transferred from income flows to time flows (Rice, Goodin and Parpo, 2006).

Yet again, one may refer to *co-operative models* of production and distribution. The political interest of co-operativism in a developed capitalist environment is enticing. In principle, co-ops appear to be quite acceptable to a wide spectrum of opinion. It is not common to find criticism of worker involvement and ownership *per se*. Co-ops may be seen one element in the class of worker participation/profit-sharing schemes, employee stock option plans (ESOPs), and non-profit NGOs (non-government organisations). Tensions between capital, labour and management in traditional capitalist firms may be traced to the contrast between their internal environment – control by capital or management – and the political muscle wielded by labour, which permits it to influence the internal working environment through legislation. Recognition of this fact has led to the interest in arrangements designed to render the structure of labours' material rewards more compatible with enterprise objectives.

But, notwithstanding the apparent lack of ideological objection, the noted reluctance of individual capitalists to make particular investments in co-operatives can virtually always be traced to doubts as to their profitability and security. The rarity of producer co-ops consequently inhibits their ability to raise funds. And, organised labour also tends to view co-ops with suspicion. Attempts at worker control are considered to legitimate, hence strengthen, the real control held by capital. Further, co-operativism fragments and weakens the role of labour unions: the attitude of organised labour to attempts to establish worker co-ops have frequently been hostile, despite an ideological commitment to worker control and participation (Bradley and Gelb, 1982) Besides, experience in many countries regarding specific sectoral co-ops, like those in agriculture, indicates various factors – cultural, legislative, fiscal, financial, commercial – that have contributed to either a misunderstanding of the role of such organisations or to an under-estimation of their true social and economic worth to a region. Such factors even militated against the creation of producer co-ops in many developing countries (Rouse and Juhasz, 2006). The formation of co-ops in any one country is influenced by the legal model on which they are structured. In Spain, for example, co-ops started as joint-stock companies with the intent of spreading members' individual risk. The connotation of other forms of solidarity beside risk-spreading came later (Guinnane and Martinez-Rodriguez, 2010).

Again, *self-management enterprises* did not achieve the expected success because workers in production units cannot be made interested in placing capital where it is most productive. Once efficiency, that is the least cost principle, is pushed aside, the independent survival of the firm is jeopardised. The real test of 'industrial democracy' – even when participation is restricted solely to managing the firm – comes when decisions are to be taken regarding investment and the capital-labour ratios to be operated in order to generate work at minimum costs and at a profit. If investment decisions demand a cut-back in the labour force, workers would find it difficult to vote themselves out of employment. If alternative employment were readily forthcoming, the decision would be relatively easier, from a social point of view. But if employment opportunities are scarce and/or lower paid, then efficiency may be sacrificed. Such enterprises could only keep going if they are subsidised from taxpayers' resources, through state subventions and/or by other workers contributing to a fund created for this specific purpose. In the end, if situations persist in being negative and recording losses, such firms will be forced to wind up.

Life is complex indeed. And ultimately it is personal belief in basic values referring to a balancing of personal freedom, social participation, and intra- and inter-generational co-operation that pushes one individual to support one form of organisation instead of another. It is a choice between whether one 'believes' in the supremacy of the 'chaotic with a purpose' system of prices and auto-regulation that may describe the 'market system' and capitalism in its various forms; or whether one believes that this system can be enhanced by the intervention of state organisations through direct ownership controls, and other fiscal and monetary tools. One can put aside the consideration regarding total control of assets, production and consumption by centralised regimes; or, the other extreme, of total absence of intervention by an organisation that represents the 'people'. Although one can still find living examples of both in parts of today's world.

The balance in favour of government intervention in economies has been re-addressed in the wake of the global financial and economic upheavals of recent years. But economic theory puts 'standard' cases for government intervention under three general headings. First, the case of *public (non-rival) goods*: where the two principles of revealed preference and exclusion cannot operate and, consequently, the market system becomes dysfunctional. A public good is defined as one that is jointly and equally consumed by all; the more there is for one the more there is for everybody else. Usually, under private market conditions, the more one person consumes the less there is for everybody else. Private consumption is said to be rival.

Second, the presence of direct effects on people's welfare or companies' profits arising accidentally as a by-product of somebody's behaviour. These effects are known as externalities (happen outside the market/ exchange system). Therefore, the costs-price conditions explained in Section 3.3. above do not account for them. This omission leads to a sub-optimal allocation of resources. Governments intervene, through taxes and subsidies or zoning regulations (in terms of age, time, or geographical areas) in order to internalise such externalities. It is a debatable issue whether governments should better specify property rights and compensation entitlements while encouraging a legal regime that facilitates decisions to disputes in the shortest possible time – hence reducing transactions costs – rather than intervene directly themselves via the fiscal budget (Delia, 2006c).

Moreover, it is also debatable, even after the 'collapse' of the financial systems in many countries, whether auto-regulation by players operating in the respective sectors should be pushed forward rather than regulation by government agencies. In the case of common property there seems to be support to the view that disparate individuals can come together and form collectives that protect the resources at hand. Research indicates that property rights are varied and include the right to access, withdrawal, management, exclusion and alienation. Historical experience suggests that players in common resources developed systems of control among themselves to preserve the value of the natural asset. Contrary to basic text-book paradigms, government intervention is not necessary for resource protection and sustainability. It is therefore being recommended to extend the bi-partite 'private versus public goods' dichotomy and transform it into a tri-partite classification, by including a third good made up of *common pool resources*. However, in principle, this commodity may be considered a sub-group of the term 'private good' just as merit good, discussed below, represents a particular sub-group of what can be termed social goods. (Olstrom, 2009).

Merit/demerit goods are related to externalities**.** These are goods and services that can be provided by the market system but which are supplemented by government because they are either meritorious to be consumed by a larger number of consumers (like education, health or housing) or de-meritorious, and therefore should be discouraged, via bans or taxation, like smoking or alcohol consumption. Social welfare provision falls generally under this category because of its claimed external benefits to society at large. Healthy, educated people who live in decent home environment gain personally but so does society at large; empowered individuals produce more, are socially amenable, and potentially creative.

Thirdly, the presence of *monopoly markets* calls for government intervention. This can veer from regulatory regimes on price, quality of service, extension of the market to public control through ownership of the unit that generates this service. In general, debate regarded the effectiveness of regulators in various sectors of activity and the relative merits of nationalisation and privatisation. The success or otherwise of these methods of control and production would depend on the country and the time span over which the analysis is carried out. World-wide research supports the thesis that privately-owned firms are more efficient and more profitable than otherwise-comparable state-owned firms. There is limited empirical evidence, especially from China, that suggests that non-privatising reform measures, such as price deregulation, market liberalisation and increased use of incentives, can improve the efficiency of state-owned-enterprises, but it also seems likely that these reforms would be even more effective if coupled with privatisation (Megginson and Netter, 2001). Hence, the role performed by governments keeps being re-considered and appropriate decisions taken at the time.

But if one wants to justify government intervention, even *ex post* an event, one can always cite externalities or market inefficiency. It is only if one wants to be an impartial arbiter, weighing market evolution and bureaucratic interference, that a judgement on particular situations can be made. This is time consuming and necessarily carried out after events happen. Then, it becomes historical. A case in point is the observation that some make that had the state intervened less in the last hundred years, then possibly a more lasting and sustainable welfare support network would have developed through private sector initiatives. Guilds and other workers' organisations had undertaken initiatives to finance educational and medical institutions that provided members and their families with reliable and high quality services. These initiatives were, generally, wound up as the welfare state extended its hold, via taxation and public sector debt, on these services. Indeed, some writers refer to the nineteenth-twentieth centuries as 'the lost century' in terms of the potential development that never was (Seldon, 2007). This is an 'if' - 'then' scenario that is bound to remain hypothetical because every generation will have to make up its mind on how best to run itself. (Some analysts are interested in conjecturing how the world would have looked like today, had history taken a different turn. Such re-creations can then be relied upon to serve as guidelines for policy formation).

In summary

The discussion regarding the best way a community can organise itself to produce goods and services that consumers want to buy, either locally or abroad, will have to continue adopting a mixed economic structure, possibly changing periodically the relative shares of private-'collective'/non-profit-government control of resources. As long as market signals through prices are allowed to guide what is desirable to produce in the future, and allocate resources accordingly, then ownership *per se* will not matter. If, however, ownership interferes with this information system, or such system is distorted by long-term subsidies and taxes that may lose their original rationale, then ownership becomes a matter to reckon with: it distorts unnecessarily resources with negative wealth-creation effects in the future. Since one cannot put the clock of history back, the missed opportunities will be lost for ever, a price which future generations will have to shoulder at their own expense. This idea leads us to consider a third argument that arises from the various themes taken up above, namely, primary income distribution, fiscal redistribution mechanisms, equity and poverty. Graphically, this theme is represented in Diagram 1 as a movement from point **a** to point **e**, whereby it is being decided to favour individual B with resources redirected from individual A.

3.5 Primary Income distribution, Fiscal intervention, Equality and Social Minimum

Microeconomic theory considers those factors that condition the rewards to what are termed 'factors of production', namely, labour, land, capital, and enterprise. The returns to these factors (wage, rent, interest, and profits) are said to be just and fair if they arise under conditions of free choice and competition. They reflect the value of the physical product of the last unit of input engaged. Demand for factors is induced from the application of that factor. If any one owner of such resources can command control either of the price of the final product in whose production they are engaged, or control the demand for the intermediary factor thereby influencing the price offered and accepted (for whatever reason) by the input, then one may speak of an 'abuse' of market power. The emergent distribution among the respective factors is known as factor income distribution.

Economic theory does not distinguish between 'factor' (Labour) and 'means of production' (Capital), a distinction made in some schools of economic thought, including Marxist economics and the social teaching of the Catholic Church. Inputs are simply 'inputs', but this approach tends to give rise to several asymmetric relations in terms of ability to take decisions. In economic theory Labour and Capital are symmetrical in terms of social power. Economists refer to the substitution of factor inputs in response to relative price movements without identifying who owns what. Adjustment decisions to change factor relativities (capital labour ratios) could be made either by the owners of capital in a capitalist firm, by workers in a self-managed firm, or by members of a co-op. In terms of might, however, capital and labour are not symmetrical.

The market power of organised capital has been reinforced, to date, by the social power of conventional thinking that capital hires labour rather than vice-versa. Capitalist production is based not so much on private property rights as on the employment contract. This point is developed further in Section 3.8.1 below in the context of the 'just wage' and 'minimum wage legislation'.

But such considerations apart, the distribution of aggregate output is an important mechanism through which market forces operate in an economic system. The relation production-output-income distribution-expenditure, however, remains uneasy because the phase 'income distribution' is not accorded a degree of autonomy in the process. The theory of *functional distribution of income* concerns the distribution of the social product among the 'factors of production' that combine to produce it. Exposition is generally carried out in terms of two factors, Labour and Capital, where the latter term is made to represent the three non-labour inputs (the 'means of production'). Functional distribution reveals the shares accruing to factor labour and to factor capital, but not to the labourer, to the landowner, saver/lender, and entrepreneur. However, if the share of labour income in total production, measured by the ratio of wages and salaries and aggregate value added or Gross Domestic Product (GDP), is relatively low, or keeps falling over time, then it can be taken to be a sign that the low wages prevailing in that community or region will not enable people to rise on the real income scale. It would signify a grave social issue leading to personal hardship and distress. (A recent example of this condition emerged in China: the proportion of GDP that went to wages has been shrinking for the past two decades – from 57% in 1983 to 37% in 2005 and remained static since then. Low pay, long hours and poor working conditions for millions of employees are inducing conflicts, mass incidents, and worker unrest.)

The income which persons or households command is measured by the *personal distribution of income* and can be only ascertained after the amounts of labour and other inputs at the disposal of every individual or household are known. It is once this second income distribution is known – i.e. adjusted to account either for voluntary transfers by households or non-governmental organisations to persons in 'need' or by taxes (income tax, social security contribution, tax on interest payments received and dividends, capital gains tax) and transfer payments in cash and kind from the State to individuals or households - that one can proceed to consider the last two stages in the four step relation outlined above. In economies where voluntary aid and fiscal regimes are underdeveloped and people own nothing but their work personal and household incomes are low, saving (non-consumption resources) is low, and the potential for speedy economic growth based on capital accumulation is therefore equally small. A 'poverty trap' may emerge, demanding an injection of resources from outside the system to pull a household/community out of this condition. Or it calls for the emergence of an institutional set up that collects everyone's small amount of saving and channel credit to wherever it is needed, which resources will exceed those that any one unit on its own can generate at any one time.

In these circumstances, a technical issue – how to organise production to utilise resources efficiently and maximise output and sales in the domestic markets and abroad – becomes a moral issue – how to help all those who cannot help themselves without hindering the future economic growth on which upcoming generations have to rely for their living. This gives rise to the production-distribution trade-off, whereby pushing production objectives may widen up income distribution differentials for some time. Provided this ‘some time’ is socially (meaning personal/by household or region) acceptable, there would be more resources to build on in the medium term and all (or, most) will be better off. If the ‘some time’ is invariably long, then social unrest could be expected to follow, reflecting an inadequate allocation of the created wealth among the participants. China’s example cited above illustrates this point.

This can happen either at the initial, functional income distribution stage – where the share going to labour is disproportionately low – or at the income redistribution stage – when resources collected by the State through taxes or appropriation will be re-allocated to selected few (the ‘political elite’) to the detriment of many. Real life economies may go through any of these two possibilities, or a mixture of both. They reflect situations which favour individual (group) B at the expense of individual (group) A in diagram 1 above.

Production, and hence the generation of primary income, may take place in goods and services that are consumed locally or abroad. Export-oriented economic growth is conditioned by different political and economic considerations than production directed for local consumption. Such trade patterns are, again, in part influenced by underlying views on the short and long term advantages of free trade and national controls. Liberalists extol the benefits of international trade to all those involved directly, and subsequently, even to those not imminently engaged in external trade transactions: countries (regions) gain from specialisation and exchange provided such conditions prevail. If for some reason after a country/region has specialised in the production/provision of particular goods and services there occurs a radical change in the political and trade arrangement then that specialisation may for a time become a handicap: too much dependence on one activity may not be desirable in the long run.

Those who favour interventionism in external trade relations may do so in order to preserve existing industries, and the incomes and wealth they generate. Such an approach can find its origin either in pure economic arguments or in political critiques that are based on the power of specific socio-economic classes or the more generic on the security and sovereignty of the nation state. Whichever stand is taken may be 'justified' in economic terms: citing competition gains and global welfare on one side or imperfect competition, the uneven strength that marks multinationals and governments in small countries, or overdependence of foreign demand on the other.

Whichever side is taken, there will always remain the technical issues regarding the volume and quality of resources, their respective prices in the trading areas and the value of the two currencies in which trade take place (the rate of exchange of a currency in terms of another). Like other prices, the 'optimal' value of the rate of exchange cannot be determined with certainty, even if it is quoted and traded in active markets every day. Witness the present debate on the 'ideal' value or the alignment of China's yuan renminbi vis-à-vis the US dollar, or the 'desired' (long term equilibrium) value of the euro given the disparate economic factor endowments and price relativities in the euro zone.

Political decisions regarding such factors will condition heavily the potential for profitable income generation in particular regions and, thereby, also personal well-being. Such decisions have to be pursued by others that focus on the redistribution of resources in cash and kind so that families can not only survive but, more importantly, strengthen their hope for a better future. This implies that isolated political decisions will not be beneficial in the long term; they have to be taken on regional and, often, on global dimensions. Trade more than aid can sustain the economic development of peoples. But this approach depends on institutional changes within countries aimed at defining clearly property rights and their safeguarding. Wealth creation has to be encouraged and effectively attained before harping on wealth distribution, otherwise experience shows that people's incomes will be levelled downwards instead of upwards and their potential for future growth could be impaired (Boudreaux and Dragos Algica, 2007).

Since political decisions often depend on popular support at the ballot boxes, cultural preferences have to be considered. Culture – defined as 'customary beliefs and values that ethnic, religious and social groups transmit fairly unchanged from generation to generation' - matters to important economic outcomes: it can condition female work and fertility, for example. Possibly, it affects entrepreneurial activity, creativity, and physical and human capital accumulation. In turn, these factors bear on income growth and income inequality within a country and between different countries (Fernandez and Fogli, 2005). Therefore, culture impacts trade and development.

Besides, culture may also influence preferences for income and wealth redistribution. Peoples' upbringing influences their behaviour: their belief in, say, the right to equality of opportunities or to government intervention in the economy in general. It is found out that such inclinations are carried with them wherever they go and become entrenched in a new settlement especially if they come to reside in close proximity to nationals with similar attitudes. Regions that experience strong internal migration, or countries that register significant migratory movements, can expect to witness shifts in views regarding social and economic behaviour as a result (Luttmer and Singhal, 2009).

And it is inevitable that such cultural traits are transmitted through the 'power of the family' (Alesina and Giuliano, 2007). In some cultures, family ties are weak; in others they are strong. Strong family ties imply more home production of goods and services and less participation in market activities especially for women and youngsters who stay at home longer. This is associated with higher fertility (family ties may also provide child care services) and a more 'traditional' role for women, with less education and more work at home. Strong family ties are also associated with less geographical mobility since ties are more useful if people live close to one another. They also give rise to trust within the family; outsiders are trusted less.

Such cultural traits are a pointer to the complexity of fiscal decisions that are generally spelt out in terms of per capita/per household income terms without going into the cultural background that is represented by real world persons or households. The 'representative consumer, producer, household or firm' exists only in the minds of text-books writers; real life human beings are more complex than that. They have a past that makes them who they are. They cannot be restricted to a straight-jacket simply to render manageable a multifaceted issue. This factor perhaps explains why economic and social policies may tend to 'miss' over time the objectives they are meant to attain, no matter the volume of resources that governments throw at them.

So far, comments on functional income distribution and redistribution followed the approach used by economists to refer to command over resources. But there is a series of considerations that refer to the very meaning of the terms themselves. Briefly, what is the relationship between redistribution and the concept of distributive justice? What do we mean by the term 'equality'? And how we define a 'social minimum'? Discovering 'pragmatic' solutions to everyday queries may be a positive way forward, but it does not mean that societies, through their various networks, are actually on the way to attaining the goals they claim they want to achieve.

Discussions of *distributive justice*, for example, may focus on the moral assessment of systems of social rules in the context of how these affect distributions. Ownership titles regarding acquisition, disposal, usage, role of markets, monetary and trade decisions, national and international bodies: such issues affect directly both the primary income distributions and the resultant secondary redistributions. Under defined terms, some systems may be considered just, and others unjust. But it is difficult to classify the concept of redistribution to mark the difference between them. The classification of policies and institutional arrangements as redistributive depends on people's moral assessment of such practices and, being subjective, cannot be used as a basis for such assessments. Besides, if one reflects on the merits of particular redistribution measures, it means that the present distribution of resources is being 'accepted'. We depart from the income distribution and consumption of goods marked by point **a** to reach point **d** or **e** in Diagram 1 above.

Similar considerations arise with the concepts of *social and political equality*. At least since the French Revolution of 1789, equality proved to be a leading, though contentious, ideal of the body politic. Controversy abounds on: the precise notion of equality, the relation of justice and equality, the material requirements and measure of the ideal of equality, and its status within a comprehensive, liberal, theory of justice.

Again, to claim that "people are entitled to meet their 'basic needs' irrespective of who they are; they should enjoy at least a minimally decent standard of living" is fairly easy to make. But, to define the exact nature of a *social minimum*, the considerations that prod it, and even its basic justifiability, are all matters of philosophical controversy. Agreeing that 'all are entitled to a social minimum', the question then arises: How does one reach such a minimum? Through work? In the case of health or education: does government *provide* health facilities or/and *produce* health facilities? Should assistance be in cash or in kind? Subsidise demand and leave people free to decide or subsidise supply? Should this obligation be restricted to one particular country or does the duty towards securing a 'social minimum' extend beyond the boundaries of the nation state? (White, 2004; Delia, 2009) If so, should it be secured through trade or through aid or both? (Some countries feel more 'secure/at ease' in transferring aid but not in opening up their frontiers to imports from lower-wage regions)

People react differently to these concepts and their material connotations for income generation, trade and payments systems. The more one explores the issues in their entire philosophical-cultural-economic-political dimensions, the harder it becomes to come out with a ready-solution acceptable to all. Under such circumstances, it becomes more evident that people who wish to go forward will have to devise ways to reach solutions. In modern states, such solutions are reached through the political systems in place in parliamentary democracies. Even one-party states are nowadays more conscious of the fact that they have to attract as wide a consensus as possible. In Diagram 1, this political consensus is reflected by the Social Welfare Function (SWF) which represents the combined welfare of Persons A and B in a two-person model. In the diagram, the solution to welfare distribution between A and B is given by position **d,** where the SWF intersects the Pareto frontier, which represents the series of possibilities of first-best resource allocation conditions. Economists' appraisal of the political system are summarised below in terms of theories of social choice.

3.6 Resource Allocation Through the Ballot Box

Social choice theory examines the impact of the political market on resource allocation; it is an extension of theories of the private market for goods and services applied to the 'market for votes' in parliamentary democracies. It examines the motives of players (politicians, political parties, voters and pressure groups) in this segment of activity and the strategies adopted to reach these goals. Besides, it considers the end-result of this process on resource allocation in the short and long run.

Political decisions are necessary to 'round up' an economic analysis for two main reasons, one practical the other theoretical. Governments are directly involved in a wide array of economic activities in all countries; so the way decisions are taken is bound to bear a direct impact on resource allocation, economic growth and social well-being. Secondly, since the mid-nineteen thirties economic welfare theory has been expressed in terms of ordinal (ranking) terms: the basis of the theory of consumer demand for specific goods and services and producer demand for factor inputs reflects personal choices among paired combinations of goods/factors of production and their respective relative prices. Such combinations are put together to represent a plateau of welfare values or quantities of commodities, that are ranked one above the other. In the case of consumers, the values are not identified in absolute terms. A summation of the individual demand schedule thus derived yields the market demand schedule, once one assumes that all individuals (consumers) decide on their desired purchases of a good independently of others. Similar considerations refer to producers. (Consumer-consumer and producer-producer external effects are ruled out; there is no 'herd' instinct at work and no attempt 'to keep up with the Joneses').

As a result, claims can be made that one consumer will experience an increase in welfare, following say a price fall of a good or an increase in own income, but without identifying by how much. This means that a rise in a person's income (following a government transfer or a cut in taxation) will make that consumer better off; the opposite happens when income taxes are increased, or transfers withdrawn. Since inter-personal comparisons of welfare are ruled out, there is need for a non-economic judgement to determine whether a policy (fiscal, monetary, legislative) measure is socially desirable or not. That judgement falls in the domain of politics. Hence it is important to understand this political decision making process and assess whether it meets the condition that the value-judgements on which decisions are made truly reflect those of the 'community' and are conducive to an 'optimal' allocation in relation to the basic, underlying community values as manifested in a Social Welfare Function (SWF). Whereas economic theory is supposed to be 'value free' in so far as personal decision-making is involved – which it is truly not, since all persons integrate elements of their 'past' when deciding, even though they may do so unconsciously – the SWF is specifically meant to be value-loaded. It is a manifestation of a set of beliefs as expressed directly by a community – say through a referendum or in its day-to-day operations – or through its representatives.

One can summarise the outcome of historical debate on the role of governments, political systems, and the economy in a series of statements (Delia, 2004) These statements highlight particular aspects of this experience but, altogether, they suggest that we are facing a non-simple system that keeps metamorphosing itself over time.

i) 'Economic Beings' and 'Political Beings' are identical. Only constraints are different.

This assumption of universal self-interest implies that observed differences between public choices and private choices emerge not because individuals adopt different objectives in the two settings, but rather because the constraints on behaviour are different. Different outcomes emerge not because public choices are guided by motives different from those guiding private choices, but rather because in private markets self-interested voters and politicians make choices that mainly affect themselves, while in political markets self-interested voters and politicians make choices that mainly affect others. And they implement decisions using the resources of the 'collective' to reach goals that, in certain instances, may enhance more their own career path in the long term than the welfare of society in general.

ii) Democracy may affect negatively economic growth.

Research on the determinants of economic growth highlights the role of institutions in facilitating economic development and growth. There is reason to believe that society's perception of a sound institutional framework – rule of law and order, finance and trade – lead to higher rates of economic growth over time. Besides, democratic systems may be considered to affect growth in various ways. They foster growth by extending the empowerment of people through education and health and, less so, by lowering income inequality. However, democracy may hinder growth by reducing the rate of physical capital accumulation and, less so, by raising the ratio of government consumption to total value added (Gross Domestic Product – GDP). For example, democratic governments tend to have poor road system, compared to military regimes that choose to invest in well-maintained road networks to facilitate the transportation of troops (Saiz, 2002); or the 'over-expenditure' by EU member states on recurrent expenditure cost centres that are presently being actively re-considered.

It is the sum total of these forces that bear on a country's overall long term growth. In some cases, the net effect is seen to be 'moderately negative' (Tavares and Wacziarg, 2001). Political parties, competing for citizens' votes/support, promise a never-ending extension of services without formulating adequate ways of financing them; in the long term, this 'competitive' approach tends to result in unsustainable programmes and the misallocation of scarce resources. This apart from the emergence of expectations and attitudes that are not consonant with the market discipline of choice related to pay and exclusion.

iii) Governments' expenditure is ultimately bounded by taxpayers' willingness to pay

An increasing share of government expenditure, particularly consumption, of GDP over time is observed for many countries. Many believe that a governments' ability to finance ever-growing expenditure is unlimited; they can borrow or print money if necessary. While it is true that such measures may be adopted with short term positive results, yet they cannot be taken as being indefinitely unbounded. Even governments may face a limit – as various people have been finding out in the past three decades, first in Eastern Europe and more recently in the European Union. Governments, too, may face a situation where they cannot meet their debt commitment to lenders outside their political domain and risk defaulting. This limit may be pushed ahead by industrious people, but productivity gains are not boundless at given times and, in the net, they may be zero if not outright negative in government controlled economic sectors. Therefore, it is a value in itself – reflecting intergenerational solidarity - to encourage a culture that drums home the idea that the limit to public expenditure is ultimately established not by policy but by revenue, not by politicians but by taxpayers, either this generation of taxpayers or the ones that follow it.

iv) The impact of governments' budgets on households' behaviour depend not so much on how expenditure is financed as on households' reaction via saving in anticipation of higher taxes.

Fiscal debates often focus on the method through which governments finance expenditure – taxes, appropriation (profits registered by government-owned enterprises), and borrowing – locally or abroad, from private sector or from central banks. Taxes are seen altering the relative prices of goods and services, the returns on various forms of investments, and the relationship between work and leisure. Appropriation increases revenue when profits are made; but government corporations may have to be subsidised if they are run at a loss. Borrowing, under certain conditions, will raise the cost of capital leading to potential crowding-out of private investment. Budget deficits are generally considered to be expansionary irrespective of how they are financed.

However, it may be argued that the method of financing a deficit may be immaterial only if taxpayers believe that there will be no need to raise taxes in the future to finance the higher interest rate payments when due. If taxpayers consider a future tax rise inevitable, they may ignore it and continue consuming as before – thereby shifting the eventual burden of payment on future generations. Or they may decide that they themselves will be the 'future generation', if the tax rise is thought to be imminent, and cut down on their present consumption to build up savings. Income from such savings could in part be offset against the higher tax payments considered due.

If they react in this way, any positive gains in economic activity that follow an injection of resources by government will be in part or in whole countervailed by a cut in households' consumption and by concomitant investment outlays that are driven by expected growth in consumption. In theory, the net impact of these two distinct decisions may be zero growth on domestic value added. In this scenario, taxpayers' saving and investment behaviour is seen conditioned by potential future tax payments to finance rising interest rates payment accruing on public debt. In this case households' decisions to buy, all together, are conditioned by households' incomes, the cost of borrowing/lending (reflecting households' rate of time preference between the present and the future), the net worth of households, and the expected future tax bills which have to be paid from future income flows and will also determine the value of households' net worth in the years to come.

Historically, governments seemed more inclined to appropriate (nationalise productive assets and reap dividends) than to keep raising the aggregate tax ratio. But with the privatisation drive of recent years, and following the resort to 'quantitative easing' of the money supply in various developed economies, it could well be that higher taxes – and reduced expenditure – will be more acceptable to policy makers. If this situation materialises, then the role of a more aggressive tax usage would have been ushered in. Taxpayers will have to take note, and, probably, demand more accountability from policy makers. They may have bothered less, when governments were borrowing: as buyers of government paper they may not have considered it in their interest to worry about how the funds were spent. As tax payers, they will do.

v) Different taxes and government outlays have varying effects on economic activity. So do monetary injections and the management of national debts.

References to government fiscal interventions should not be restricted to financial flows. The impact on economic activity tends to differ from one tax to another and from one expenditure outlay to another. One million euro raised from a tax on alcohol induces a different reaction from those who pay it than the same sum raised from income tax. Similarly, one million euro spent on the construction of roads yield different results from the same sum spent on pensions. The consumption and saving patterns of taxpayers and income recipients may vary according to age, gender, and social class, to mention three statuses.

The same can be said on monetary injections. The banking system may condition regional and sectoral development by channelling resources in one geographical and/or industrial area than another. Again, these effects of money injection will differ because the propensities to consume and save of different households may vary from one location to another. These propensities will induce the demands for goods and services, both those locally produced and distributed and those imported, including a widening range of services that are now globalised through technology. Tourism, purchase on line, gambling, and financial services fall in this category.

Again, households' consumption/saving behaviour are conditioned by the way that national debts are managed: whether the aim is to monetise debt (boost liquidity) or to 'purchase illiquidity' and ease aggregate demand. The instrument and costs therefore vary according to objectives: ease, inject money supply and keep costs of borrowing low or raise the cost of borrowing for government in order to encourage households to save.

vi) To be efficient, parliamentary decisions on budgets have to evaluate both benefits and costs of the projects proposed for approval.

Since the repercussions on resource use and household/personal welfare differ according to the policy instrument and the amount of resources that are committed, partial analysis of projects, especially large public sector projects, will not result in informed evaluations. As an outcome, resources will be misallocated to the detriment of future economic growth. When capital and/or foreign exchange resources are scarce, they have to be applied as efficiently as possible. The criteria on which they are distributed have to be clear and decisions made should be transparent. Only in this way can accountability be determined and governance secured. Once funds are committed to a project, it may not be possible, without loss of precious resources, to withdraw half way; what will be sunk already may not have much alternative use or it causes cost per unit of output of the re-processed project to rise. Hence parliaments should deliberate on both costs and benefits before decisions are made and resources are allocated.

vii) Policies may be discretionary or subject to rules. But they have to be time consistent

Functional fiscal policy, as applied in the past half century in mixed economies, meant that governments used the budget as a tool to countervail cyclical economic behaviour. In order to do so, taxes and expenditure were administered in such a way as to render them sufficiently flexible to complement the behaviour of the private market sector. Timely intervention implied an anticipation of future economic performance and relied on mastering econometric techniques to identify resource gaps and turning points in business cycles.

Frustration with repeated failures to anticipate correctly cyclical inflexions led to the revamping of the suggestion to apply economic rules (e.g. expand the money supply – however defined – by x% annually; aim for a deficit/GDP ratio of y% or balance the public sector budget annually or over a cycle) and let the economy adapt itself to them.

Having rules is not enough. Policy makers have to be consistent in their behaviour over time. Once objectives are set, they have to be seen by all operators – consumers, providers of services, producers of goods, trade union leaders – that they intend sticking to the declared targets. If decision makers keep shifting their targets, because they do not believe in the approach in the first place or because of political expediency, then all those who will be hit by their decisions will learn at their expense and, next time round, they adapt their behaviour accordingly.

There is as yet no definite guideline on how to proceed. Governments and Monetary Authorities prefer an element of discretion but the complexity of the working of an economy, especially following the massive trade expansion of recent decades, may render discretion weak. This means that there has to be a mix of rules and 'freedom to adjust' but within clearly-specified ranges of actions. Failure to be seen consistent will give rise to parallel economies (grey/shadow/underground) that render even the interpretation of official statistics difficult let alone render them useful tools for policy prescription.

viii) Policy objectives must be matched by an equal number of policy tools

The number of policy tools must match the number of policy objectives. So, if there are, say, four objectives to be attained – full employment, relative price stability, balance of payment equilibrium, and equitable distribution of income – there has to be four policy tools on which government/monetary authorities have control. In this case the corresponding tools may be: the rate of exchange, the rate of interest, taxes and government expenditure. If there are additional targets e.g. balance the fiscal budget annually, or meet future pension liabilities, then additional policy tools have to be identified. Controls, sale of assets, and the introduction of charges for services rendered are three such tools. If policy makers lose control of certain key parameters, say, following a country's membership of a monetary union when the rates of exchange and interest are transferred to the international markets and the European Central Bank, other policy parameters will have to partly complement these tools in order to 'fine tune' the price and quantity structures that arise. Failure to understand this basic policy guideline may result in the emergence of undesirable restructuring in several markets for both intermediate and final goods and services.

However, it is observed that once a parameter is identified as a policy target, it loses its independent significance. Interested pressure groups will try to influence its value. Thus a policy decision to link wage increases to inflation or productivity growth will induce employers and employees' representatives to influence the value of the policy parameters in their direction. Those who pay aim to introduce measures to keep the strategic parameter low; those who receive payments attempt to round it upwards. Or, in the EU context, governments may 'influence' the estimate of their deficit or national debt in order to fall in line with the Growth and Stability Pact criteria.

ix) Translating economic concepts into real world policy parameters is not a straightforward exercise

Economic theory uses concepts that may not find a ready counterparty in the real world. It refers to demand and supply of goods and services, fiscal budgets, rate of interest, average overall price movements, effective exchange rates, productivity changes, unemployment rate and so on. But identifying the 'counterpart' of these terms for policy purposes is not a simple exercise. This theme will be taken up in Section 3.7 below.

Suffice to point out that economic concepts may be open to more than one interpretation and, therefore, measurement. Thus, the concept of 'consumer surplus,' referred to in Diagram 2 above, has three different meanings, namely, the Marshallian quantity-constrained definition; the Compensating Variation or Willingness-to-Pay definition; and the Equivalent Variation or Willingness-to-Accept definition. There are, therefore, three corresponding measurements that go with them. Again, one can measure a fiscal deficit on a cash-flow, accruals, or/and inter-generational basis. Even terms like the 'burden' of the national debt, or the 'incidence' of a tax convey different connotations depending on the analysis in which they are defined.

Life is not easy, indeed. Not to mention the most basic of them all – the so-called identification problem. Economic theory shows why demand schedules for goods and services are expected to be inversely related to price, and why supply schedules are positively related to price in the short period. Data register sales. But sales are what they are for several reasons: the goods were the ones available on stock and many/few buyers had to remain unsatisfied; they had to wait. Or stocks were higher but buyers did not turn up. Unless there is further complementary information, it is not enough to copy data on sales and prices and determine that they reflect demand or supply according to the sign of the price coefficient in an equation.

Besides, the notion of 'time' in economic theory refers to operational ability of players (consumers, producers, policy makers) to adapt. If room for adaptability is restricted, there are some 'fixed' factors, then one speaks of the 'short run'; if adaptability can be wider, then one can refer to the 'long run.' But by the short or medium term, people understand performance in terms of calendar days or months. On this definition, it is possible to have the long run of economic theory implemented before the short run. Indeed, at times people may differ in situation analysis because they are applying different concepts of time.

In summary

Government intervention through ownership of assets or through fiscal activity cannot be a simple solution to all economic issues. There is enough 'knowledge' in economic thought to suggest ways of behaviour for policy makers if these want to render the attainment of economic growth sustainable and fair. This stock of ideas suggests caution, long term planning, and wide participation based on free choice and competition. If for any reason choice and/or competition have to be restricted then the significance of such a move has to be addressed. This thought begs the question: if these ideas exist why do policy makers fail to appreciate their worth? This query leads to a key matter that lies at the heart of social choice theory: the role of the political system in a parliamentary democracy.

Parliamentary democracies are run on majority rule. If consensus can be had on all issues, then it can be claimed that the people, through their representatives, are acting in such a way as to maximise the net worth of all economic and financial decisions taken. But consensus is rare. Generally, governments run business on simple majority. This majority may emanate from one political party that commands more than half of seats in parliament, or it can come from a coalition of parties that agree on an action programme and collaborate to implement it. In a multiparty system, coalitions may represent more than two parties, which coalitions may change over time.

But coalitions working under block voting do not necessarily lead to laws and measures that promote the public good. The outcome can be influenced by the voting pattern adopted, the number of voters and the number of options under choice. These combinations can give rise to situations whereby the final outcome can be induced, meaning that the path to decision making is either imposed or dictated (Arrow, 1951; Tullock, Seldon and Brady, 2000; List and Goodin, 2001; Hawthorne, 2010). Instead of deriving a SWF, depicted in Diagram 1, that reflects the wishes of the two persons(Groups) A and B – representing all citizens or voters – the SWF will reflect the views of the leading promoters who, in turn, may be either representing no-one but themselves or the interest of particular sub-groups. The latter can be made up of various 'denominations' such as, ethnic, regional, industrial, consumer, to mention several. In such conditions, where coalitions can rotate, it cannot be claimed that decisions on fiscal and other measures are truly directed to the maximisation of the public good and to the minimisation of costs. In this case, social welfare will not be maximised and resource allocation will not be efficient. Though pragmatic, simple majority voting (or even qualified majority voting, like the two-thirds majority rule) may not lead to a first-best position in terms of resource allocation.

The simple transfer of decision making on resource allocation and their relative prices from the market system to the political system does not automatically remove any identified or hidden shortcomings in exchange associated with market transactions. Nor does it transfer the key to decision in the hands of all citizens. Life is more complex than that. Both resource allocation systems have their own shortcomings and the worse thing that can happen to a community is that these shortcomings reinforce each other and become apparent when their joint negative influence on output, incomes and welfare and/or their institutional weaknesses become too obvious to be ignored. The costs of redressing such adverse conditions in terms of time and human and other resources could be great. Still, since decisions have to be made it is important to recall that complex systems remain always complex systems. Shortcuts to decision making may be necessary most of the time, but the better informed is the decision-taker the closer one can get to the real position. Since decisions are as sound as the data sets on which they are based, one has to examine the relationship between the data compiled and the conceptual parameters that guide policy formation as well as the reliability of the data themselves. These considerations are now addressed in the next section.

3.7 Economic Policy Objectives and Statistical Data Sets

Economic constructs are made up of theoretical parameters that may not be readily translated into statistical data sets. This fact alone already presents issues of identification, measurement and interpretation. But, in addition, since governments have a ‘monopoly’ on generating data bases, they may be tempted to use such information to project economic scenarios that meet best their political objectives. They may condition the use of terminology and ways of carrying out assessment of economic performance. This non-statistical input/intrusion may render objective, 'impartial' analyses of economic trends very difficult indeed. Several themes related to economic modelling and data bases are examined below.

One refers to *government intervention in an economy*, for example. This involvement can be measured through different parameters and, therefore, require different data sets. It can be addressed through the tax revenue side, representing the amount of resources that the government withdraws mandatorily from the private sector – through the aggregate tax ratio, expressed as a share of GDP. Or it can be expressed through the share of government expenditure on total value added, representing the amount of resources that the government puts back into the economy, expressed as total government outlays as a share of GDP. Some adjustments will have to be made in this case because GDP estimates exclude transfer payments, whereas government expenditure includes them. Or, still, one can measure government's involvement through employment: total employment in the government sector, including those companies in which government has a 50% + 1 shareholding, as a share of total gainful employment. These three measurements, with their specific theoretical significance for output growth, overall average price movements and productivity, can give contrasting impressions.

Thus, to take Malta as an example, the share of tax revenue in GDP may be seen rising at a certain rate after a particular year; the share of government expenditure in GDP may be growing but the upward trend may be smaller; while the share of public sector employment in total employment is falling, in part following the privatisation of government-owned enterprises. The 'involvement' of the Maltese government becomes dependent on the coefficient to which analysts adhere.

Linked to these general impressions there are several economic considerations with somewhat strong policy implications. On the tax side, expressed in terms of the share of tax revenue to GDP, one can refer to two theories: the Critical Limit Hypothesis – tax rates and the average aggregate price level are interrelated, and the Laffer tax rate – tax revenue relationship which can refer to both short run and long run time frames. The Critical Limit Hypothesis states that when the tax ratio exceeds a certain limit, say 30%, there is a tendency for further tax rises to be inflationary; dealers pass on the tax charges on consumers. Taxes include charges for services by government-owned enterprises, in which case such price increases could result in higher profits appropriated by the state. The Laffer relationship is built on the idea that there exists an 'optimal' tax ratio which, if exceeded, will result in falling tax revenue for the state: rising taxes discourage enterprise, output growth and rising incomes and, as a consequence, dents into government tax receipts. If, instead, the economy is situated at a tax configuration below this optimal value, governments can raise more revenue by raising the aggregate tax rate (Delia, 2006d).

On the expenditure side, one can refer to the role of rising government expenditure and its financing on future economic growth (so-called Wagner's Law of rising government expenditure). Some theories expect the share of government expenditure in GDP to grow over time: rising per capita incomes emanate from a sounder infrastructure and social investment which governments can help accelerate. Besides, people's demand for publicly supplied goods and services may grow as incomes rise. This tendency need not keep growing unchecked; it could be reversed. As explained in propositions (iii) and (iv) in Section 3.6 above, the manner of financing a rising expenditure – through tax increases, higher dividends from government enterprises, borrowing, the sale of government-owned assets, or grants from abroad – is bound to influence the behaviour of private sector households and companies. Private sector reactions may change according to the economic conditions at the time: private sector behaviour during a sustained economic boom would be different from behaviour during a prolonged economic downturn. In turn, this reaction reconfigures the composition of aggregate consumption and investment over time, which will induce a re-assessment of government involvement in the economy.

The third measurement, reflecting labour absorption in the public sector, relates this share to productivity growth. It is argued that private sector employment is subject to rising annual productivity per worker, whereas public sector employment does not register this annual increment. Output per head is static in government-run enterprises. If this productivity consideration is correct, then as workers are transferred to the public sector the overall growth potential of the economy is reduced; conversely when the share of private sector employment rises, the potential growth rate of the economy is boosted.

Again, whether this shift in potential growth rate is to be considered negatively will depend on the importance policymakers allot to economic growth. If they argue that economic growth may induce negative physical and social complementary characteristics for the community, a slower economic growth may not be disheartening after all. If, on the contrary, they consider that negative physical externalities can be contained and rising income enhance human happiness then a check on income growth will not be viewed attractive from a policy perspective.

The first two coefficients - Aggregate Tax/GDP and Government Expenditure/GDP ratios - rely on GDP data. Although statistics offices aim to provide as reliable data bases as humanly possible, GDP statistics are bound to remain subject to a margin of statistical error. By improving the methodology over time, and enforcing data collection, statistics offices will enhance the data sets but render the series of ratios non-comparable. For example, when Malta's Office of Statistics adopted the European System of Accounts 1995, the GDP values were topped up by an average of 7.5% for the years 1999 to 2002. As a result, the share of aggregate tax revenue and aggregate government expenditure in GDP fell when compared to the way in which they had been compiled. Government is seen to be 'smaller'.

Similarly the lower will be Government deficit/GDP and National Debt/GDP ratios – two parameters that fall under the Growth and Stability Pact criteria of the EU. But per capita incomes will be higher. By improving the system of statistical compilation, policymakers will have to reconsider their evaluation of the performance of the economy. The real economy will not have been changed: what happened actually took place whether it is recorded or not. But the knowledge about this going-on will be different; the reference to action will therefore reflect this. Future behaviour can be influenced in various ways as a result.

The above ratios themselves trigger other queries related to statistical bases, for example, the utility of GDP data as indicators of social progress, considerations regarding the measurement of price changes, or, productivity and competitiveness, or the size of budget deficits and the national debt. And, also, demographic/labour force changes once we refer to coefficients in 'per capita' terms.

Every single one of these statistical terms brings with it problems of compilation and interpretation. These terms are examined briefly below.

GDP, Material wellbeing and happiness

The debate regarding the relationship between output and income growth and material well-being or 'welfare' (nowadays being supplanted by the term 'happiness') has a long history. Income and consumption data on per capita terms, expressed in a common currency or numeraire, have been used as proxies for measuring inter-temporal and international personal and household 'welfare': information was available and, also, at some stage in a person's/household's deliberations on how they feel/what do they enjoy doing, income and consumption expenditure were bound to play an important role in decision making. They were useful, pragmatic tools that could be instrumentalised for policy formation, implementation and monitoring. But like other 'summary statistics' these terms cannot be expected to cover all aspects associated with welfare or happiness considerations. Anyway, since notions on welfare or happiness are bound to be subjective, to reflect correctly movements in such parameters one would have to keep assessing individual perceptions, feeling and overall sentiment regarding life states over time and between people living in different regions. It cannot be expected that various 'states of life' can be summed up in one heading like per capita income or consumption.

When combined indices were constructed to render evaluation more inclusive, the interpretation of their respective components still demanded a step-by-step explanation, in particular as it can happen that improvements registered in one parameter may be matched by a setback in other parameters. So the relative weight given to the respective component will bear on the composite index final result. Since such weights are subjective, the indices are 'doctored' to render them statistically plausible, for example, by taking the logarithmic value of certain parameters. Quite expected, some commentators keep plodding on trying to come out with 'embellishments of data' (Stiglitz, Sen and Fitoussi, 2009) and others keep pointing that one cannot load macroeconomic data, especially, with all the social connotations considered 'desirable to measure' (Brittan, 2009; Kay, 2009; Economics focus, 2009). The main point remains that decisions taken on these statistics are generally based on 'incomplete' information and therefore always reflect a judgemental input by the decision-maker.

Money supply and the Average price level: theories and measurement

The value of the gross domestic product is the result of output values and prices. Therefore there is a double issue: to identify changes in output and changes in prices. The value of GDP may increase merely reflecting a rise in the price component (P), or, prices may remain constant and GDP rises because output increases (Y), or several combinations of the two. The issue regards two measurements: price movements in the various components that make up the GDP (which can be measured in terms of income, expenditure and output) and the corresponding movements in goods and services. These two parameters can be related to two other values, namely, the supply of 'money' and its velocity of circulation through the equation of exchange. This states that the 'money supply' (M) multiplied by its 'velocity of circulation' (V) is equal to the value of the nominal value added (GDP) over a time period. In short: MV = PY.

We already referred to issues related to the measurement and interpretation of the parameter (PY). But there are other considerations. One refers to the methodology of measurement of P, M and V or its reciprocal (1/V) which is referred to as the Demand for money. The equation above may be re-written Demand for Money = kPY where k=1/V and is a constant in the short run. The other refers to causality: if V or k is constant in the short run any changes in M will influence PY. That is true by definition. What is debatable is whether the line of causality runs from changes in PY to M, or whether it runs from changes in M to PY. A school of thought follows the latter: changes in M initially influence PY through an increase in Y and after a time through an increase in P. Other school of thought maintain that increases in PY, say through expansionary fiscal policy, will induce changes in MV either through V or M or both. Expansionary fiscal policy through borrowing from central banks (printing money) reflects a simultaneous stimulus that combines both fiscal and monetary policies.

It follows that one has to define and then measure M – the supply of money. This could be currency in circulation, demand deposits, and other short term (money) instruments. As financial markets get more complex / 'sophisticated', this definition of M must keep adapting itself to them. Such transformation over time implies that time series data referring to M will no longer cover the same content of information; there are cut-off points in the series of statistics.

Moving to pricing considerations, there are several 'prices' that are referred to in economic theory that may have, or not have, their statistical counterpart in some economies. The P in the equation above refers to the GDP deflator which registers the movement in the average, overall price as measured by a composite price deflator. Some countries have an explicit price index that fits this definition; other countries, Malta included, do not. What they have is a derived, implicit GDP deflator, based on the expenditure method of measuring the GDP. This deflator emerges after the single components are adjusted for their respective price movements. In Malta, two types of price deflators are used: a unit value price index is used to deflate nominal values for imports and exports and other price indices, based on weights derived from occasional surveys, are used to deflate data for household consumption, expenditure by tourists, capital expenditure, government recurrent and capital outlays, and the value of stocks. The implicit GDP price index emerges as an outcome of these price indices; it is derived by dividing nominal GDP by the real GPD obtained by summing up its price-adjusted components.

But such an index is available on an annual basis, gradually being introduced on a quarterly basis. However, certain policy decisions refer to other indices that measure 'inflationary tendencies'. There are two indices that measure consumer price movements: the Retail Price Index (RPI) and the Harmonised Index of Consumer Prices (HICP) which includes a range of services excluded in the RPI. Eurostat uses the HICP as the official instrument to gauge price movements in the Maltese Islands. But in policy measures related to adjustment in rentals and cost-of-living compensation given to employees or social welfare benefits recipients the working base for adjustments is the RPI. Two other price indices, one derived by the Central Bank of Malta the other worked out by the National Office of Statistics, trace changes in the prices of property; they use two different yard sticks: prices requested by real estate dealers as advertised in selected newspapers and the prices of property sold as declared in deeds of sale. At times, these two instruments yield different, contrasting movements in such prices. Constructing residential property price indices that reflect the quality and price movements of real estate is complex indeed (Cecchetti, 2009).

Values from these indices are applied to derive income per head and poverty levels measured at Purchasing Power Parity; they are also used to measure the degree of competitiveness of Malta-made goods and services. These values may vary from ones obtained from, say, Unit Labour Cost Indices which trace movements in costs of labour and productivity per worker in Manufacturing (Delia, 2006e). As a consequence, the price movements may be either amplified or more contained and the corresponding variables – such as real effective exchange rates (exchange rate indices weighted by relative price indices) or output (real GDP) would not reflect correctly the performance of output and overall average price movements. Interpreting market behaviour from such data sets could be warped and judgements based on equations using such indices could therefore be misguided.

Besides, the aim itself of these indices could be called into question: measure 'core inflation', leaving out the prices of those goods whose market characteristics record high seasonal volatility, say, agricultural produce? Or include the movements in property prices as part of that 'core'? Shall one switch from the present arithmetic mean approach to the geometric mean methodology? If this switch takes place the resulting variance of price movements will be reduced. Shall one then change the monetary policy target objective, at present an inflation rate of 2% in several countries or monetary areas? It is only because queries like these are put aside – temporarily or definitely in some cases - that the policy targeting approach remains operative.

Unemployment

Output growth and aggregate average price movements are associated with unemployment. Several theories link economic growth and unemployment and unemployment, import prices, and local price movements. The former relationship is referred to as Okun's Law, which is a statistical relationship rather than a structural feature of the economy (Knotek 11, 2007). It can be expressed in two versions: the rate of unemployment is negatively related to the rate of growth of output; or its variant, the rate of unemployment is a positive function of the gap between potential output and actual output. The relationship between unemployment, wage increases, import prices, labour productivity and domestic price increases is known as the Phillips relationship, with its short and long run versions (Fuhrer, Olivei, and Tootel, 2009).

In addition to actual GDP and price movements, these theoretical constructs introduce new measurement parameters: rate of unemployment, wage movements, labour force data, and labour productivity which has been referred to in connection with a Unit Labour Cost index. One can extend efficiency considerations to the public sector, an area that is still being explored and developed (Afonso, Schuknecht and Tanzi, 2006; Ebejer and Mandi, 2009)

The rate of unemployment can be measured in several ways. In Malta, for example, there are two 'rates of unemployment' and these are referred to in several official publications. Historically, the unemployment rate was expressed as the number of job seekers who register with the department responsible for labour or with the Employment Training Corporation. It is the rate quoted in government economic publications like the annual reports on economic performance; it stands in the 5%+ region. However, Eurostat measures unemployment from data obtained from a Labour Force Survey, which defines as unemployed those respondents who are ready to work and have been seeking a job in the past few weeks. Eurostat quotes this rate when carrying out comparative unemployment data for the EU. It stands in the 7%+ region. It follows that different versions arise in the interpretation of labour market data, and in assessing the relationship of unemployment to the rate of economic growth or domestic inflation when econometric tests of the Okun and Phillips hypotheses are executed. Using time series recording data in the 5% range will yield different parameters, and therefore different labour market measured responses or reactions, than a series in the 7% range. Besides, the annual movements in these rates may not fall in the same range or even direction: one may indicate a rise and the other a decline.

But the true picture on the number of those seeking work may not even be reflected by these data, because those who are working part-time involuntarily, because they cannot find a full-time job, are counted as 'employed'. If one were to add these persons to the unemployment data, the value of the unemployment rate coefficient would be even higher. For example, it is suggested that the unemployment rate in the United States of America could rise from the 9% range to 15%+ if such employees are included. Such wide differences would render unrepresentative all existing statistical relationships; labour market performance and, therefore, polices would have to be re-addressed and possibly radically redefined (Bragger and Hougen, 1995; Holohan, 2009; OECD, 2010).

Saving Propensities, Income Distribution and Poverty Parameters

Similar considerations arise in the context of data sets that are directly related to equity/fairness issues. These refer to income and wealth distribution, poverty classification and national and household saving.

Saving statistics, both on national and household saving, are derived as a 'residual', after computing aggregate or households' income and domestic private sector consumption expenditure. Any statistical error (over- or under-estimation) in any one component included in the equation will be amplified in the saving statistics. At a time when debate is focused globally on which nations should boost their internal consumption and/or transfer resources abroad as investment – being the ones who have been registering positive (and at time rising) external current account balances – it is important to know the value of such surpluses with confidence. Wide statistical adjustments will render policy makers cautious not to push for aggressive policies boosting consumption at home and investment abroad without being sure of the reliability of their data bases.

Similarly, at a time when governments are striving to balance their books in the coming years, and therefore pushing more responsibilities on the private households and firms for supporting the goods and services they consume, it is also important to know the values of consumption and saving propensities. This is true for all households and economic sectors in general, but equally important, for specific households defined by age, status (e.g. retired/pensioner, employed, unemployed), ethnic group (which could be synonymous with work opportunities in some regions) and even gender. To construct the second, household saving matrix, policy makers must have information on income levels by age, status, and gender. A shortage of data implies that the present underlying distribution of consumption of goods and services, both before and after the intervention by government through taxes, subsidies and in-kind services, remains unknown. Future movements away from tax-financed, zero-priced services towards insurance-based support, for example in health and medical care, cannot be gauged correctly. Those who are 'in need' will be worse off than presently under this welfare scenario.

Saving and income distribution statistics remain a 'statistical illusion' in many countries. The more so in those communities where underground economic activity is fairly strong and where many households have run their lives on a wide network of social welfare without being aware of the long run implications for future well-being.

These points are illustrated from Maltese experience (Delia, 1998:24-46; Delia, 2006f; Delia, 2009:39) Household saving data emerge after computing several values: households' income, pre- and post- tax and transfer payments from government programmes; total private final expenditure, which includes also the expenditure by foreign visitors to the Maltese Islands, which latter statistic has to be deducted to arrive at domestic or local expenditure on consumption; expenditure by Maltese nationals on foreign travel, which is added to consumption.

In short:
Households' Income (Y) - Households' Consumption Expenditure (C) = Households' Saving (S)

$$Y - C = S \qquad (1)$$

Household Consumption = Total Final Private Expenditure (FPE) – Expenditure by Foreign visitors In Malta (EF) + Expenditure by Maltese visitors abroad (EA).

$$C = FPE - EF + EA \qquad (2)$$

Deduct income taxes (Ty) and social security contributions (SSC) and add transfer payments to households (TPs) to derive households' income post-tax and transfer payments. Call this Disposable Income (Yd).

Equation (1) now becomes:

$$Yd - C = S \qquad (3)$$

Any statistical shortcoming in the derivation of Y, Ty, SSC, TPs, FPE, EF, and EA will be reflected in S.

Households' saving statistics in Malta have not been published since 2004. The last time this coefficient was given, it indicated that that the saving ratio out of disposable income, S/Yd, was equal to 1% since C/Yd was estimated to be 99%. What is the situation as at 2010 is unknown (Delia, 2009:39); it was 15% in 1992 (Delia, 1998:35)

Similar considerations refer to the reliability of the distribution of saving ratios by households' income. Dated statistical information for the late nineties suggest that families whose weekly income was lower than €170 did not save (Delia, 1998:38)

And yet, notwithstanding these data limitations, Malta's social welfare expenditure has kept on rising for many years. This trend is being seriously reconsidered in the light of the projected demographic scenarios for the next few decades and the heavier fiscal commitments of the government.

This leads us to the equity issue of who is going to bear the costs of a wide-ranging social welfare programme (one that includes not just income transfers to households but also income-in-kind, support to employment via several schemes, and support to new investment: all these are components of Malta's welfare system). Speaking of supporting the 'poor or needy' is one thing; identifying them for policy and administrative purposes is another.

Poverty may be defined in absolute and relative terms. The latter is dependent on data reflecting the *distribution of income by age brackets, family units, work and/or education status, and region*. Various 'summary measures' coefficients, as well as data series, can be applied to convey information on the degree of dispersion: the simple average, the coefficient of variation (Standard Deviation/Mean), geometric mean, and the Lorenz-Gini coefficient. Since income distributions are often positively skewed, with the mean being greater than the median value, it is suggested to apply ratios using the median instead of the mean; in this skewed condition, the median is a better index of central tendency than the mean. It divides the distribution into two: one half of households have incomes below the median value, one half exceed it (Delia, 2006g). The relative measure of poverty in the EU regions, as worked out by Eurostat, is given by an income level equal to 60% of the median value adjusted for purchasing power variations across the European Union.

But there are several definitions of '*poverty indices*', which depend on the level of analysis and the elements that are incorporated in it. For example, the World Bank

(The World Bank Group, 2007, 69 - 82) gives four measures of poverty provided data are available on a welfare measure, such as income per capita, and a poverty line for each household or individual. These are the following. The *headcount index* measures the proportion of the population that is poor. The *poverty gap index* mesasures the extent to which individuals fall below the poverty line as a proportion of the poverty line. The sum of these poverty gaps gives the minimum cost of eliminating poverty if transfers were perfectly targeted. This measure does not reflect changes in inequality among the poor. The *squared poverty gap (poverty severity) index* averages the squares of the poverty gaps relative to the poverty line. And the *Sen-Shorrocks-Thon index*, which combines the headcount index, the poverty gap index for the poor only, and the Gini index for the poverty gaps for the who population. The measure aims to decompose poverty into three components and seeks to answer three queries: Are there more poor people? Are the poor poorer? And is there higher inequality among the poor?

'Perfect targeting' of aid may be desirable, especially since debate on welfare issues keep harping on income and wealth distribution and related tax measures on income and inheritance. But most of the time it is not administratively successful even in advanced economies with strong governments. Since any redistribution programme will generate its positive and negative offshoots throughout an economy, it is only sensible to ensure that the equity, value-loaded arguments that often support such measures, lead to improving the life of those for whom the programmes were set up in the first instance. But checking on such results is itself resource consuming: compiling personalised data bases may be becoming more accessible in the wake of enhanced technology, but not necessarily cheap. The data have to be interpreted in a way as to render them management tools with which to create cost-effective personalised services.

In summary
Translating economic concepts into workable policy tools ultimately depends on reliable data sets. Apart from the resources absorbed in compiling, editing, interpreting and enhancing such data sets, there always remain the issue that the theoretical concept may have various statistical counterparts, which 'useable' parametric proxies may have been compiled for other reasons that the ones being considered. This means that the data available up to a particular year may not exactly match the thinking behind certain economic models with the result that the emerging statistical relationship will have to be adapted/ interpreted with the aim of assisting policy formation. Judging their utility is not a straightforward exercise; value judgement, which in turn is influenced by past perceptions and beliefs, is inevitable.

3.8 Relationship between certain economic ideas and Catholic social teaching

Public policy decisions have connotations that span ethics, social mores, economics and finance. Reference in the introduction to this study has been made to the suggestion that Maltese government should increase the minimum wage in order to countervail cost increases, a proposal that some interpreted, in the present economic circumstances of relatively sluggish international economic growth, rising local national debt and less-than-adequate control on management of public sector practices, to be a road to the worsening of public finances in the Maltese Islands.

In this section we consider two subjects in the context of Catholic social teaching, namely, minimum and family wages ; and markets and morality.

3.8.1The Just Wage, Family Wage, Minimum Wage and Social Minimum

The debate on minimum wages has a long history and is ongoing. Minimum wage laws are a fixture of economic life in Western economies, Malta included. Catholic Bishops in many countries consistently support minimum wage legislation and at times advocates raising them. However, libertarian thinkers call on their legitimacy. They uphold that government intervention in personal affairs, including economic activity, should be kept to a minimum: enforcing contracts, protecting workers from outright exploitation and policing against fraud and theft. This role may be considered a correlative of the Catholic principle of subsidiarity, which stipulates that 'a community of a higher order (such as the state) should not interfere in the internal life of a community of a lower order (such as a village or family) depriving it of its functions' (Archdiocese of Malta, 1993, *Catechism of the Catholic Church*: 1883) Some libertarians push this idea further, insisting that any kind of contract entered into freely between responsible adults is legitimate, legally binding and not subject to government regulation.

In Catholic tradition, the state must 'defend and promote the common good of civil society, its citizens, and intermediate bodies' (*Catechism*: 1910). Besides 'the state has a responsibility for its citizens' well-being' (*Catechism*: 2372).This applies also to economic activity. Economic activity cannot be conducted in an institutional, juridical or political vacuum. So the state is justified in intervening in economic life of its citizens to secure their rights and to promote the common good (*Centesimus Annus*: 48).

Workers are due their wages as a matter of justice. The Catechism notes that ' a *just wage* is the legitimate fruit of work'(2434) But a 'just wage' is not set at subsistence level because that is tantamount to living at the minimum condition of human dignity, and 'no one is obliged to live unbecomingly' as Thomas Aquinas points out in the *Summa Theologica*. A 'just wage' can therefore be equated with resources that enable a worker to live and, perhaps have a little more, so as to be able to live 'becomingly'.

Freeing workers from a subsistence trap increases their dignity; it also enables them to obtain property, in the form of durable possessions or real property. Through their savings and investments, workers can better their life condition (*Rerum Novarum*: 5; *Quadragesimo Anno*: 61). The accumulation of property is necessary 'for the autonomy and development of the person' (*Centesimus Annus:* 30). Besides, workers with property have a stake in the community; they belong to it. They are more inclined to look to the future and provide for it. And stable communities are a safer place to live.

There is one problem: how to determine the 'just' wage. Economists consider wages as the price that employers pay to obtain the labour of their employees. This price must at least be equal to the 'disutility' of labour – the inertia to offer one's services – and must account for the relative abundance or scarcity of the skill being sought. Wages are governed by the same market forces that influence the price of goods. Indeed, both markets are intertwined: the demand for labour is said to be a 'derived demand' from the conditions that rule the prices of the final products or services. As a result there is an extensive matrix of factors that 'determine' the wages structures in different regions, times, sectors, and individual industries. For this reason, there cannot be hard rules or formulas on which to derive a universal just wage, a fact recognised by the Catholic Church even in *Rerum Novarum.*

But the Church did not agree with theories put forward to 'compute' the just wage, namely, the 'value-added theory' (the value of the marginal product or the economic value an employee's input adds to the total production of the company) or the 'market approach'. The former theory was adopted by Marxist writers to justify denying capitalists any return on their investments; a position considered 'false' by Pius XI (*Quadragesimo Anno*: 68). The owners of 'capital' must also receive their fair share. The 'market approach' is seen by the Church as a pragmatic operating mechanism – one pays a higher wage if there is a shortage of skills and one needs to hire workers. But one has to be careful and avoid considering workers as 'commodities'.

Besides, since employers and employees are generally not equal in negotiating strength, the argument that contracts agreed upon between workers and employers are legitimate has to be qualified so as to render both sides in the transaction equal. It is for this reason that the Church recognises the right to form labour unions. But with a proviso: just as it is not fair for employers to 'exploit' workers, it is equally unfair for labour organisations of 'profiting from a position of force to impose, particularly by strikes, conditions which are too burdensome for the overall economy' (*Octagesima Adveniens*: 14). *The just wage must therefore take into account not only the good of the worker but also 'the financial state of the company for which he works' (Mater et Magistra*: 71*)* Economists will agree on this view.

Since *Rerum Novarum*, the Church held that the basis of determining a just wage should be the concept of the '*family wage*': a wage sufficient for the working man to support himself, his wife, and his children. The Church acknowledges that all members of the family have a contribution to make to the family's well-being. But this well-being is founded on there being one principal breadwinner for the family, the father (*Quadragesimo Anno*: 71) The Church recognises that human beings are essentially social in their nature. Humanity is a society, with the family as its fundamental building block, and not a collection of individuals in autonomous isolation from one another. Any concept of wages that does not take into account the family is 'purely pragmatic and inspired by a thoroughgoing individualism and is severely censured' by the Church. (*Centesimus Annus*: 8)

This 'vision' of the basic economic unit contrasts sharply with that of economists. Economic thinking sees the individual as the basic economic unit: wages are paid to people as individuals, on the basis of their productivity, without regard to external factors such as their families. This position is enshrined in employment legislation in many countries. Payment goes for work not for status by marriage or age. [Unless one is in Japan where wage structures seek to relate income to needs and loyalty rather than to efficiency and responsibility. Wages reflect the expenditure needs of the individual through life. But even this traditional wage determination mechanism has been changing in the past few years (Delia, 1987: 66-67)].

This leads us to the '*minimum wag***e**' suggestion. The minimum wage cannot be identified with the 'family wage' unless it is sufficiently high to raise a family above the poverty limit. It is the minimum wage that is legislated and the Church refrains from advocating specific solutions to problems that lie in the domain of the application of principles. Since the state cannot, by law, mandate all things virtuous – to follow Aquinas' dictum that 'human law cannot prohibit everything that is contrary to virtue' (II-II, q.77, a.1) - the Church, in advocating the establishment of just wages, acknowledges that 'primary responsibility in this area belongs not to the State but to individuals and to the various groups and associations which make up society' (*Centesimus Annus*: 48)

Not all workers have a family and not all employees start working with similar attributes. The minimum wage cannot be directly equated with the family wage; it will be lower. Besides, employees change jobs and improve their skills over a lifetime. Thinking has to be dynamic, as the encyclicals observe. Besides, we are dealing with complex, interrelated labour market systems, ones that are bound to get tighter as population ages and in the absence of immigration programmes that assist immigrants to settle in the region/country of adoption. Constant 'tampering' with wage differentials can lead to unemployment, especially among the young. The law cannot force employers to hire labour. Indeed, employers may take their expertise and operations elsewhere as European countries (Malta included) have learnt, for better and for worse, and capital-receiving countries, like China, are discovering as regional labour supply imbalances and related emerging wage differentials induce the internal mobility of both labour and industry.

Since the Church teaches that the worker has an obligation to work to support himself and his family (*Rerum Novarum*: 12) and, since by work man fulfils God's charge to exercise dominion over the earth – hence work is an expression of human dignity (*Laborem Exercens*: 18-

19) – tension is bound to arise between the necessity of providing just wages and the need to allow the fullest access to employment possible. Prudent legislators must balance the two objectives and seek not to create situations that are worse off than the present. The real world is often marked by policy movements from second-best positions to other second-best positions rather than to first-best or ideal/optimal ones.

The debate among economists on the impact of minimum wages is not conclusive decades after their introduction. The goals of the minimum wage are widely accepted as proper: redefine the wage structure politically to achieve a socially preferable distribution of income. Minimum wage laws are usually judged against the criterion of reducing poverty. Their effectiveness in attaining these goals is disputed.

In theory, one can draw a list of positive claims – enhance living standards of vulnerable groups; motivate workers to work harder and increase the work ethic; stimulate consumption by raising households' income; reduce public sector welfare costs in transfers to families – and balance them against negative effects – exclusion of low cost competitors from labour markets, hence they are discriminatory; hurt small business more than large business; reducing overall labour supply; potential cause of inflation; discourage education among the poor by enticing people to enter the job market. Empirically, the situation is even more uneasy. Disagreement usually takes the form of competing empirical tests of the elasticities of demand and supply in labour markets and the degree to which markets differ from the efficiency that models of perfect competition predict. And the human element, the personality of the worker/s, highlighted in the encyclicals, disappears amidst data bases and statistical biases.

One cannot speak of a consensus among economists. Two recent publications illustrate this position. One study reviewed over 300 studies, covering fifty years experience from several countries, concluded that 'a large majority of the studies show negative effects for the minimum wage; those showing positive effects are few, questionable, and disproportionately discussed' (Neumark and Wascher, 2008). Another study, conducted on 64 studies carried out in the United States on disemployment effects concluded that 'once publication selection is corrected, little or no evidence of negative association between minimum wages and employment remains'.(Doucouliagos and Stanley, 2008). The debate continues (Vide: Woods, 2007).

But economic theory does provide a guideline on policy formation, especially if instead of minimum wages one wants to refer to family income or social minimum. The tip lies in the idea that there must be a policy tool for every policy objective, as explained in point (vii) in Section 3.6 above. Since the objective is dual – employment and a 'becoming life style' (to quote Aquinas) – then it seems best to let the many markets find their level through systems of collective bargaining, for example, or subject to certain basic criteria on training, health and safety, and complement the incomes thus earned, if necessary, through income redistribution programmes in cash and kind. If these tools are administered effectively, then there is a better possibility of reaching the two aims: generate employment and support families to move ahead. We are back to the production-distribution trade-off and the *social minimum* discussed in Section 3.5 above.

3.8.2Markets and morality

It is observed in Section 2.4 above that the thinking of the Catholic Church may be interpreted as a philosophy that lives uneasily with market systems. It may be claimed that this is also the position of many commentators who praise markets for their wealth creating abilities but doubt the capacity of a market economy to promote virtue. This stand has been repeatedly highlighted during the global financial and economic upheavals of the past few years.

The role of market economies in promoting virtue has to be examined in terms of two criteria. Either by comparing them to the outcome of 'controlled economies' or by taking a position, that is also reflected in the Church social teaching, that it is not the system as such that matter but the underlying values of the individuals. This argument is reflected in several parables in the Gospels, for example, that of the Good Samaritan and that of the Prodigal Son – one used wealth to help others; the other used inherited wealth to spend/ consume. It is also a feature of the decision taken by a Friedrich Engels, who used own wealth to support one Karl Marx spread the ideals of Communism, and a Bill Gates to diffuse the idea of sharing own (capitalist) wealth on a large scale directly with those who are disadvantaged worldwide rather than pay hefty taxes and leave resources in the hands of political decision makers on how to distribute the resources raised from others. This underlying value that regulates human behaviour lies at the core of the 'economy of communion' model of production and exchange proposed by Chiara Lubich. Titles, like 'left' or 'right', are in fact meaningless when one comes to assess human values and the policies that emerge from them. Liberals are generally associated with the 'right'; but according to Alesina and Gavazzi, 'il liberismo è di sinistra' (Alesina and Gavazzi, 2007)

The comparison between a 'market economy' and a centrally-controlled economy (one with big government) is adapted below from a work by Dennis O'Keeffe (2004).

(i) Markets are said to be characterised by selfishness. But it is self-interest and not selfishness that instigates human behaviour in market systems. It is an objective error to consider these two human characteristics as identical.
(ii) The market economy restraints the harm that selfishness can do to others. The protection of property rights, together with the requirement for contracting parties to consent to market transactions, means that the potential of evil people to do harm is limited in a market economy.
(iii) In an economy that is centrally controlled, or where governments' share of national value added is high, those who are motivated by selfishness will not gain from mutually beneficial transactions, but rather they will gain from working their way up to a point in the political system at which they become 'entitled' to material goods as perquisites.
(iv) The fact that individuals respond to profit opportunities does not spell out their moral outlook. It is the way they dispose of that profit that may shed an insight on that matter; it may indicate their concern for others.
(v) Free choice to pursue a course of action and alternative courses of action is essential if decisions are to be regarded as moral. Morality is therefore not possible without freedom.
(vi) Big governments, with extensive welfare systems, treat the means of production, including human beings themselves, as a 'tool' of the decision maker to be used for the benefit of a 'greater good'.

One can keep arguing, for or against, indefinitely. Societies are not made up of 'homogeneous', identical individuals. There is a continuous change in the 'composition' of a society: people are born, some die, others migrate (in and out of a country and within a country) and those around age every day. Whether they are wiser or not is another factor to be taken into account. In the process, perceptions, evaluations of events and reactions to them, prescriptive behaviour on local and international scale: all of these forces are constantly on the move. But often the social fabric changes slowly, and by the time this change becomes visible the factors that induced it would have been around for years. Hence the complexity of policy formation, its implementation and its success or otherwise: the ones who devise the policy may not be the ones who judge it and, more critical, the ones who have to bear its long term consequences.

The corpus of ideas expressed in the social teaching of the Church consistently keep harping on both the individuality and the social call of human beings, reflecting their basic nature. Systems based on guarded freedom, choice, solidarity and subsidiarity are in general compatible with this teaching but also with many insights gained over time from the history of economic thought. The problem does not so much lie in basic ideas as in the challenge to translate these fundamental principles into practical, everyday policy measures that lead to self-empowerment, self-fulfilment in a social context not bounded by the geographical limits of the nation-state.

It is this main thrust, and the various observations made in this section on lessons from economic thought, that are utilised to evaluate the performance of the Maltese economy and society in Section 4.

CHAPTER FOUR

THE MALTESE SOCIETY AND ECONOMY: NUMBERS, CHARACTERISTICS AND NETWORKS

This brings us to the core issue addressed in this monograph: is the Social Teaching of the Catholic Church reflected in the evolution of Malta's social and economic policies of the past decades? Does policy formation and, more important, its implementation refer to the desired balance between the individuals' freedom and empowerment to choose and their social 'orientation' through direct and indirect effects of their behaviour on the welfare of others? Has the inter-personal relationships within a generation and among generations been strengthened over the past decades as a result of decisions taken in the social welfare, economic and environmental domains? Or did the opposite happen: interpersonal considerations have been weakened as the net outcome of policy decisions reinforced more the individual than the communal element? If this is so, then what is the real significance for future inter-generational relations and, as a result, personal and social (intra- and inter-group at family, village/town, national, EU/Mediterranean, global) level? The trade-offs observed in economic theory between production and distribution can apply to considerations referring to policy measures implemented and becoming effective within a generation but also to some measures having longer time effects and, hence, they impinge on future generations. The decisions taken by individuals today regarding their status and responsibilities in life bear impact on both past generations – e.g through the financing of future social welfare programmes – and future generations – e.g. through decisions regarding family formation and size.

Before expanding on this subject, it is pertinent to highlight three key analytical guidelines. First, 'numbers' are important in most economic and social analyses; yet it is the people behind the statistics that actually matter. They are the subject under study. Issues can be helpfully expressed in statistical terms (age structures, gainful employment and unemployment, migration, output per period, imports and exports, and so on) but it is the various underlying human configurations of individuals and groups that are of utmost significance. This is not only relevant from a technical point of view, but more so, because the Church's teaching emphasises, in sequence, the human being, the family, the community and humanity at large. Empowering and involving people leads to self-fulfilment, facilitates economic and social development, and contributes to political maturity.

Secondly, it is these people's judgements and actions that make up the object of analysis. Irrespective of age, individuals take decisions every day. At times, they decide on incomplete information or on misleading interpretation of the information at hand; but they still define a course of action and act on it – from a young child to a retired elderly. And often they are reluctant to change, once they make up their minds, as explained in Section 3.3 above. They may be cautious, extra-cautious, or rush into a decision. Their age and experience may condition their judgements, but whatever they do they are bound to be affected at some time in the future: in health, work, leisure and life's satisfaction. And not they alone; their actions or lack of actions affect directly the lives (welfare, happiness) of others.

So people matter; and they are conditioned by both power and powerlessness. If power tends to corrupt, so does powerlessness. If people are hemmed in by rules and treated as unimportant, they tend to get even by over-controlling their own domain. They vent frustrations on others who are more powerless ('the boss chastises the worker, who curses his wife, who yells at the child, who kicks the dog'). The powerless retaliate through subtle sabotage, especially when there is scarcity: the less there is to go around, the more infighting is over the crumbs (Kanter, 2010).

And, thirdly, to quote 'Stein's law', if something cannot go on forever it will stop, even when nothing is done about it. This holds for economic growth and real estate or financial bubbles. Again, teachings that are useful will be recognised as such; conversely, teachings that are absurd will be seen to be so. In turn, appropriate action – to continue spreading useful ideas or stop disseminating harmful ones – will be taken within a society by people individually or collectively. Similarly, if a policy is incongruous with a long-term objective, it will eventually be recognised as such and it will be reconsidered and withdrawn, whether it is a rationing tool or a resource redistribution mechanism. It is a question of time-horizon/perspective change, but it makes an important difference in the lives of many.

To render these three observations a practical guide to social and economic analysis, this chapter is developed as follows. Section 4.1 derives several main characteristics that mark the present population and the projected population over the coming four decades. Section 4.2 outlines the emerging features of the economic structure within which resources have to be created so that the re-distributing mechanisms presently in place can be rendered effective; such production-redistribution range of policies and strategies have to be reviewed from time to time. They refer to both public sector programmes, financed from general or earmarked taxes and charges, and to services provided by non-governmental organisations (NGOs) that depend partly on the direct contributions by volunteers and financial resources arising from private, government and EU funds. Section 4.3 highlights the role of institutions in the achievement of desired objectives and means. Institutions' roles change as the expressed mission of governments is re-assessed in the context of real-world situations and as Malta's membership of the EU takes hold following the initial period of settlement or adaptation. The input of the Catholic Church' social teaching in these processes is examined in section 4.4.

4.1 Who are the present-day Maltese?

The 'Maltese' cannot be classified into one homogeneous group even though there are only around 400,000 (395,472 out of a total population of 413,609 in 2008 – NSO 2009: 4) residing on the Islands. It helps to think in terms of subgroups made up of age-cohorts, gender, and regional characteristics (to avoid reference to 'social classes'). One can study the various personal traits within very narrow age bands; but, to simplify, consider four age groups who grew up during different political and economic times, namely, those aged 50 years and over (36% of Maltese population); 30 – 49 years (26%); 15 – 29 years (22%); under 15 years (16%). Their response to life experience – including public policy measures – could be expected to vary in relation to their past and to future expectations and plans.

There are more males than females in the age brackets 0 – 54; the reverse holds for ages 55 and over. In the under-40 group, there are 5,600 more males than females: males number 103,519 and females 97,934. This gender discrepancy has important connotations for family formation and participation in economic activity by gender. Overall, there are more females than males: 199,192 females and 196,280 males. This is a result of the longer life-expectancy of females at the topmost age brackets, a condition which has to be taken into account when planning activities to keep the elderly active in society and, at some time, in caring services.

The graphical descriptions given below tend to be generic; they are meant to demonstrate a feature that is often missed in discussions and analyses of economic and social policy issues in Malta.

The *50 plus* were born before Malta became an independent state in 1964. They lived in a society seeing a rapidly growing population in an economy heavily dependent on military expenditure by the British government, where the secondary and tertiary economic sectors were grossly under-developed; these activities belonged to the future. Education was limited for many to the primary level; jobs were sparse and emigration an every-day phenomenon. One hundred and fifty thousand Maltese emigrated between 1948 and 1975; they represented one half the population recorded in the 1948 census. This group went through somewhat difficult economic times but over time they enjoyed rising per capita incomes, in nominal and real terms, as the manufacturing sector and the leisure sectors evolved after the 1960s and the welfare state developed over the years. They lived in a 'hierarchical society': in the family, the church and government. Those who found it difficult to thrive in this social set-up became the 'escapee migrants' of the time. Those who did not emigrate adapted themselves over time but the top-down characteristic of power and decision-taking remained ingrained. They are the ones who may find it difficult to understand what is going on around them; but they are catching up.

The *30-49 year cohorts* are the ones brought up under an extensive State involvement in the economy that took place after the 1970s. This involvement gradually led to around 45% of direct gainful employment posts generated in the public sector with concomitant security of job tenure and income. This situation arose from deliberate political decisions and eventually led to a system of political patronage in a society where government control can be subject to narrow, one-seat majorities in parliament in what has been practically a two-party contest. Since the political market works through alliances and direct links in the political spectrum the great majority of tomorrow's leaders in administration, industry and government have been 'trained', consciously or not, to survive in this environment. Given the number of political posts and therefore extensive networks – desirable as they may be from an administrative perspective especially after the setting up of local councils – this means that there is a comparatively larger number of this age cohort who consider driving their future career through political inter-linkage, even across party lines, rather than through a drive to merit and efficiency.

But this may be also the group that challenged the authority system of the family and the Church, as evidenced in their behaviour within the families they formed and in their attendance to obligatory Sunday mass and their declared views on doctrinal beliefs. They are the ones who are passing on an altered ranking of basic values to the young, and spilling them also backwards over to the older groups. They reconsidered the primacy of the family and religious practice for a meaningful living. They may be now turning their attention to the third structure – the political – and addressing its significance and relevance for everyday life; but in the meantime they continue to 'exploit' its 'benefits'.

The *15 – 29 generation* is the one that enjoyed a relatively buoyant economic environment: they are the ones that lean most towards 'consumerism' which is the offshoot of the higher incomes enjoyed by their parents. But they are also the first wave to start feeling the impact of a drift away from traditional family and religious beliefs orientation; for them economic gains and welfare gains may no longer be synonymous. They are the ones who witnessed the expansion of, and participation in, tertiary education and the resultant change in perspectives referring to work, leisure and the assumption of family responsibilities. They are the ones who are not 'afraid' to borrow to support themselves, are geographically mobile without the need to be assisted by migration-programmes as their grandparents had been. They are the ones who can gain most from Malta's membership of the European Union, but they are also the group that may be hard hit the most if the economy's rate of growth stalls in the coming decade. Indeed, this group may be dichotomised in terms of educational achievement, between the semi-literate, the pseudo-literate (paper certificates but weak communication skills), and the truly literate. And they may find it difficult to compete in the various labour markets with foreign workers at the wages that can render the operation competitive in the Maltese Islands.

The *under-15* are the 'telecommunications' generation. They were brought up in the context of private-car travel, exposed to electronic gadgets and mobile telephony, and travel abroad for leisure. But they are also the group that are living at first hand the experience of family break up, grew up in one-child home environments and are pressurised to 'succeed in life' by accumulating academic paper qualifications. They almost feel compelled to consume and they will have to survive in highly competitive future labour markets. They have to adapt fast to find self-fulfilment in a society that pitched consumption high and, possibly, relegated human support and warmth to a secondary level.

These graphical descriptions can be supplemented by statistical details reflecting the 'output' or end-results of the many individual decisions taken over the past decades. Such results emerge from census data and annual statistical updates. They refer to households in general and to various sub-groups in the population classified by age, gender and locality. This information is presented below.

4.1.1Households

Recent data on households' demographic and economic characteristics yield the following information. (Delia, 2009: 26 – 27)

i. The *Census for 2005* records that there were no dependent children in 60.4% of households (84,340) in the Maltese Islands.
ii. Of the remaining 55,243 households, 16,864,

representing 12.1% of all households and 30.5% of households with dependent children, were made up of two adults and two children.

iii. Single parent households with one or more dependent children represented 2.6% of total (3,605) and 6.5% of families with dependent children sub-group.

iv. Families made up of two adults and three or more dependent children amounted to 5,663 or 4.1% of total and 10.3% of families with dependent children.

v. Besides, there were 14,771 other households with dependent children; they made up 10.5% of total households and 26.7% of the subgroup with children.

vi. The number of *marriages per year* has been around 2,400 over the decade 1997 – 2007. But the number fell to 2194 in 2001 and reached a peak of 2563 in 2006 edging downwards again to 2479 in 2007.

vii. *Civil marriages* have been rising steadily: from around 360 in 1997 to 860 a decade later. But in recent years the majority of these involved foreigners. Civil marriages that include at least one Maltese partner amount to around 300 annually.

viii. *Births outside marriage* have been rising steadily as well: from 472 births to Maltese mothers in 2001 to 888 in 2007 and from 499 births for all mothers in 2001 to 964 in 2007. Such births represented 25% of the 3,871 births in 2007.

ix. Besides, 1,033 men and 1,276 women were *divorced*, while 5,022 men and 6,023 women were *separated* in census year. The incidence of divorced and separated men is higher than that for females for age groups 55 – 64 and 65+; the converse applies for age groups 18 to 54. *These data record a surge in the number of persons in these two categories since Census year 1995.* In 1995, the number of separated persons was 36% of the 2005 level: 1747 men and 2269 females. Divorced persons and those whose marriage had been annulled represented two-thirds the amount recorded in 2005: there were 749 men and 683 females. The data suggest a rising number of reconsiderations regarding the status of marriage in Maltese society.

x. In 2000, there were 13,337 (15%) households made up of two adults and two dependent children that were *at risk of poverty*. Overall, the rate of households at risk remained the same in 2005 and 2007, but the relative share of the four-person household increased to 16.5%.

xi. *The future is not very positive when considering the share of children in the population.* Their presence is seen diminishing, with numbers falling in absolute and relative terms over time, an experience that is totally new to the Maltese community. The *number of children under 15 years* is projected to fall from 66,700 (16.3%) in 2007 to 48,000 (11.9%) in 2050. At the same time, the *number of 60+* is projected to rise from 84,200 (20.6%) to 133,300, being 33.3% of the projected population in 2050. (NSO, 2008: 4).

xii. *The future of the Maltese community is seen threatened demographically unless measures are taken to re-boost population growth. It may be claimed that, on the present demographic trends, the Maltese community is slowly dying.* The personal-social balance is once again being called into question. But whereas in the post-war years personal decisions led to population growth that was tempered by a massive, ordered emigration movement, the projected future behaviour on family formation and size, based on a significant cultural shift, is signalling a strong containment of population growth. *The personal-social balance will therefore have* *to be seriously re-addressed* and appropriate decisions taken on migration. As regards personal commitment to family formation and size, it is relatively easier to reduce the numbers of persons per family than to raise them. This is especially so when decisions on such matters have to be taken by the first and second waves of Maltese who have been exposed to a life style that thrives on rising incomes for their sustenance. It implies giving serious consideration to one's work career path. People have to address individual basic value re-orientation by the present cohorts of forty-year olds and under before any consideration of measures that are meant to boost population growth. They will have to reconcile their present interests with those of the coming generations without neglecting the interests of the sixty-plus who will represent a very strong electoral element when it comes to selecting political programmes at general elections. *As an eye-opener, one may apply an observation made in a recent report on the Maltese co-operative movement. 'A culture of co-operation is weak (among Maltese co-ops); instead what dominates is a culture of collective egoism'* (Kummissjoni għat-Tisħiħ tal-Koperattivi, 2009:11**)**. This trait may be diffused widely in the Maltese community.

xiii. There are 11,500 persons – 3% of total population – registered as having a disability. Disabilities are most prevalent in the older age groups, particularly amongst persons aged 75 years and over (NSO, 2009a). In a civilised society, in which the extended family set-up is giving way to small, independent units, the support to such individuals will have to come from voluntary organisations or from formal state organisations set up for this specific objective.

> Should these fail to offer timely support, the *raison d'être* of economic development and social inclusion programmes will be queried (Ministry for Social Policy, Malta, 2009).

These general households' trends can be expanded further by data on respective population sub-groups by age, namely, children, the elderly, and the remaining cohorts that constitute the labour supply or wealth generating component of the population. This is carried out in the sections below.

4.1.2 Children

The child population has been steadily declining over the past five decades: from a high of 133,377 (40.4% of total population) in 1957 to 79,334 (20.8%) in 2008. (NSO, 2010a:3) This movement reflected the sharp fall in the crude birth rate: from 27.5 per thousand in 1957 to 9.4 per thousand in 2008 (Ibid: 13). It is this crucial demographic trend that demands thought and action unless the Maltese community is prepared, as a group, to hedge its future on a much smaller child base on which to plan its economic and welfare projects.

A rising number of births are taking place outside marriage – 1048 in 2008 - of which one third – 352 – were with undeclared fathers (Ibid: 22). Around half of children (47%) live in households whose annual income range between €10,001 and €20,000; another 32% live in families with incomes in the €20,000 – €30,000 bracket; and another 12% families with incomes in excess of €30001. But 8% of children – one in twelve – live in households whose incomes fall below €10,000 (Ibid: 153). High incomes may contribute to a 'better child's well-being'. This correlation is usually applied to countries in general, but one can adapt this relationship also at the family/household level (Discern, 2010: 38-39).

The great majority of Maltese children seem to be contented with the way they are brought up and treated at home by their parents. They value their families a lot, and this approach affects positively their happiness (Caruana, 2010). But the number of children brought up by relatives is on the rise. This emerging family-support network, while useful for young parents and the economy in general, may be introducing a new cause for tension among the elderly; they want to help their children and at the same time feel they are useful, but if the demands are persistent and overdone – in other words, if they are abused by their children – then the grandparents' support will actually affect their health negatively. It is not in anybody's long term interest that such feature becomes relatively wide-spread (Mallia, 2009).

Both parents work to support a life style that they aim for (Discern, 2010: 48-56). But while the number of children is falling, perhaps the 'quality' of child upbringing may be rising; it is nowadays more costly to raise a child. It may be claimed that parents are trading off the number of children for a better-quality upkeep of the children under their care. For example, the percentage share of income that parents spend on their child's education is directly related to family income. Thus, whereas the share of income spent on education by households whose income is less than €10,500 tends to zero, the share rises gradually up to 2.3% for households with income in excess of €35,000 (NSO, 2010b: Table 5.10c, page 68). The overall average share for all households is 1.7%. Both parents work also because they do not consider child-rearing as the sole factor that gives them satisfaction in life. The younger generation of women places self-fulfilment a close-second to the family. And work contributes to that (Cassar, 2010).

However, it has to be pointed out that there is an emerging rising trend in the number of children who need direct extra-family intervention to protect them and ensure a positive, empowering upbringing. The existing social support network, primarily non-governmental but also state, may not be matching such rising needs to the detriment of the children involved (Delia, 2009). Court protection orders cannot be implemented adequately; children's homes do not command enough resources to meet their objective of child empowerment; and the fostering system has not yet evolved sufficiently to fill the growing support gap. This is a prime condition that has to be understood by all involved in child-care services and addressed effectively.

4.1.3The Elderly (60+ moving to 65+)

The elderly population is experiencing numerical trends that run in inverse direction to those recorded for children. But specific problems regarding the welfare of this growing sub-group are also surfacing. The number of 'elderly' is rising at all age cohorts above sixty – the 'traditional' retiring age but today applicable for some age groups of female employees. Life expectancy at birth is now 82 years for women and 77 years for males. The eligibility to mandatory state contributory retirement pension is being gradually extended from 60/61 years to 65 years for all, and age 65 is now becoming the demarcation line for demographic and labour market studies, instead of the historic 60-year level. Projections indicate that the share of the population aged 65 years and over will rise from 20% in 2025 to 24% in 2050.

Just like the rest of the population, the 'elderly' are a heterogeneous group; variability increases with age, health, intellectual abilities and enterprise skills. Besides, there are gender differences in ageing. Changing historical, social and economic conditions give rise to groups of retirees with different participatory incidence in the social life of the community, educational attainment, income and wealth (savings) levels, and, more important for future policy formation, expectations from life even at the 'retirement phase'.

In general, the majority of Maltese elderly feel healthy although they may suffer from certain illnesses. These illnesses do not hamper the state of well-being of the elderly nor do they render them functionally disabled. The elderly above 75 years of age, defined as old-old, are more prone to disability; almost one in two does not feel well (Delia, 2006h). And sixty percent of deaths in 2008 were of persons over 75 years (NSO, 2009: viii). The most common diseases which afflict the elderly in Malta are arthritis, high blood pressure, diabetes and heart disease. The incidence of chronic non-communicable diseases has been rising over the past two decades, with the incidence of disease being higher among the old-old.

The up-coming elderly register higher expectations than their predecessors. They are more socially and politically interactive than in the past with the result that their consumption expenditure per period varies directly with age; the older the elderly the lower is the direct expenditure outlay per week. But given the inverse relation between medical needs and age, their implicit, hidden income-in-kind emanating from state's welfare programmes or direct family support is higher. Total outlay (direct and in-kind) may therefore be similar over the elderly age cohorts. Recent data on households' consumption expenditure (NSO, 2010b:Table 5.6a) suggest that an elderly over 65 years of age spend an average of €12,284 annually, compared to an average for the whole population of €19, 575, and a high of €24,753 for the 45 – 54 age group. The 60-64 are grouped with the 55-59; together they consume an average of €19,109. It is evident that the changing composition of the sub-groups that make up the elderly population of tomorrow will be made up of persons whose present consumption patterns are higher than today's 65+. These results confirm the results of a consumption pattern that was already evident for other elderly groups two decades ago (Delia, 2006h: 133)

The same data also register that the share of expenditure on health rises with age (NSO, 2010b: Table 5.6c). Whereas households aged 15 to 44 spend an average of 4.7% of their outlays on health, the share rises to 7.7% for the group aged 55 – 64 and to a high of 9.9% for the 65+. The sensitivity of the cost of medical care, especially in the wake of changes in policy in state-supplied medical services, is bound to be more pronounced on the elderly sub-population.

The at-risk-of-poverty rate for elderly persons is comparatively higher than that for persons in the younger age-groups. It stood at 22% for age group 65 years and over compared to 14% for those under-64 years. There were no significant differences in the rates amongst persons aged 60+ and 70+ when compared to the at-risk-of-poverty rates of those aged over 64. Again, the presence of elderly persons in households was related to a lower average disposable income in such households. Whereas households with persons under 65 years registered an average annual income of €25,170, those with persons over 65 record an income of just €13,180. The risk-of-poverty rates stood at

13% and 26% respectively. One notes that 23% of elderly people living alone were at-risk-of poverty; this rate is 3 percentage points higher that the average for the entire single–person category (NSO, 2010: xxv-xxvi).

The extension of the official retiring age limit is bound to bring about several implications not only for the would-be elderly themselves but also for all others with whom they come in touch, namely their next-of kin who seek their assistance or from whom they themselves ask for support; and their would-be competitors in the labour market who are affected by the legal entitlement for a person up to 65 years to continue working. The Maltese community is witnessing the development of a complex set of relationships that have at their centre a social group that is becoming more and more politically strong, numerically and strategically, and therefore a social force that has to be addressed by all, not least by the 'elderly groups' themselves. They have to find a system for complementary co-existence with the main group that constitutes the greater part of the active wealth-creating population component, the 16 to (now) 65 year age cohorts.

4.1.4 The 16 – 65 Age Group: Main Potential Contributors to Wealth Creation

There are presently around 352,000 persons aged 15 years and over. Of these 164,000 (47%) are employed; 175,000 (50%) are inactive; and 13,000 (3%) are unemployed. There are 175,000 males and 177,000 females. The inactivity rate of females is 66% compared to 33% of males. In contrast, there are 62% of males gainfully active but only 31% of females (NSO, 2010c).

The labour supply is measured by the number of employees and those seeking work, 177,000. Gainful employment represents 92.8 % of the labour supply while those searching for work make up the remaining 7.2%. The activity rate for men is 77%; it is 41.5% for females, being highest in the 25 – 54 age groups: 94% for males and 51% for females. The female activity rate is lowest in the 55 – 64 age cohort, 13.6%; it is still high among men at 49%. Even among the youngest age brackets, 15 – 24 years, there is a gap of 10 percentage points in favour of men: 54% for men, 44% for females. This phenomenon is therefore partly law-induced, as is the case of the earlier retiring age (that is, eligibility to a retirement pension under the contributory scheme) for women (60 years against 61 years for employees; self-employed retire at 65). But it is in the main a cultural facet. And as such, it cannot be altered simply by changing legislation (though it helps) or fixing 'strategic employment targets' to be in line with the employment policy objectives of the European Union.

Male employment is spread fairly 'evenly' across the ten work categories used to classify jobs; but female employment is relatively concentrated in four sectors: professionals (16%), technician and associated professional (18%) clerical (22%) and service workers and shop and sales workers (22%) making a total of 78% in the four categories. The corresponding total for men in these four categories is 46%.

Growth of female employment in recent years has been concentrated on part-time work. Thus, while the recorded number of female full timers increased by only 58 in twelve months, that of part-timers grew by 2,787. Growth of male employment relies less on this work category: part-time employment posts for men increased by 373 between 2009 and 2010. One has to evaluate whether this part-time work is the result of design or because the work categories that attract female staff are either, of their own nature, of a part-time structure or whether the end-demand that leads to the induced demand for female labour is not strong enough to give rise to full time employment. Official statistical data do not distinguish among these three categories of part-time work. The same reasoning applies for male part-time work. If this part-time choice in involuntary, then the rate of job seekers (the unemployed) will have to be adjusted upwards to account for those who are searching for a full-time job but who are constrained to take up part-time employment because it is the only type of activity available. (This factor has been discussed in Section 3.7 above in relation to coefficients referring to unemployment rates.)

There has been a rise in the number of those seeking work: 12,700 in March 2010 against 11,000 a year earlier. They represent 7.2% of the labour supply, up from 6.4% in 2009. Fifty percent of those seeking employment are under the age of 34 years, suggesting that the upcoming cohorts are under pressure to find a job. However it seems that even workers in the 55-64 age brackets are finding it difficult to re-enter the labour market if they become unemployed. Their relative share in total job seekers approached 9% in 2010. These data indicate the psychological pressure that certain age-groups may be under when seeking to equate their 'life style expectations' with economic/labour market reality in the wake of a Malta-government direct intervention to support employment in several economic sectors (as will be described in section 4.2 below).

On average, men earn more than females overall and in the respective work categories. The average income for men was €14,512 in the first quarter of 2009 and €15,290 in the same quarter of 2010. The corresponding figures for females were €12,603 and €13,348. These data suggest a small closure of the gender overall wage gap over the past year: from 115% to 114% (NSO, 2010c: Tables 13 and 14). This gender wage differential is not a Malta-based phenomenon; it is global (Hausmann, Tyson and Zahidi, 2009; Carter and Silva, 2010). But it is indicative of the need to try to understand the evolution of labour markets, educational preparation, and gender commitment to family management in the Maltese Islands as these factors emerge from traditional (stereotyped) roles and expectations for personal fulfilment in an age of participatory relationship between empowered individuals in the 'closed' environment of households/families and at places of work.

4.1.5 Summary

In short, we are observing a dynamic society evolving on several fronts – numbers, economic involvement, incomes, and consumption expenditure. These parameters change in relation to age composition, gender, and economic activity. There are underlying forces shaping the future destiny of every single individual and/or household in terms of objectives, empowerment, support, and satisfaction. Key demographic indicators are the switch from population growth to an eventual decline and a swap in gender composition with a rising male population in the younger age brackets against a higher incidence of females in the top age cohorts. Maltese society has to take stock of these phenomena as it charts its economic development in the coming years. Sustainable economic growth can only be realised in the context of such demographic shifts and possible countervailing measures that are taken to mitigate their negative impact on future economic performance.

On a personal level, there are some 'disturbing' emerging signs regarding the impact of fast-altering views on personal commitments to households' support as well as to labour market performance. The end result of all decisions taken at individual and government level over the past three decades have seen a fast-changing environment for demographic sustainability and its inevitable impact on future labour market and welfare support financing. The Maltese community is seen passing through a delicate phase where, if the present natural rate of increase trend remains unchanged, it will have to support rising numbers of elderly with ever-smaller numbers of young members. This is a new experience, which is being 'shared' with other member-countries of the EU. Besides, the quality of care that is given to both young children and retired is also being affected, at times negatively.

Surely, these trends cannot be seen as being consonant with the social teaching of the Catholic Church which places the individual and social co-responsibility at the core of all human activity. We turn to addressing the emerging structures of the Maltese economy in order to assess those enabling factors that are expected to contribute to wealth creation which generates the resources needed to support the empowerment of both individuals and social groups domestically and elsewhere.

4.2 Patterns of Ongoing Economic Restructuring and Income Distribution

The Maltese Islands represent a market economy that adopted the rules of a single market - the European Union - in 2004 and gave up its currency – the Lira – for the euro in 2008. This shift signifies a big political and economic commitment since the EU is still in the process of maturing into a more cohesive block particularly in political terms. This move was not initially agreed upon by all Maltese; quite understandably, there were many who doubted on the net benefits of such a decision like many other citizens in the respective EU member states. The accession meant the transfer of part of the country's autonomy in chartering its economic and political future, a transfer that is expected to continue in the coming years as the euro zone keeps expanding and more comprehensive measures taken across the single market domain for all member states.

Membership of the euro zone implies also the giving up of two important monetary tools – the rate of exchange of the currency and the determination of the 'basic' rate of interest on which the cost of capital for consumers and investors is determined. (This second tool can be 'captured back' up to limit, as has happened in fact; the basic interest rates that guide bank lending in the Maltese Islands differ from those dictated by the European Central Bank.) It also means a more contained role for public sector direct intervention in the economy through an active fiscal policy and national debt management. There are prescribed 'desired limits' on the ratios of public sector deficits and national debt levels to countries' Gross Domestic Product. Once the way in implementing economic policy is re-dimensioned, in terms of the tools at hand and in terms of the factors regulating competition in the markets for final and intermediate goods and services, it follows that the Maltese government's ability to influence aggregate and sectoral economic activity at a point in time and over time has been curtailed. In turn, so did its power to influence strongly income redistribution to households via support to output and employment in specific sectors of activity. But Malta is still going through a transition state in relation to membership adaptation, and so the Maltese government had some leeway on defining, timing and the method of implementing the new commitments. But this transition period is coming to an end in several economic sectors.

An all-pervasive Maltese State (or government) had grown, since Independence in 1964, to become the employer for around 45% of all gainfully occupied population and the indirect employer of even more, via tenders in social capital formation and the provision of services to households. In the wake of trade liberalisation and the global shift towards privatisation, the Maltese government fiscal policy tools and method of carrying out its tendering processes are being redefined. Gradually, the system that evolved over the past fifty years of an ever-stronger political centre for decision-making on many social and economic issues is seen being dismantled. Besides, the 'Maltese economy' is becoming more and more a specific geographical region in an expanding economic space that will one day encompass not only Europe but also the entire Mediterranean. Countries along the Mediterranean littoral are slowly tending towards a free trade zone for goods, services, capital and labour. This condition is far away from a regime of exchange controls on goods, services and capital that characterised the Maltese Islands until the nineties. Even the freedom of labour movement is more relaxed for citizens coming from EU member states.

Interpreting the 'common good' and supporting initiatives to bring it about is presently under scrutiny by the European Commission that has its rules and methodology of defining what is and what is not a 'common good'. Besides, the objective of such scrutiny need not necessarily be the 'good' for the islands of either Malta or Gozo or both together, but rather the eventual (emerging) good of the entire single-market block. So while the rules of the economic game and the tools at one's disposal have been changed, this does not imply that the players (all Maltese) are truly aware of the meaning of such changes for their medium and long term well-being. They may still be thinking of the pre-membership policy tool regime and behaviour at the political, industrial and financial levels with the result that their pre-emptive faculties will be disoriented and they will fail to face the emerging new realities as they are expected to. After all, there are still 'exemptions from the rules' during the transition period they are going through in some economic sectors.

If this is the case – and it seems to be the position in such instances as water reserve utilisation strategies and management of fisheries – then they will have to discover the significance of the new economic environment and respond faster than they might have wished. They will be lagging in adaptation with the result that they will be 'forced' by economic factors to speed up their rate of compliance with the altered political and economic conditions. The future has to be addressed within such constraints. Interpreting 'welfare' and identifying the 'means' to attain such levels of welfare must start from the new situation that the Maltese community is in. It must spell out the gap between the existing position and the target configuration, come up with a plan for action and form the teams to execute it successfully.

To date the Maltese economy had done relatively well, notwithstanding the economic and financial upheavals in the global economy. It performed positively in relation to a rising labour supply that it managed to increase gradually over time through such measures as extending the school leaving age, supporting financially the undertaking of tertiary education, encouraging the re-entry of certain female category of workers in the labour force, and controlled in-migration. Public sector employment (in public administration and government controlled enterprises) acted as a balancing force in supporting a steady aggregate demand. But this came at a cost: a fast-rising national debt that complemented an equally rising private sector indebtedness of households and businesses. This private sector indebtedness is balanced to a large degree by ownership of assets tied to consumption – e.g. consumption of housing services that are linked to mortgages – and business capital formation. Maltese residents owe the financial institutions around €8.4 billion of which households have €3.5 billion (Central Bank of Malta, 2010:86). Per capita (and household) incomes and consumption grew steadily over time while past savings also increased and reached €6.7 billion in local bank deposits alone. This is apart from other assets like equities and government and private stocks. Total debt securities held locally amount to €4.8billion while the value of quoted shares on the Malta Stock Exchange was €2.9 billion in March 2010 (CBM, 2010: 93). What is held abroad is anybody's guess.

In part, past economic activity (hence GDP growth) could have been generated in the production of real estate units, in increasing the 'housing stock' which has yet to be sold. As long as there is a surplus of tenements, there could be a slowing down in the construction sector, which had for many years been considered a prime mover of income. This is one aspect that has yet to be addressed.

Besides, the challenge ahead is different from that which characterised the past. It refers to seeking ways of sustaining a relatively high living standard in future in the face of a rising dependent elderly share of population - legally entitled to a retirement pension that is 'guaranteed' by the country's Constitution -, a dwindling child population, and presumably a far more competitive global and EU trade environment. In addition, privatisation induced a shift in decision making towards private sector organisations and away from the Cabinet of Ministers and government-owned firms. Consequently, *the political market is gradually giving way to the single-market driven EU policy-making and, at the level of the industry, to the market-oriented allocation of resources in such strategic sectors as finance, telecommunications and leisure.*

4.2.1 The respective components of domestic and national value added

Selected data describe the underlying trends that mark the performance of the Maltese economy and its several components in the past decade. Overall Gross Domestic Product at market prices increased from €4.0 billion in 2001 to €5.8 billion in 2009. Over the same period it grew in real terms (at constant 2000 prices) from €3.9 billion to €4.5 billion. This growth has not been on an even trend. Indeed, viewed at constant prices, the economy reached a high of €4.6 billion in 2008 followed by a decline in 2009. In annual terms, the rate of growth slowed from 4% in 2005 to 3.65% in 2006 and 2007, to 2.6% in 2008 and to a negative -2.5% in 2009 (Economic Policy Division, Malta, 2009:195). A slowing down of the annual rates of growth does not record recessions, but it still means a relative contraction in the accumulation of resources or 'wealth': if a rate of 4% represents €x million in a year, a 2% rate of growth represents €0.5xmillion. If this rate persists for another year, the Maltese economy will be 'poorer' by the equivalent of one year's generation of wealth creation for the two-year period.

When account is taken of the net income from abroad, reflecting the balance of net compensation to employees, EU-Malta transfers referring to taxes on production and imports paid to EU institutions and to subsidies received from EU institutions, and property income, it is seen that the resultant Gross National Income falls short of GDP. This means that Net Income from Abroad is negative: the out-payments exceed the in-payments. This has been so since 2003 (NSO, 2010d: 2, 11). In the three components that make up this item, whether they refer to labour compensation, property income and transfer to EU in relation to taxes and subsidies, the balance has not been in Malta's favour. In part this is reflecting the labour market evolution in favour of external labour inputs and also the repatriation of profits arising from the privatisation process of the last decade. This policy measure saw foreign companies buying into former government-owned firms in the financial, utility and communications sectors.

There has been a significant shift in the composition of domestic value added in the Maltese Islands over the last decade. The share of the Services sector kept rising: from 73% of value added in 2001 to 78% (of a higher GDP value) in 2009. Conversely, the share of Manufacturing – in the seventies and eighties the prime mover of a restructured economic activity - kept falling: from 25% of GDP in 2001 to 20% in 2009. Similarly, the share of Agriculture shrank further: from 2.8% to 1.8% within a decade. All throughout the period, market oriented activity in search of profitable production expanded in part in the wake of the privatisation process.

But government intervention remained crucial for certain on-going activity. Without such financial support, particular sectors would wind down. Take Agriculture. Factor income in 2009 is estimated at €69.8 million of which €20 million represent subsidies on production and on activities linked to production. Excluding such transfers, therefore, factor income becomes 49.8 million. Intermediate consumption, valued at €70million in 2009 (NSO, 2010e:3, 5), does not properly account for the valuation of water used in production nor does it account for, say, the cost of insuring the various 'products' generated within the sector (Delia, 2005). It follows that when account is taken of these inherent inputs the emerging losses would be higher. The potential contribution of this sector in future value added will be lower as a result.

Similar considerations apply to the ongoing performance of various units operating in the Manufacturing sector or the leisure industry. Even public utility units depend on similar treatment for their immediate financial viability, in particular the supply of electricity and water and the supply of sea-connection between the two main islands of Malta and Gozo. Thus, out of a capital outlay of €228.6 million in 2008, €56 million (24.5 %) were allocated for subventions and subsidies (Budget Office, Malta, 2009:30). At times, these subventions are not dedicated to finance capital projects but rather to fund an ongoing (and therefore a recurrent expense) commitment like the payment of interest on borrowed capital by a company whose revenue is insufficient to meet such items (e.g. payment of the cost of borrowed capital by Gozo Ferries or the annual losses of the former Malta dockyard and shipbuilding operations). Although such expenditures may have direct beneficial impact on employment in the short term, they give rise to inter-generational implications in the long term. These outlays are usually financed through borrowing and not out of general tax revenue surpluses arising from positive balances in the recurrent budget. Future generations have to pay interest on this debt without having corresponding assets to generate revenue to balance such commitments or/and they may have to pay taxes to redeem the loans – depending on the volume of the national debt at the time.

Furthermore, one notes that the balance of international trade transactions has been negative for some time: the value of imports of goods exceeds the value of exports of goods (NSO, 2010f). Unless such negative balances are offset by direct foreign investment and net service income, they represent a situation which could demand rectification if it persists. Once Malta has given up its own currency, and has no possibility of influencing the value of the adopted euro, it follows that such external imbalances in the current trade account of the external sector cannot be countervailed in part by a currency re-alignment. Instead, the cost of local factor input, which bears on the price of traded goods and services, will have to be scaled down or factor productivity, primarily labour's, enhanced. It is easier said than done because such movements demand at times a general restructuring of planning, doing and selling with the result that this may induce labour redundancies and, as a result, unemployment.

In short

The Maltese economy has been resilient in these past years. But there are areas of activity that need to be looked into carefully. For various reasons the rate of economic growth has slowed down, yielding fewer total resources available for use than otherwise. Such 'non-created resources' can never be recouped. This performance calls for critical analysis. It impacts differently on various sectors, and, hence, on individuals/households as suppliers of capital, enterprise and labour services. Market forces are at present more powerful than they had been a decade ago following the direct expansion of private sector activity in the economy and reduction of government ownership after privatisation of several state-owned projects. Several industrial sectors are still economically viable through direct government subsidies, which have to be phased out as the transition period agreed at Malta's EU membership accession come to an end. Besides, the persistent negative trade imbalance may involve domestic input cost deflation via wage restraint or the engagement of labour – possibly foreign - at lower cost. Whichever solutions are adopted they are bound to influence not only the present incumbents to the posts but also the upcoming generation. There is always an inter-generational linkage running through economic activity.

4.2.2 Factor Income, Household Income Distribution and Social Support Programmes

Factor income distribution emerges in the process of creating value added. In terms of GDP at factor cost, if one sums up the income of the self-employed ('mixed income') with the gross operating surplus (together they represent factor 'capital' as described in Section 3.5 above), and adds this to the value of 'employee compensation' (wages and salaries attributed to 'factor labour') then one can trace the distribution of the returns to each of these two inputs over time. Since 2004, it is seen that the share of 'employee compensation' declined from 52.5% of GDP to 51% in 2009; it was lower in 2008 at 49.9% and in the first quarter of 2010 at 47%. The share of resources attributed to the income of the self-employed and profits increased from 47% in 2004 to 49% in 2009. It was marginally higher in 2008, at 50%, and in the first quarter of 2010, at 53% (NSO, 2010d: Table 2). The trend seems to be settling for a 50:50 distribution. These coefficients signify that there are no wide disparities in the return to workers and the return to operations, even as in the latter one is accounting for the total income of the self-employed which is a composite of a basic wage and a return to enterprise and capital. (Compare this to the wide gap being recorded in China following the opening of that country to foreign investment, as noted in section 3.5 above. The share of labour fell from 57% to the present 37% over a twenty-five year period.)

But the trend towards a marginal increase to the return to factor 'capital', in the aggregate, seems there. And the reference to factor costs made in the preceding section has to do with the future performance of the returns to the inputs that combine to generate output. People have to be incentivised to produce and the work environment, including the rate of remuneration, is one important element in such an attraction. But the return to enterprise has equally to be present otherwise it may not be worthwhile undertaking the risk of an investment. Take, for example, the manufacturing sector which registered a decline in its relative contribution to total value added over time. Data indicate that between 2005 and 2008, the gross operating surplus per head for the entire sector fell from €15,643 to €13,579 (Economic Policy Division, Malta, 2009:82). In contrast, the personnel cost per capita increased from €14,739 to €19,309 (Ibid: 81) while value added at factor cost per head in real terms, which can be taken to reflect overall factor productivity, fell from €26,651 in 2005 to €25,138 in 2007 rising marginally to €26,523 in 2008 (Ibid:83). Returns to enterprise fell by 13%, productivity fell by 0.5%, but the value of labour compensation increased by 31%. These statistics are overall, simple averages; they vary within the sector and possibly among units within a sector. But, in general, they represent a situation which is not economically attractive for those who organise the operations. As such, the 'sector', in general, is not sustainable as is and calls for a re-assessment. It is in this context that one has to locate government support to particular units that has been introduced in the past twelve months, such as the payment of a one-day salary in order that a company does not lay off workers. Provided such measures are short-term, they serve to sustain employment and household expenditure. If they become entrenched, they will be detrimental in the long run: they distort work expectations and retard industrial restructuring.

Such temporary measures help check unemployment in the short run; the long run remedy lies in getting the relative rewards to the respective factors (wage compensation, operating surplus) in 'line'. They must reflect the risk of the undertaking and total factor productivity. This is now more important than in the past because there can be no rectification of border price overshooting by a re-alignment of the value of the Malta currency; the Lira is no more. Local wage-pressures, reflected in higher unit labour costs, are automatically translated into international trade costs. By how much will depend on the share of the total labour wage bill component (wage + social security compensation + paid national holidays + paid leave + other benefits) to total production costs. The higher is this share, the bigger the erosion of price competition in international trade markets for comparable products or services especially if trade is outside the euro-zone and the euro get stronger in relation to the trading currency.

A similar performance pattern emerges for the tourism sector. The weighted average weekly wage rose from

€230 to €234 in the Recreation Services and the Hotel and Catering Establishments; but per capita earnings fell from €540 in 2006 to €458 in mid-2009 (Ibid: 111). When one accounts for the rise in the price index for services related to tourism, the decline in real terms will be even greater.

However, while the nominal wages in industry registered a rise, with the average weekly wage per employee rising from €273 in 2005 to €304 in 2009, the real wage initially rose from €256 in 2005 to €260 in 2007 thereafter falling back to €257 by 2009 (Ibid:38). Over the five-year period there has been only a very marginal increase. Average level price increases erode the purchasing power of income. The official Retail Price Index, valid at law for adjusting housing rents, indicate that prices have doubled between 1980 and 2009, meaning that the purchasing power of a unit of currency has been halved (RPI: 366.08 in 1980 and 758.58 in 2009 – Central Bank of Malta, 2010: 116). At the same time, a Property Price Index compiled by the Central Bank of Malta on advertised prices using prices in the year 2000 as a base, suggest that there has been an 83% increase over the decade, with the main rise reflected in the price of terraced houses which have doubled (Ibid: 114). This inflation-consideration is a factor that is reflected in the wage-increase expectations of many. However, for trade oriented activity labour compensation is influenced by market forces which reflect the constraints imposed by two key economic parameters, namely, productivity increases and the rate of exchange of the euro vis-à-vis the British pound and the United States dollar.

People’s welfare is influenced by earned income and also by the re-distributive mechanism of the Government’s support programmes as reflected in the annual budgets. Wage incomes represented around 63% of total households' income. Five percent of income comes from 'interest and dividends' and 0.2% arises from 'rent of property and land'. Aggregate total 'factor income' represents, on average, 68.2% of a Maltese household's income. The rest, 31.8%, made up of 13% of cash benefits from self-employment, 13% from old age benefits, 0.5% from unemployment benefits, 1.9% from sickness and disability benefit, 1.9% from survivor's benefit, and 0.6% from education-related benefits, 0.2% from inter-household cash transfers, and 1% from other sources (NSO, 2010b: Table 2.1). These percentages refer to the aggregated households' income. The relative composition of the income of a particular household will not necessarily be made up of all these components.

Twelve percent of households could meet their needs 'with great difficulty' in 2008. Another 24% could do so 'with difficulty'. A total of 36% of households, comprising 150,000 persons, were 'struggling' to meet their needs (Ibid: Table 4.18; 4.22) irrespective of the support programmes in cash and kind now in place. Besides, there are 60,000 persons 'at risk of poverty'- whose annual income is 'less than 60% of the median national equivalised income', that is, €5,728 in 2008. (Ibid: xix). But there is a higher incidence in the Southern Harbour district (17% of region's population) and the Northern District (16%) There are relatively fewer in the South Eastern and Western Districts (13%) and in the Northern Harbour and Gozo and Comino Districts (14%).

Eighty two percent of all social protection benefits are not means-tested; beneficiaries get them 'as of right'; this is less than the average 89% recorded for all EU member states (NSO, 2010g: Table 17). Their costs approached a €1 billion two years ago; they are projected to be €1.08

billion in 2010 (Budget Office, Malta, 2009: 294). Social benefits outlays reflect mainly the age (pensioners, young families with children) and skill composition (and related incidence of employment and income range) of the population in a locality. But, overall, it can be said that (NSO, 2009b: x):

i) 35% of total population receive some form of social benefit.
ii) the Southern Harbour Region and Gozo and Comino have a higher percentage of the share of total beneficiaries than their share of the total population. It is 12 percentage points higher than projected in the SHR and 5 percentage points higher in Gozo and Comino.
iii) Gozo has the highest incidence of invalidity pension receivers: 36.7 beneficiaries per 1000 population in 2008. It was 29.4 per 1000 in 2000.
iv) Valletta has the highest ratio of beneficiaries compared to its population: 47.8 %, more than the 35% national average. Swieqi registered the lowest rate, 22.9%.
v) In expenditure terms, Sliema beneficiaries were the 'most costly', with €5,796 per beneficiary while Pembroke was the 'least costly' with €2,816 per beneficiary.

Confronted with data on households' poverty in Malta, in the year in which countries are focusing on this subject, Caritas (Malta) suggested, among other proposals, that the Malta government revises upwards the national minimum wage, which is set at present at €146.47 weekly representing an annual labour compensation of €7,616. The relationship linking national minimum wage setting, economic activity/employment and households' income/consumption has been addressed in section 3.8.1 above. It was pointed out that it is in the long term interest of society to split the issue of production and income redistribution by focusing on labour market realities, specifically, and simultaneously consider how best to support directly those households that are passing through a rough time. The input of cash transfers has precisely this role. The pattern that is seen evolving in this combined sphere of income generation in the Maltese Islands – i.e. wage income plus transfers in cash (which include unemployment benefits) – is the one we have examined above. For comparative purposes, the poverty level is estimated to be circa €6,000 in 2009; the national minimum wage is €7,616. Unless families have work which justifies paying the national minimum wage for a forty-hour week, or pro rata, then incomes will continue to be lower and it will be up to the combined transfers in cash and kind to complement them and raise a household's command of resources per period to the level that renders 'decent' their living standard.

The above pattern of benefits refers to social security cash benefits. But government is also committed to transfer other benefits/services 'in kind'. These services are also complemented by those given by NGOs, including associations/units that are run by organisations related to the Catholic Church in the Maltese Islands. A complete list, and impact, of this redistributive mechanism is unknown. But an estimate of services given to elderly people in the nineties represented a substantial share of their weekly consumption expenditure. Such services included Home help, Telecare and nursing services and insulin given at home. These alone would double the weekly expenditure of an elderly, single, in the nineties. The monetary value of subsidised services was higher for residents in homes run by Government and the Catholic Church (Delia, 2006h: 131-132).

In the case of housing the impact is even stronger. Over the past four decades, Maltese households benefited in more than one way from government and Catholic Church support. Tenants in state-owned apartments, administered by the Housing Authority, benefit annually from heavily subsidised rents. The hidden subsidy, which can be referred to as the 'rent gap', could represent the equivalent of around eleven-months rent when compared to private apartments; it could be around €2000 annually. Those households who build their own home benefitted from a series of measures some of which were in cash (grants aimed for specific components of the project) and others in kind. The latter measure included land given in perpetuity at fairly nominal rates by the Catholic Church organisations or government, and subsidised loans from a government-owned financial institution (Delia, 2006i). As a result, seventy five percent of Maltese households are home-owners or had their dwelling given to them for free. Of these only 17.3% are still mortgage payers (NSO, 2010b: xiii). This property represents an important component of a household's savings, a factor that can be found useful in the support of tomorrow's elderly.

Actually, there is an estimate of the income-in-kind component of social benefits, but it is restricted to the Social Security Account. Over the three year period 2004 – 2007, Malta allotted 28% – 29% of its Social protection benefits 'in kind' (NSO, 2010g: table 13, p.24) But this statistic excludes all other in-kind services, such as education, public utilities, and travelling by low cost airlines. Thus, while the contributory welfare programmes represent 32% of total government expenditure in 2008 – a relatively stable share for the 2004-2008 period – the total 'empowerment programme' falling under the concept of 'merit goods' – described in section 3.4 above – tallies 76% of government expenditure and 28.3% of GDP (NSO, 2010h : 2). This includes the following sectors: Social protection, education, health, housing and community amenities, environment protection, and recreation, culture and religion.

This 'unknown' complete distribution of income-in-kind remains an important missing link in the evaluation of the effectiveness of government programmes and their beneficiary/consumer distribution. This lack of knowledge is possibly the gap that renders incomplete a proper evaluation of the programmes in place and, as a result, hinders their timely reconsideration. Desirable changes will therefore lag behind leading to possibly user dissatisfaction, waste of resources, and bigger burdens on future tax-payers. Issues related to economic efficiency and re-distributional equity cannot be properly addressed.

One can apply the same argument to the services given by the Church organisations in Malta and Gozo as well as those provided by other NGOs. The bigger an organisation becomes, the more nebulous will turn out to be its organisation especially if its set up is fragmented as it depends on voluntary, part-time contributions by many. The quality of voluntary work has to rise because the service given requires more and more professional preparation and implementation. Such services cannot be given across-the-board for free; providers have to rely more and more on monetary payments by beneficiaries in order to increase the resources raised from contributions by non-beneficiaries. A rising number of associations are finding themselves cash strapped, including the Archdiocese of Malta that supports financially the running costs of homes for children in need, people under stress and in the process of rehabilitation, and homes for the elderly (Archdiocese of Malta, 2009). But one has to identify non-traditional ways of supplementing present services by novel ways of volunteering. Otherwise resource constraints, both financial and human, will affect negatively the quality of the empowerment services on supply and, as a result, the quality of life for many (Zammit Cutajar, 2010).

Failure to meet tomorrow's needs - emerging from a rising elderly population, internal migration, and a higher 'turnover' in household formation and composition, or turning more to the private market to provide services in the presence of shortages of qualified personnel - will represent a major significant break with the past. Charges will rise sharply from zero to whatever is demanded. Witness the difference in price between the zero of state hospital services and the charges for services in private hospitals, or the variance in price between the zero in government schools and private school tuition fees. Thus, a recent report commissioned by the Independent Schools' Association indicates that tuition fees per term for a Junior 4 student range from €2,883 to €4,377 while for a Form 3 student the same fees vary from €3,213 to €5,547. Additional annual costs including transport, uniforms, textbooks and stationery amount to €978 for junior and €1,128 for senior students.

These outlays represent a relatively high share of the annual income of the household that seeks these educational services; for households with an income of €30,000 annually, the share going to private tuition fees is between 10% and 19% depending on the age of the child and the private school. These ratios are much higher than the 2.3% referred to in the *Household*

Budgetary Survey - 2008 quoted in section 4.1.2 above. The argument that the 'quality of service' – nil waiting time in private hospitals and a long queuing in state hospital; or, better performance and/or more friendly personal attention in private schools compared to less-student-friendly environment in some government schools – is no comfort for the many who may be discovering that the rising expense is becoming unaffordable. This situation is explored further in section 4.2.3 below.

So, unless people are prepared well in advance to meet such situations, there will be many disappointments. They will see state or NGO's support waning at a time when they need it most. While it is customary to address the subject of household income distribution through the use of fiscal tools, yet the welfare of a community is also influenced strongly by voluntary person-to-person support. Changing economic and work conditions – extending the retiring age from work to 65 or higher - as well as the falling number of religious who run the caring services in Church institutions are bound to reduce the supply of 'quality man hours' that go into 'subsidised' person-to-person support. Society has to come up with other novel ways of generating personal care. One has to account for this phenomenon while addressing the interpersonal support matrix that comprises government, voluntary non-profit, and private sector. The three, together, will be addressing the pressing issues on personal welfare support in the future.

In summary

There does not seem to be a strong imbalance in the allocation of domestic value added between the two factors that contribute to its generation. When one adds the income of the self-employed to the return on capital in the form of gross operating surplus, it is seen that over the past five years the tendency lies is splitting the GDP in two: one half goes to labour compensation and one half goes to enterprise and the self-employed. There has been a marginal switch towards the non-labour component of 2 percentage points. But this shift is not socially disruptive.

However, two observations demand careful consideration. First, the nominal wage increases that seem to have surpassed the productivity improvements in Manufacturing have induced already an overall intra-sector restructuring. Secondly, these changes and nominal labour-income gains were eroded by the rise in the average price level over the past few years. These positions could lead to labour market and social tensions: workers will deem present wages to be insufficient to support their consumer expectations while employers deem them too costly. Strategy-wise, this means two possibilities: adjust downwards workers' expectations and consumption expenditures or/and generate new economic activities that render viable paying higher compensation to labour.

Wage-income is complemented by transfers from the public sector to households. Such transfers vary by age, household composition and by locality. This distribution of benefits itself calls for an explanation. If the benefit configuration arose mainly from political considerations, one has to assess whether the positive economic impact that it is generating through consumption expenditure may be more than counter-balanced by effects that are seen as less desirable from an equity perspective. This theme is taken up in Section 4.3 below.

4.2.3 The fiscal position: performance and stated objectives

The Maltese government has a critical role to play in the present transitional period in the economic and political history of the Maltese Islands. The commitments that successive governments had undertaken, on behalf of the community, are what they are. Suffice to point out that the future Maltese governments are bound to raise resources for retirement pensions that were estimated through the accumulated benefit obligation (ABO) method at €10.9 billion at end of 2007, representing 202% of GDP. Concurrently, the Treasury pension liabilities for the same year amounted to €2.1billion or 38.6% of GDP (NSO, 2009c). At the same time, the government has to comply with the short to medium-term obligations that Malta undertook on EU membership in terms of the performance of fiscal accounts, namely a deficit/GDP ratio of less than 3%, and a national debt/GDP ratio approaching 60%. Government is committed to attain the first target by 2012, and to implement measures that contribute to approaching the 60% limit without destabilising the growth of the economy.

The Maltese government is now also liable to compensation, a consideration that was ruled out by law prior to EU membership. Compensation and the exercise of such a measure following decisions by courts of law, arbitration tribunals, and offices of the Ombudsman, contribute to resource allocation efficiency by enabling the internalisation into the cost matrix of effects generated by third-parties. In this case, the third parties can be government officials, or public corporations. (Vide section 3.4 above). Recent claims against Enemalta, the public corporation providing electricity services, following a power-failure are a case in point. One main issue remains regarding 'who pays': whether it is the taxpayer who carries the lot when the corporation or the Treasury forks out the compensation reward or whether the officers themselves who are found 'guilty of negligence' pay. This matter has both economic and equity considerations. Compensation acts as a deterrent not only against abuse of public office but also against unintentional policy decisions. The latter may be mitigated through proper insurance against such risks. Whichever way one looks at such a condition, it always implies a new source of costs for the Maltese government.

Government is also the subject of scrutiny when raising and spending funds that originate from the various EU programmes. Unless funds are directed to the project for which they are allotted, or unless such projects are carried out in the specified time frame and on agreed procedures, then they have to be refunded. This is a relatively new experience for Malta in so far as 'outside' financial assistance is involved. It is a feature of the accountability of the government to the fact that other taxpayers in the EU are giving up part of their income so that the Maltese (or operators in Malta) can benefit from it. There have already been instances when Malta lost its right to benefit from certain funds in education, manpower training and agricultural development. Besides, the Maltese government, on behalf of all Maltese, has to account for the failure to meet agreed policy targets. Failing to give a satisfactory reply, Malta – read taxpayers – has to pay the stipulated fine. Altogether, these conditions imply that the government revenue stream will be affected downwards, and the expenditure stream will rise, in any one year. It follows that such measures bear on the budget balance and national debt objectives that EU member states are meant to comply with.

In short, the power that government officials and political parties have built up since independence in 1964 is gradually shifting towards the EU institutions and to the key players in the wider Mediterranean economic zone. In relation to those political and economic forces, the Maltese 'power elite' are becoming relatively less powerful, if not entirely powerless, and they may react by creating circles of influence of their own. In contrast, those who deemed themselves 'powerless' in relation to an all-encompassing state are gaining strength from freedom of movement and wider economic spaces. The centre of power is shifting from the government to individuals and other groups and it is this newly-discovered emerging control structure that will chart the future development of these Islands.

Thus, EU membership has other connotations for the production set up and income redistribution programmes in the Maltese Islands. EU competition law and the single market emphasise the principle of equal playing field, even though the single market may not yet be fully operational in all spheres of economic activity. Such principles could intervene in the social sector in Malta, in particular in the provision of educational services. At present such services are provided by the state (61%) of students), Church schools (27%) and independent schools (12%). Church schools receive financial support from government as part of an agreement between the Government of Malta and the Holy See, which saw the transfer of Church property to the Maltese State as part of this agreement. Since the Maltese are no longer joining the Orders that own these schools, the Orders have two options: either to call religious members from abroad or to turn these institutions into private foundations. In time, such schools will be run by local lay people who will have no connection with the original Order that set up the schools. This situation could open up the issue of state funding on the grounds of level playing in markets for services. A first step towards this claim by independent schools may have already been made. The Independent Schools Association is requesting an annual support of €17 million in grants to parents who send their children to these schools. This demand has been triggered by several factors such as, the rising costs of educating a child in independent schools; the falling student population reflective of the demographic change – the school population is projected to fall by 5,000 pupils in the coming decade; and the expansionary programme of Church schools, combining both junior and senior schools, following the mandatory new educational set up introduced by Government.

The claims for a more extensive financial support by the State to privately run 'empowerment services' (whether profit oriented or not) in housing, health, education, and welfare and security, lead to an important consideration regarding the government in Malta. As explained in section 3.7.1 above, the Maltese government is seen reducing its intervention in the economy in terms of direct employment; but in terms of the absorption of resources via taxation its share is rising, while in terms of the relative share of expenditure it hovered around the 45% level of GDP since 2004. *If the private sector activity in education (independent schools), health (private hospitals), homes for the elderly (that are already witnessing a 'private-public partnership' with the private sector investing and managing the unit and government guaranteeing the income for a specified time period, these apart from those run by several organisations grouped under the 'Church' in Malta) will come against a shortage of skills, high and rising costs and potentially* *falling demand, then the consideration of the role of government and tax-financed production and provision of services will have to be re-opened.* The shift towards privately-produced services that took place in the past two decades will have to be re-addressed in the wider context of changing demographics, efficiency (low cost production for a given quality level of a service) and income re-distribution that supports households to live decently. A general orientation of such a debate is given in Sections 3.4, 3.5 and 3.6 above.

Such discussion will be undertaken in the context of a similar wider debate regarding the European Union. Various documents are in circulation (e.g. Reflection Group on the Future of the EU 2030 (2010)).They refer to the need for strong political leadership and identifying a common purpose, namely, "a highly competitive and sustainable social market economy in order to maintain social cohesion and fight against climate change", strengthen economic governance, tackle demographic change, modernise labour markets, and develop a common energy policy and knowledge economy. These are basic topics that go to show that the issues faced by the Maltese government are identical to those being faced by other governments in the EU; the Maltese are in good company. Considered from a more pragmatic perspective, these topics suggest that economic matters, like physical matter, simply change their nature. They are on-going and the proposed 'solutions' can only be of a temporary nature. In the meantime, the original issue itself will change and induce another new 'problem' that itself demands addressing. The process continues. Only the characteristics, aspirations and willingness to adapt change over time as the data on Malta's population described by age cohort and gender in section 4.1 above suggest.

In the same vein as the document by the Reflection Group is written the pre-budget write-up proposed by Malta's Ministry of Finance, the Economy and Investment last July (2010). Such documents generally list a series of objectives and measures, introduce several exhortations or platitudes, but usually omit plotting the real issues that have to be faced: the strength of the institutions that are meant to spell out and enforce sound governance, the ability of the ruling class to create a strong common front and lead it to attain clearly defined objectives to which all (or at least the very large majority) concur. A front is as strong as its weakest component. If that component happens to be the department responsible for the identification of the objectives, or the unit responsible for the 'development' of the structure that is meant to attain such objectives, then the realisation of such aims can be put at risk. One has to read such proposals in conjunction with other assessments like the report produced by MEPA – NSO (2010) referred to in the Introduction to this monograph or the report on the local economy presented by the IMF Staff Mission (IMF, 2009)

The Maltese have repeated heard that productive units operating in the Maltese Islands – in both Malta and Gozo - must remain at all times economically competitive and viable to survive; that the present welfare system is unsustainable if the present demographic trends persist in the future; that more human resources will be taken up for the provision of caring facilities as the population ages and couples continue working to generate the wealth needed to boost per capita income and support the fewer upcoming young children and rising number of retirees; that government and private producers have to comply with EU regulations on time and in their totality unless there are exemptions; that the Maltese have to face 'climate change', whatever that may be. The challenge is to identify the means leading to economic growth notwithstanding these conditions. And to do that, we have to understand the role of institutions in the EU and in the Maltese Islands. Although the role of EU institutions is evidently very important, in particular because of the evolutionary process through which they are passing, yet it is more productive from the point of view of this study to concentrate on Maltese institutions. They can do, or undo, the future.

In summary

There is an emerging new role for the Maltese government's direct involvement in the economy. But such a role, being primarily supportive, has to be attained within tight fiscal constraints regarding the size of annual budget deficits and national debt in relation to total domestic value added. Besides, its commitments on behalf of the Maltese population, like the retirement pension bill or EU compliance programme, are known. These have to be met; otherwise there will be fiscal implications for tomorrow's Maltese. The inter-generational solidarity that has characterised the past may be put at risk, the more so as a result of the greater labour mobility and the attraction of positions offered by EU institutions. So, generic documents repeating what everybody knows, referring to the EU and the Maltese Islands, have to be replaced by documents that actually spell out action programmes taking into consideration everyday reality. To do that, they have to evaluate the strengths and weaknesses of the institutional framework in the EU and Malta.

4.3 The role of Institutions: From the Family to Parliament

Research on global economic growth suggests there is a correlation between institutional quality and international income differences. The 'perceived' quality of institutions may be considered a prime factor that *determines* economic and social development. This observation may be extended to apply also to regional trade blocs that come together to form single markets, like the evolving trade situations in the European Union and wider-based free trade areas.

Economic literature defines 'institutions' along a wide spectrum. At one end the term stands for the formal and informal constraints on political, social and economic interactions. They are seen as setting up an incentive structure that reduces uncertainty and promotes efficiency, thereby reducing transaction costs and freeing resources to production and exchange. Consider the 'family' and the 'courts of law' as two such institutions.

A social fabric built on the 'extended family' set-up benefits from economies of scale and contributes to the formation of a bonded inter-generational solidarity. A shift to the 'insular family', units with fewer members and living in separate locations, will alter the relationships that emerged historically from the extended family, redefine the expected roles of the members and probably increase the cost of raising the young, selecting economic activities, and caring for the sick and the elderly, as explained when examining the input of culture on income and wealth distribution in section 3.5 above. As views on inter-personal relationships exercised in a 'family' environment change over time, as is happening in the Maltese Islands, the 'costs' involved in finding out a 'working relationship' get higher. Witness the time and energy (valued in 'psychic'- personal welfare - and monetary costs) spent while building up inter-personal relationships within the family set up, or/and the resources dedicated to marital separation and re-settlement. This applies not only to the couple involved but also to children, if any, and to the rest of the community in providing support.

Similarly, an efficient judicial system will over time induce economic efficiency by enforcing property rights and the rule of law. Societies are engaged in a continuous process evaluating their fundamental beliefs and adapting behaviour of consumers and producers to such values. Law courts (arbitration tribunals or the Ombudsman) play an important role in this deliberation process. They interpret legislators' vision of how society works. They could also initiate a reconsideration of the framework within which judges deliberate to reach a verdict – e,.g. the range of different commercial units that participate in trade or the various units that can be considered to constitute 'a family'. And they establish the amount of compensation or settlement dues that have to be paid by one party to another. This applies to marital separation issues and third party effects including those activities in which the Malta government is involved. In doing so, the courts condition the future behaviour of the community, the future allocation of resources and, thereby, human welfare.

This line of thought may be extended to the political process leading to the selection of a plan of action in a country. People vote for (select) a party to form a government following the presentation of a 'political programme', meaning an underlying philosophy that is expressed in a series of measures spread over several sectors of activity. The system which leads to the selection of a programme can itself be the object of stability or instability. An 'unstable' political majority leads to impasse in decision-making and to repeated electioneering. This process in itself is resource consuming and detracts attention from wealth creation. Again, a parliamentary system that complements an effective division of power and an administrative set up that promotes subsidiarity through a well-planned devolution of responsibilities and control will lead to long-term structures that support the development of a people and an economy on the lines of co-operation and mutual respect. Conversely, a system that seeks to achieve its objectives without evaluating critically, but with an open mind, alternative proposals tend to 'consume' more resources in reaching its goals. It raises transaction costs for the community.

Transaction costs arise as an outcome of several factors, three of which have direct legal connotations. These are:

i. *The inadequacy of legal and political institutions, particularly in international issues*. Thus, unless there is a recognised competent sovereign or legal authority – like parliament or court of law - that can evaluate a claim and decide on an issue time will be lost in searching for such authority. The recent EU experience in the Mediterranean on refugees and fishing rights, or on the 'repatriation' of certain groups of people from an EU member-state to another, are examples of such 'grey areas' at law and institutions. Or, if a country's legislation (or its written constitution) does not enable citizens to seek certain measures – e.g. to induce parliament to consider particular views and translate them into statute following a referendum on the matter – then time and resources will have to be allotted to make this happen.

ii. *The inadequate specification of property rights***.** Social costs often arise in resources that shift from being free to being scarce as a consequence of an economic activity. Entitlement to the custodianship of children is generally not questioned unless there are problems in marital relations. Then the issue arises on 'who is entitled to bring up a child'. Matters like these are compounded when the courts of law are requested to intervene and, say, transfer care of a child outside the natural family unit. Again, clear air, or the supply of clean potable water, is slowly polluted as industry expands or water is over-pumped from the underground aquifers. In such circumstances the right to pollute or not to pollute – or to pump water or not to pump - would not be determined as the industrial development proceeds gradually. Without an initial delineation of property rights there cannot be market transactions of the legal entitlements and industries' output would remain socially inefficient. Sometimes an unequivocal decision on property rights may be all that is required to resolve the difficulty. Similar considerations apply to scarce land use: what lies within clearly delineated 'building development zones' and the type of development that is allowed at law. The teaching of the Catholic Church, for example, upholds that such ownership rights have to be tempered by social considerations. The right to private property is 'not absolute'.

iii. *The ranking of rights*. Rights are not all of equal value**.** There exists a hierarchy of rights which represents a community's basic values that account for both efficiency (production and distribution) criteria as well as distributive justice. Conflicts could occasionally arise between expressed human rights, say, the right to produce and the right to live in a clean environment or the right of a child to life and the right of a woman to decide on the future of her pregnancy. From an economic efficiency perspective which right ranks first may be immaterial, but from an equity point of view it need not be so. Hence when duties or rights come in conflict, a moral judgement based on a conscious deliberation has to be made. That falls in the domain of personal choice but also it is the duty of the legislator. Laws are inspired by the underlying philosophy that rules personal and social behaviour. In Malta's case, local legislation may not 'fit nicely' into the EU corpus of laws and directives. Such 'grey' area calls for a ruling that itself may be influenced by a diverse set of basic principles. The EU Court of Justice may adopt a different code of principles or exceptions thereto from those traditionally considered valid by Maltese courts. Time and resources are dedicated to find a 'workable solution' that can guide the behaviour of institutions in the community.

These observations may be extended to trade relations and a country's economic growth. A greater openness to trade and higher transparency in policy formation and corporate governance are conducive to institution strengthening and growth. Policies have a bearing on institutional quality. Thus, opening up markets may help to weaken vested interests and reduce economic rents derived from prevailing economic and institutional arrangements. A freer trade environment may lead to demand for institutions that are more suited to an increasingly varied and possibly risky range of transactions and exchange. But above all, there has to be a commitment to adapt the institutional network to enhanced competitive challenges. Key institutional reforms are asked for if improvements in sectoral and aggregate performance are to be sustained. The debate over the Common Agricultural Policy of the EU, a programme of support that consumes annually a high proportion of the EU's financial resources, can be synthesised as the debate between hidden transfers to selected beneficiaries and the efficient use of available resources together with transparency in their administration. Such a redistribution mechanism also implies ethical connotations which have to be addressed especially if one adopts a universal (humanity) goal approach rather than the one generally considered which is focused on the nation-state and a country's GDP.

At the other end of the spectrum, the concept of 'institutions' refers to the degree of autonomy of certain policy decision-makers, regulatory frameworks and procedural devices. Such institutions influence economic performance by inducing a coherent and consistent combination of policy choices. Examples include independence of regulatory institutions and key decision making bodies like central banks; the existence and structure of international trade agreements and rules governing the performance of markets for goods and services, labour services and capital movements. Literature generally refers to institutions associated with the public sector, mainly public corporations and regulatory agencies. Emphasis is placed more on meritocracy rather than alliances and allegiances but complemented by subsidiarity and care. In economies where the State has a crucial economic role in production and welfare services, it is evident that such institutions are subjected to periodic evaluations.

But in a small country like Malta, where the non-government organisations, like those run under the 'umbrella' of the Catholic Church, are spread over a wide domain of 'empowerment activities' – child care, education, co-operatives or workers' unions, marriage preparation, care of the elderly - the 'quality' of such other organisations must also be a subject of appraisal. If these organisations are slow in anticipating 'the times', they will be failing in their prime objective of empowering individuals. If this 'failure' coincides with a 'weak' public sector structure – say, in education or social welfare support – there will be a negative impact on the development of tomorrow's society. Rather than being a pre-emptive force, such institutions will become, at best, remedial. Small problems remain unattended properly with the result that they grow bigger in time and render the resources dedicated to their solution inadequate. The social issues of marital separation and addiction to alcohol and drugs, could have arisen precisely because the units involved in the strengthening of personal inter-relationships fell short of their mission.

However, if life-skills are in short supply, then not only will industrial development suffer but, more so, inter-personal relationships within the home and society will break down. These results are one outcome of a common factor, namely, a deficiency in life skills. This factor was considered a hindrance to self-development and fulfilment among the young Maltese for the past two decades, with economic, regional and marital consequences (Delia, 2009: 28 – 36).

Effective institutions are instrumental for economic and social development. Conversely, institutions that fail to act in time – because they may not be autonomous in taking and enforcing decisions – or to address regulatory frameworks and procedural devices will hinder that same development. Moreover, they impede personal empowerment and allow negative tendencies to reinforce themselves. In time, such institutional networks will become incongruent with the demands of advancing economies and progressive societies. They fail to re-address their prime objectives and redefine them to meet the changing times and needs. They become slow to adapt and end up being a hidden deterrent to change. They act as a drag rather than a stimulus to personal and collective maturity.

This *institutional fatigue* will be observed over time as institutions keep repeating what they had been doing in the past without questioning its suitability, indeed its very rationale. They continue to produce 'more of the same' at the cost of slowing down personal development, social cohesion and economic growth. Creating organisations and promoting group formation are not easy social endeavours, but they are key routes for a total human development approach and for designing strategies around social actors.

Worse, institutions may turn themselves into *mirages*. They exist at law. They are seen performing occasionally. People believe they are actively monitoring whatever they were initially intended to protect – e.g. children's physical, emotional and cultural development, the sustainability of the natural environment, or preparation for a married life. But in fact they will not be doing anything of this; they just exist and consume scarce resources.

Institutional fatigue and mirages would become more common in a socio-political environment where the role of government is redefined: from one of ownership of assets to one of a regulator. Regulators are expected to have clear objectives, to be confident in what they want to achieve, and they are equipped to attain their goals. They monitor situations regularly and are free to take timely actions to steer the groups under their supervision to achieve their stated objectives. Such institutions are rendered impotent when they fail to understand clearly what they stand for, or when they do not succeed to raise the human and material resources they need to accomplish whatever they have to do. They struggle to exist. In time, they lose their relevance and effectiveness. In fact, they may mislead many into believing that someone is in control when in fact their ability to control is either very low or practically non-existent. In this latter case, the institutions become 'a mirage'.

Societies that are run by 'mirage institutions' miss the signals emitted by the many 'markets' for goods and services (including caring) in which people participate, or they misinterpret them and respond either slowly or not at all. They realise what is actually happening only after the effects become so evident in the social and economic strictures that they cannot but be noticed. When that happens the instinct (even the 'collective instinct') is to re-act but there will not be a concerted, widespread response to the situation because the network will be seen for what it had become: rigid, without focus, possibly indifferent, and, as a result, weak in response.

One would have expected that a community of less than 400,000 people would not allow such a situation to emerge, but the data available suggest that something similar to the position just described has been developing over the past decades. This community approached a dynamic future, which in part is the outcome of a conscious decision taken at the political and economic level, equipped with the institutional structure and mentality that was more akin to a closed economy subject to a system of widespread controls, public sector ownership, and run on 'dictat' – decisions taken from above. Such a scenario feeds on the 'collective' use of resources, which proved to be historically fitting as the main assets (land, productive resources including water and stone, utilities, telecommunications and financial intermediaries, and even foreign aid) were channelled through government agencies. However, the chosen direction was of a single-market, adoption of another currency, freedom of movement for goods, services, capital and personnel, with emphasis on liberty to choose but to compete. This scenario demands sound governance, speedy decision-taking, and the harnessing of all resources, human and physical. It relies on the skill to lead, co-ordinate, and to follow meaningfully. It demands devolution of authority and responsibility but with in-built mechanisms to track, assess, report and rectify.

Instead, what seems to be emerging is a collective perception of a socio-economic system driven by collective egoism (Kummissjoni għat-Tisħiħ tal-Koperativi, 2009), rather widespread corruption (European Commission, 2010), somewhat uncongenial relations within the family (European Commission, 2010a) and mistrust of parliament and government (European Commission, 2010b). Consider some of the surveys' results.

In general, *the proportion of Maltese who believe that corruption is widespread has risen over the past months and more Maltese than the European average believe that corruption is prevalent in various sectors of society and the economy*: 59% (EU – 57%) of respondents see corruption at the national political level; 61% (EU – 52%) believe it is present among officials awarding public tenders, and a high of 73% (EU –51%) consider officials issuing building permits as corrupt. Even the offices responsible for law, order and fiscal administration are not exempt: 56% (EU – 39%), 58% (EU – 37%) 57% (EU – 38%), and 60% (EU – 36%) hold that officials in the police, judiciary, business permits unit, and customs service are corrupt. These relative shares are all higher than the average for the EU. Neither are the sectors of education, health and inspectorate of various activities excluded: they range in the 30% - 40% bracket and they are either equal to or higher than the EU average.

Considering that we are referring to a community of 400,000 people with several inter-connections among them – either through family, marriage, business, social or political networking – the above results are disturbing for several reasons. First, the 'public perception' is of corruption on a relatively wide scale in the public sector. But the public sector, primarily at the political level, has been for the past half century the accumulator of power and the centre of macro- and micro-decision making in industry and family welfare. Besides, it was also the main employer - with almost half of gainful employees engaged in this sector up to a decade ago - and responsible for the issuing of licences, business and building permits in an economy run for several decades under a fairly rigid system of controls, including trade and foreign exchange controls. When markets are liberalised, the networks that grow under the controlled regime generally do not disappear; rather, they tend to develop further.

This system, everywhere, gives rise to tax evasion, import control evasion, and a robust underground economic activity. Sectors like construction and tourism render this latter activity relatively easier to achieve. Estimates of the underground economy in the 1970 – 1990s put it in the 20% - 30% bracket annually but these values change from time and time and are hard to pin-point exactly. This tax/trade behaviour gave rise to periodic 'fiscal shields' implementation, meaning the possibility to repatriate undeclared capital assets from abroad at special concessionary conditions. It leads also to tax frauds and, on the welfare side, to abuse of benefits in cash and kind arising from public welfare programmes.

A second point refers to the dialectic between 'power' and 'powerlessness' noted at the introduction to this section. Once power becomes more concentrated in the hands of the political group and other 'traditional centres of authority', there is the tendency for those left out to create their own centres of power, which give them the impression of counterbalancing and, in a sense, undermining, a 'powerful' centre. It happened in the context of families and in the participation to religious activities, where people are talking 'with their feet'. They created units that did not fit nicely in the existing legal umbrella on family law, for example, or trade relations. The same process is now emerging in the political and administration areas, namely, the legislative, executive and judicial. The roles of the regulators and the regulated are not well-developed in this transitional phase of a shift of power and control from the state to the private sector. Grey areas of responsibilities lead to a vacuum of vision and control with negative consequence for resource allocation and personal welfare that follow from such conditions.

This leads us to the third observation. *If one takes the results of the Eurobarometer survey in their totality, one can conclude that most Maltese households are somehow 'susceptible to corruption' of some sort*. They are either officials administering one of the services indicated or buyers of the services that these officials provide. Where bottlenecks arise, as a result of inefficiency or of deliberate slowing down of official response to applications, it may be in the interest of a client to 'bribe' (to beat a queue for permits, or to pass through mandatory tests, or to benefit form a zero-priced public service in the health, education, housing or employment sectors) but, surely, this behaviour sends the wrong ethical signal to all but especially to the upcoming generation. The inter-generational moral rift gets wider as a result. If fiscal constraints are expected to get tougher than hitherto, then this kind of unethical but 'pragmatic' behaviour may multiply. Indeed, people may get even violent to protect their perceived 'might/power' or 'rights' whether in the home, at work or in society in general.

An indication of this 'distorted demonstration of power' may be derived from the emerging weakening of family ties and the institutional void in countervailing such behaviour. The Eurobarometer survey on domestic violence in Malta suggests that 30% of respondents know of women who underwent some form of domestic violence, and 19% know of persons who actually perpetrated such acts. More than 70% believe this behaviour is 'common in Malta' and that this situation is unacceptable and should be legally punishable. If these 'perpetrators' coincide with the 'corrupt' individuals referred to in the other Eurobarometer survey, then there is already a problem. If they are different people, then we have another form of corruption that the Maltese society has to face and counter. *The issue then becomes: faced and countered by whom?*

If the institutions that are meant to empower individuals and 'groups' like the family or social networks are weak of authority or resources, then the remedial interventions will fail to induce the intended objectives of rectifying the present perceived situation. Besides, if resources are scarce and mainly directed at remedying what has already been done, the problems are going to get compounded in the future. So the first step to be taken has to be a scrutiny of the utility and effectiveness of institutions, both in the public and the private sector with emphasis laid on the complementary role of such institutions. This holds for the economic and social sectors where scarcity of quality-human resources may turn out to be a limiting factor in future economic growth and the provision of a wide range of personal services.

It also holds for the political sector at national, regional (Malta and Gozo), and local level. One has to address the systems in place that enable the formation of political party programmes and of the persons who are elected to implement them. They have to be assessed in terms of what they have achieved for the Maltese community over time and whether they are still suitable in the context of the demands by EU membership and a changing demographic scenario. The Maltese 'tend not to trust' their government (55%) and Parliament (53%) (European Commission, 2010b: QA14). These ratios are marginally lower than they are in the EU bloc, but they are still relatively high. This question of mistrust has to be tackled, primarily by all those directly involved in politics, especially when the role of government in the economy is still crucial for the success of operations in various areas of activity.

It could well be that the numbers of qualified people to meet these demanding situations may simply not be available. And by 'qualified' one does not mean persons with an academic qualification. A shortage of suitable personnel is one possibility that cannot be ruled out at the outset. In which case, then remedial action, such as immigration or a re-dimensioning of projects, has to be undertaken. Short term placements of top personnel – say, on 3 -5 year assignments – have already been undertaken by foreign-owned companies including those units privatised over the past ten years. Other labour skills in short supply, or at lower unit costs, have also been attracted to Malta. These include personnel in the expanding services sectors including the health sector.

The near future will be the test-case for the thirty / forty-year old generation. They will have to assume the responsibility to lead this community ahead as they climb through the executive structure in politics, the civil service and public corporations, and the top echelons of private enterprises made up of family-businesses or foreign-owned organisations. It applies equally to the personnel heading units in Church organisations and other NGOs. Leadership skills seem to be at a premium. Life- skills shortage, perhaps more than academic qualifications which have proliferated over the past decade, appears to be the bottleneck in the visionary and executive chain that has to bolster up personal empowerment, economic growth, social cohesive development, and protection of scarce natural resources. The present set-up with its direct and indirect close interaction with the political system may not have been conducive to the formation of wide-ranging option searching attitudes. On the contrary, it may have fostered mentalities that rely on dictat from above and the re-defining of such instructions according to one's direct personal or group interests. If this is the case, then Malta would have succeeded to clone executive mediocrity. At least this is the impression that the Eurobarometer surveys on personal behaviour in politics, government and industry seem to convey.

The dictum referred to as 'Stein's Law' – if something cannot go on forever, it will stop - may be a useful reminder to the present analysis. Unless the interacting primary forces producing the multivariate political, economic and social phenomena that impinge on personal well-being and group dynamics are identified and understood, then all measures taken to influence human behaviour are bound to be incomplete from the outset. In this case, those underlying factors will proceed in the present direction until something happens that forces them to stop. That 'something' will be external to the system: it could be the rules of the EU, international trade patterns, or even climate change. Any one of these will find the local economic and social welfare networks unprepared.

In summary, institutions do not appear to have adapted themselves in time to effectively support a more demanding economic and social network that economic development, rising living standards, EU membership and the adoption of the euro, altogether, demanded. From the family unit to public sector governance, the evolutionary process seems to have been too slow. The result is an institutional network that has to adapt faster than envisaged by many.

Perhaps partly because of this factor, the respective administrative systems developed a series of 'incentives' which in the minds of many Maltese are judged as 'corrupt practices'. Such behaviour involves transactions costs that are tantamount to inefficient resource allocation and to the transmission of 'tainted' ethical behaviour in relation to the upcoming generations.

In order to counteract such tendencies, the roles of such institutions and their inter-linkages has to be addressed with the objective of revamping them so that they will become tools for personal empowerment and well-being, economic growth and social cohesion. This re-consideration applies to all institutions in the political, economic and social sectors, whether public, private-for-profit, and non-profit organisations.

4.4 Catholic Social Teaching and the 'Outcome' of Socio-Economic Policies in Malta

Catholic social teaching upholds the dual characteristic of a human being. Every person is 'unique', with his or her personality that ought to be developed to the full in order to enable that person to achieve the maximum of natural talents. At the same time, however, every person is a social being. People grow in a 'group' environment, starting with the family/household, then in the immediate social surroundings, and eventually in the world at large. All individuals belong to the human race and are to be considered as such at all times. The boundaries of the nation-state shall not limit the operation of this position.

Because of this uniqueness, people have rights and it is the duty of the immediate groups that care for their upbringing when young to empower them and benefit from such 'rights'. In turn, they will empower those that come into contact with them. But rights have to account for the 'social' nature of a person, and therefore they are bounded by these social considerations. No acts are purely 'private'; all carry some form of 'external' or third-party effect. Accordingly, there is a mutual give-take relationship that binds a person to society (or groups within society) and society to a person. Ideally this relationship shall become the foundation of policy planning and formation, the development of institutional structures, and the selection of policy tools in a society.

This vision is a guideline for single individuals and groups of individuals. It does not know age, gender or nationality. But reality does not reflect only basic principles. It incorporates historical perceptions, stereotype behaviour related to gender and age, and personal idiosyncrasies that render a uniform way of life impossible. It follows that persons and societies have to deliberately pursue a style of life that befits a basic set of principles. As long as all follow the same set of principles – there is a consensus on the basic norms – there will remain the need to agree on the tools of achieving such ideals. Different tools lead to different economic and social results. If not all are inspired by the same principles, then decisions will have to be taken in two stages: decide on a programme of basic rules and, in turn, on the tools to attain the objectives in terms of those rules.

Maltese society is evolving. Its personal and group perception of life, the economy, relations within society and within the EU and beyond are getting more varied as incomes improve, consumption patterns adapt to rising incomes, households get smaller, and population ages. Personal and group perceptions and expectations adapt to such economic phenomena in the process challenging the interpretation given to 'traditional beliefs'. Since these interpretations are fundamentally personal, the impact of such decisions works itself slowly in the social fabric. It starts in the work practices in the respective economic sectors, transfers itself into the family network, spreads out into consumption patterns and re-enters the economy via the labour market and investment decisions. The variegations going on in social thinking become definitely evident after they work themselves well inside the social structure. One can see the 'outcome' and interpret the underlying modifications of belief there from.

Therefore one must not rely on legislation as a manifestation of one's 'beliefs', especially in terms of the power-struggle context that often prevails in communities, irrespective of size. If one follows this line of thought and focuses on the outcome rather than on the set of rules/laws and the intention of the legislator, then one may come out with a different interpretation on the implementation of the Catholic social teaching in Malta from that sometimes given in political commentaries.

The situation that is emerging may be synthesised as one that is highlighting more the individuality of a person at the 'expense' of the social nature of man. This could have arisen for various reasons. As incomes improve, people want to assert more their individuality and independence. Real choice becomes possible for many for the first time in their life. They accumulate assets. However, economic restructuring – following the downsizing of the public sector and rising fiscal constraints - introduces new work schedules, preparations, commitments on taxes and charges of public utility services, and, throughout, competition. The notion of costs, productivity, mark-ups, profitability and employment change their meaning at the different stages of this economic process. This price-employment metamorphosis becomes significant in a small community that has safeguarded its productive assets and income flows via a tight system of controls and extensive intervention by government in the productive and welfare sectors.

The state's support measures themselves spread across the whole economic spectrum – subsidies to production and investment, employment generation and guarantees, household income-generating schemes, and in-kind services to households – and modified the self-help principle and partial reliance on collective support to one where the individual (investor, producer, NGO, worker, retiree, student, households in general) expects 'as of right' the collective to continue financing 'personal needs' irrespective of his or her command over economic resources. This 'universalist' entitlement to taxpayers' resources could have unintentionally reinforced the 'grabbing' instinct instead of empathy and induced over-activity in several economic sectors. These initiatives, coupled to the goal of becoming 'tax efficient' – to pay the least taxes possible – encouraged operators to come up with measures, like barter, to circumvent both financial constraints and taxes. Such actions can be considered 'co-operation among traders' – unless they are classified as harmful collusion.

Altogether these changes are bound to affect the way people think and behave. This behaviour will be reflected in the home and outside it. Unless people are prepared to face such situations, which for many would be truly radical, they will have to make do as they go along. Some will fail to adapt. And the result will be what is being recorded by data on relationships within households, real estate development, unsustainable state welfare services, and an apparent retrenchment or reconsideration by private operators of services (including Church organisations and NGOs) in the sectors of health, people with special needs, the elderly and education.

So while it is essential to have the legislation to rule personal behaviour in social and economic transactions, it is perhaps far more important to enable people develop and run institutions (ranging all the way from the household to parliament) that can render life meaningful notwithstanding the many challenges and hardships that life brings with it. It is this positive drive to a future of hope, based on inter-personal understanding and co-operation through functional/effective units, which combines Catholic social teaching with economic and financial demands. It is not so much the basic production-distribution-redistribution-consumption chain that will change as the motivation and means that make up this on-going process. Rather, it will be a more even distribution of power throughout all units thereby ‘weakening’ the clash between the ‘powerful’ and the ‘powerless’ in Malta and Gozo.

Whether such an approach that focuses on institutions will induce a collaborative spirit remains an issue. It depends on its success to empower people in freely choosing what they want in the context of social responsibility. But people are always free to decide what to do. What one can say is that the series of measures taken on a wide front in the Maltese Islands did not lead to a more sensitive and caring society than in the past. With the greater demand on the limited resources available as population ages, the pressure to sustain one’s expectations on life and living can lead to the entrenchment of the ‘corrupt practices’ to which the Eurobarometer surveys refer. That cannot be healthy for personal and social well-being. Nor does it tally with the social teaching of the Catholic Church.

CHAPTER FIVE

CONCLUDING REMARKS

This study took its cue from an observation made during a public seminar on the encyclical *Caritas in Veritate* to evaluate economic and social policies in Malta in the context of Catholic social teaching. Rather than assessing particular policies in relation to this teaching, this study presents an overview of the three main inter-related areas, namely, the evolution of Catholic social thought since the publication of *Rerum Novarum* in 1891, the development of economic thought regarding people's choices, markets, the role of organisations and governments in economies, and complementary statistical tools; and an outline of key features of Maltese society in terms of demography, economic structures and the social contract between the State and the citizens especially following Malta's membership of the European Union in 2004 and the adoption of the euro in 2008.

The encyclicals emphasise one key fact: they pronounce principles but they do not offer technical solutions. The former apply at all times; the latter are community and country specific and emanate from the political system and the stage in which an economy is in. It is up to the laity, especially those who uphold Catholic beliefs, to contribute to the derivation of these objectives and to the identification and implementation of the means.

This study must therefore be considered a primary review of most of the issues that fall under the three headings. It cannot be considered exhaustive, although the respective themes are various and they are addressed at some length. It expects to be followed up by other analyses that will seek to develop further the insights presented herein.

Several key ideas are summarised below. They are listed in terms of the three main headings: Church's social teaching, economic thought, and Malta's social and economic features and policy structures.

Catholic Social Teaching:

i) The foundation of Catholic social teaching is the inherent dignity of the human person, which is the starting point for a moral vision of society. Human beings realise their dignity and rights in relationship with others, in communities that protect human rights and meet complementary responsibilities. A healthy community can be achieved when its members give particular attention to those with special needs.

ii) The state has a positive moral function: promote human dignity, protect human rights and build the common good. The functions of government should be performed at the lowest possible level whenever possible as long as they can be performed adequately. In this way all people feel that they are participating in achieving common goals. All people have a right to participate in the economic, political and cultural life of society.

iii) The economy must serve people, not the other way round. People have a right to economic initiative and private property, but these rights have limits. Similarly, workers have rights to productive work, decent wages and safe working conditions, and to join unions. Collectivist economic approaches do not tally with the Church's vision and distributive justice has to rely on other factors beside the market system. Competition and free markets are elements that contribute to the functioning of economic systems but they have to be complemented by well-thought state programmes to reach those needs that cannot be met by the market system.

iv) The goods of the earth are intended for the benefit of everyone. It is everyone's responsibility to care for the environment. Equally, peace is a positive, action-oriented idea that depends on the right order among human beings.

Insight from Economic Thought

v) Economic thought is an evolving process. As economics absorbs insights from other disciplines, such as ethics and psychology, it becomes more sensitive to the limitations of economic modelling which supports policy prescriptions. Fundamental to economic analysis is the search for the balance, over time, between considerations related to production – and the efficiency of resource allocation – and distribution of such wealth among all those who contribute to its creation and those who, for various reasons, may not be directly involved in this process.

vi) This redistribution process sees the State as an important player. Through the enactment, interpretation and enforcement of legislation, involving parliament, the judiciary and the executive arms of the State, governments control the titles to property, the flow of economic activity through the fiscal budget, and the respective payees and beneficiaries of resource transfers. The way in which control of government is undertaken and the dialogue between the elected representatives and the rest of the community become important factors that influence economic performance. Such political interactions influence both short term and long term economic growth and the distribution of resources in a society.

vii) Laws and their execution condition people's behaviour in creating market structures. People create markets for goods and services. Enhancing the market system is a prerequisite for efficient resource allocation. Monitoring market structures is harder because market structures are in constant formation: they are operated in parallel to existing ones, they may be contestable, and, with the advancement of technology, they are now becoming 'virtual'.

viii) Market formation and control may be influenced by asset ownership. The relative merits of ownership are conditioned by people's beliefs regarding property rights. They reflect views on the attraction in a community of their personal behaviour: freedom to choose, to undertake enterprise and safeguard against risk, and build up assets in the process. This view is balanced by one that goes for the supremacy of the collective as represented by political control and ownership. Each 'system' has its implications for economic efficiency and equity in income and asset distribution.

ix) Every single activity has a private and 'third-party' component. Governments are expected to care for that element in transactions which lie outside the market system. But often they themselves, being producers of goods and services, create such external effects. And those who 'make up' government may have personal objectives that need not necessarily tally with 'the common good' they are supposed to promote. Hence, the role of the ballot box process itself becomes an object of enquiry.

x) Democratic governments are seen conducive to long-term economic growth and enhanced living standards. But they can also be detrimental to both, if resources are wasted in the process of attracting ('purchasing') popular support. Such measures tend also to undermine subtly but surely the 'moral fibre' of a community. Governments' ability to raise resources is ultimately limited by tax-payers' willingness to pay taxes and charges. Tax-payers' resistance is demonstrated via tax-evasion and underground economic activity. This escape is often complemented by a drive to gain from expansive government expenditure, which in its turn tends to lead to the exploitation of the social welfare system by many and to directly unproductive-profit seeking.

xi) Active economic policy has to rely on reliable and timely data sets. Such information is costly to compile and, very often, is not readily available. Besides, the data sets at hand may not correspond directly to the economic concepts used in theoretical analysis. This fact compounds policy formation: there are usually competing theories that are supposedly 'explaining' economic phenomena. There always remains the issue of identifying the packet of policies that are best suited to meet the predicted set of economic and social events in a region at specific periods of time. Data sets are historical; they may give an indication of past events but they cannot be blindly applied to predict the future. The future always remains an unknown.

xii) Ultimately, decision making is based on underlying 'beliefs' and on the objectives of the main decision-makers in the short run. But in the long-run, all are 'free' to decide what to do. At worse, they may resist change and new direction either explicitly or subversively. Such actions raise the cost of change and end up wasting scarce resources in the process. If power corrupts, so does powerlessness.

xiii) The Church's social teaching acts as a guide to the attainment of personal empowerment and well-being. It pronounces basic principles on which ethically-correct inter-personal exchanges can take place. By emphasising human freedom to choose, responsible use of scarce resources, and continuous consideration of 'the rest of the community' within and outside the nation-state, this teaching seeks to enhance the dignity of both the individual and the rest of society, namely, the family, the other members of the community in which one lives, and also the rest of humanity. Morality is not possible without freedom. Human beings are not 'tools' to be exploited by others, including public decision-makers.

xiv) Issues tied to payments that are just and fair must be discussed in an extensive scenario and take into account not just one's demands but various considerations related to sustainability and inter-generational solidarity. Solutions are never easy to find but they can be rendered operative through participative dialogue. A drive to collaboration assists a lot in this search for workable and just outcomes. It is the spirit that animates a unit, rather than the legal format of an institution, that reflects the co-operative or participatory nature of an organisation.

Maltese society and economy

xv) The Maltese community is seen hovering around the 400,000 level for the next forty years. But it will represent a lop-sided demographic pyramid: the number of children under 15 years is projected to continue falling, while the number of people aged 65 years and over is seen rising. Around one-third of the population will be over-sixty. There are more males than females up to age 54; and more females than males in the upper age brackets. These numbers matter for the future viability of the economic, social and cultural progress in the Maltese Islands. They condition the evolution of the demand for, and the supply of, a wide range of services related to the formation of families and care. The Maltese Islands are entering into a time where care and support for children, parents, and the elderly are envisaged to be strained; local resources, especially personal skills, will be in short supply.

xvi) The Maltese community is not homogeneous. It is made up of groups of people, that can be defined by age to simplify, that demonstrate different traits in their aspirations and way of life. Every group cohort interprets its political and economic environment differently and responds according to its reading of the situation. Maltese society is in social transition stage in a fast changing cultural milieu.

xvii) It is also at the end of an economic structural transition stage following the adaptation period on Malta's membership of the European Union in 2004 and the adoption of the euro in 2008. The political and economic scenario is significant in several ways. Malta gave up part of its sovereignty when it adopted the EU legislation and the euro. It is a member country in a single market economic area and trades in the world's second currency. But this expanding political and economic union is not yet fully developed; it is also ageing; and has plans to expand further to encompass the Mediterranean basin. Malta's future has to integrate the factors outlined in (xv) and (xvi) above to this evolving political and economic context, especially in terms of the involvement of government in the Maltese economy.

xviii) Government provided a stable platform for economic development in the past four decades. But its role underwent a full cycle: it increased fairly rapidly its directly productive role in the 70's and 80's but this was re-dimensioned following a drive to privatisation and the undertaking of private sector initiative in several 'welfare' sectors like education, health and care for the elderly and persons with special needs. The relative contribution of public sector employment declined as a result, but, in the meantime, the relative share of resources transferred to the state via taxation is on the rise. Government is substituting debt by higher tax-transfers and charges. Given the commitment to stick to the fiscal criteria accepted on EU membership (3% deficit/GDP ratio; 60% national debt/GDP ratio) government is striving to re-align its tax and expenditure flows, especially in the context of the demographic changes and the induced demand on retirement pension and health bills. A reconsideration of the social contract is under way.

xix) But government is also seeing its relative power to control activity and escape accountability curtailed. Since 2004, the Maltese government has become subject to claims for compensation for any third-party negative effects inflicted by public officers or public organisations in the performance of their duty or commercial activity. The government is also open to scrutiny in the use of EU funds and in terms of its record of compliance to EU rules. Failure to meet such conditions can also lead to fines in a wide-ranging array of activities.

xx) In this evolving political scenario, it becomes somewhat difficult to interpret economic data, especially in relation to the future. Economic growth has decelerated in recent years, meaning loss of wealth creation which can never be recouped. The shift towards the services sector has been solid. And the distribution of primary income between labour compensation and the return to self-employment and capital remains socially 'acceptable': there is a 50:50 distribution to the two respective 'factors' of production.

xxi) However, two 'disturbing' features seem to be emerging. Firstly, the rate of labour compensation has outstripped productivity increases in the manufacturing sector and the leisure industry. Given the inability of local policy makers to influence the value of the euro, such a feature can only be re-aligned in the medium to the long run by cuts in the real cost of inputs. Secondly, the higher nominal compensation to labour which outstripped average productivity growth did not register substantial gains in real expenditure potential for household. The increases in the average price level kept pace with the nominal wage increase. These two effects have triggered two types of re-actions. Employers are resorting to the importation of foreign labourers who are paid lower wages; or threatening to transfer their economic activity elsewhere unless the wage bill and other utility prices are subsidised by the state. At the same time, employees and their families are complaining that their real living standard is getting eroded. This is happening at a time when the government is suggesting a re-orientation of the social model implemented to date, and the 'traditional' family set up that used to support individuals and facilitate long-term borrowing for a couple is seen breaking down under altered cultural perceptions.

xxii) These changes are not taking place uniformly throughout the Islands. Regional characteristics in terms of demographic composition – age, gender, literacy, employment, incomes – vary from one region to another and, at times, from one locality to another. So although, overall, the situation may seem socially acceptable, there are emerging areas that can be considered as diverging over time from the 'norm'. Data referring to income distribution, indebtedness, saving ratios and welfare beneficiaries in cash and kind may not be robust enough to enable policy makers to assess accurately the net impact, even though distances in the Islands are negligible. The net distribution on personal well-being may be getting divorced from income per capita growth indicators. In a way, this situation may be the outcome of institutions that have failed to adapt themselves to fast-changing times and political and economic conditions.

xxiii) This slowness to adapt does not refer solely to public sector institutions in education and the wider social welfare network, but it also applies to those units in the non-public sector, like Church organisations and other NGOs. The utility of such organisations in terms of their pre-emptive capacities has to be carried out across the entire organisational network. Failure to meet the challenge of the times will render such institutions into mere 'mirages'. People hold that there is a rectifying force to address issues before they arise, but in fact there will be none. These institutions shall provide the data bases on which critical appraisals of economic and social programmes can be made. Otherwise, failing to provide this information will mean that resources are being allocated according to historical patterns that may no longer be meaningful. Resources will be inefficiently applied as a result.

xxiv) Institutions extend from the family to Malta's parliament: they are centres of dialogue. We have to understand what renders a 'family' a useful instrument of personal empowerment and well-being. Equally, we have to find out what political set-up leads to as wide a consultation process as possible in order to render democracy truly participative. This is a learning exercise, since we are emerging from an environment where hierarchy, often gender-related, has been the norm. Participatory democracy, under clearly established rules, represents something else.

xxv) The 30 – 40 year old cohorts have a challenge ahead. They have to prove that, notwithstanding the top-down system to which they have been exposed for so long, they can rise to the occasion and adapt the future of these Islands to meet the challenges ahead. They have to show that the past decades have not cloned a managerial class that can only be adept at repetition. It can be innovative in its own interest and in the interest of the elder and younger generations. Working for one's fulfilment and for the well-being of the rest of the community – now stretched to incorporate the EU and eventually the Mediterranean basin – is the challenge ahead. It is in sync with the teaching of the Catholic Church.

xxvi) There is one important point of departure. Unless other human resources are harnessed from abroad, be they Maltese nationals or others, there are only 400,000 Maltese on whom to rely. The organisational structure has to be such as to account for this fact. It has to be simple, inter-related internally and inter-regionally, and effective. In this way it gives scope for individual active intervention in the productive process both within the Islands and 'outside' in the rest of EU and beyond. It fits perfectly the main tenets of Catholic social teaching.

References

Afonso, Antonio, Schuknecht, Ludger, and Tanzi, Vito, 2006, *Public Sector Efficiency: Evidence for New Member States and Emerging Markets*, European Central Bank, Working Paper Series, No. 581

Alesina, Alberto and Giuliano, Paola, 2007, 'The Power of the Family', National Bureau of Economic Research Working Paper 13051

Alesina, Alberto and Giavazzi, Francesco, 2007, *Il liberismo è di sinistra*, Milano, Il Saggiatore

Archdiocese of Malta, 1993, *Il-Katekiżmu tal-Knisja Kattolika, - Verzjoni bil-Malti*, Media Centre

Archdiocese of Malta, 2009, *Annual Report and Financial Statements – 31 December 2008*

Ariely, Dan, 2009, 'The End of Rational Economics', *Harvard Business Review*, July-August 2009: 78- 84

Arrow, Kenneth, 1951, *Social Choice and Individual Values*, Yale University Press, Second edition., 1963

Baccaro, Lucio and Lim, Sang-Hoo, 2006, 'Social Pacts as "Coalitions of Weak and Moderate": Ireland, Italy and South Korea in Comparative Perspectives', Massachusetts Institute of Technology

Bamberger, Michael, Rao, Vijayendra, and Woolcock, Michael, 2010, 'Using Mixed Methods in Monitoring and Evaluation: Experiences from International Development', The World Bank, Policy Research Working Paper 5245

Barber, Lionel, editor, *The Future of Capitalism*, London, Financial Times.

Barroso, José Mauel Durão, 2010, 'Driving European Recovery', Opening remarks at the press conference presenting the Commission's contribution to the Spring European Council, 4 March 2010.

Bezemer, Dirk J., 2009, '"No one saw this coming": Understanding financial crisis through accounting models', MPRA Paper No. 15892

Bissessur, Sanjay, 2010, 'Not an exact science but getting there', *Financial Times*, Thursday, April 29, 2010, page 10.

Boudreaux, Karol and Dragos Aligica, Paul, 2007, *Paths to Prosperity: Approaches to Institutional Change to International Development*, London, Institute of Economic Affairs

Bradley, Keith and Gelb, Alan, 1982, 'Motivation and Control in the Mondragon Experiment: The Replication and Sustainability of the Mondragon experiment', World Bank Reprint Series: 233.

Bragger, John E., and Hougen, Steven E., 1995, 'BLS introduces new range of alternative unemployment measures', *Monthly Labor Review*, October: 19 - 26

Brittan, Samuel, 2009, 'We do not prosper by income or happiness alone', *Financial Times*, Friday, September 4, 2009, page 9.

Budget Office, Malta, 2009, *Financial Estimates 2010*
Caruana, Mark, 2010, *The economics of happiness through children's perspective*, University of Malta, Dissertation – B.Com (Hons) Economics
Carter, Nancy M., and Silva, Christine, 2010, 'Women in Management: Delusions of Progress', *Harvard Business Review*, March 2010: 19 - 21
Casey, Terrence, 2006, *Mapping European Capitalisms and the Challenge of Social Context*, Paper presented at the Fifteenth International Conference of the Council of Europe Studies, Chicago, Illinois, March 29 – April 2, 2006
Cassar, Isabel, 2010, *Factors affecting fertility rates in the Maltese Islands*, University of Malta, Dissertation – B. Com (Hons) Economics
Cecchetti, Stephen, 2009, *Residential property price indices*, Bank for International Settlement
Central Bank of Malta, 2010, *Quarterly Review 2010:2*
Delia, E. P., 1987, *The Task Ahead: Dimensions, Ideologies and Policies*, Malta, Confederation of Private Enterprise (COPE)
Delia, E. P., 1998, *Towards Sustainable Welfare Programmes and Pensions in Malta*, Malta Chamber of Commerce, Research Monograph No. 1.
Delia, E. P., 2004, *Lessons from Economic Thought for Fiscal Discipline in Malta*, APS Bank Occasional Papers: 4
Delia, E. P., 2005, *The Economic Relevance of Agriculture for Malta's Economy*, APS Bank Occasional Papers: 5
Delia, E. P., 2006, 'Income Distribution, Social Cohesion and Sustainable Development: The Economy of Communion Model', *Papers on Malta's Political Economy*: 3-26, Malta, Midsea Books
Delia, E. P., 2006a, 'Economic Efficiency, Solidarity and the Co-operative Model: Lessons for Maltese Co-ops' in *Reconsidering Co-operatives*, APS Bank Occasional Papers: 6: 55 – 91.
Delia, E. P., 2006b, *Papers on Malta's Political Economy*, Malta, Midsea Books
Delia, E. P., 2006c, 'Rights, Compensation and the Market in Maltese Case Law', *Papers on Malta's Political; Economy*: 47 – 68, Malta, Midsea Books
Delia, E. P., 2006d, 'Overtaxed? A comment on the Maltese experience', *Papers on Malta's Political Economy*: 287 – 306, Malta, Midsea Books.
Delia, E. P., 2006e, 'Malta's Trade Account, Labour Costs and the Rate of Exchange of the Maltese Lira', *Papers on Malta's Political Economy*: 241 – 270, Malta, Midsea Books.
Delia, E. P., 2006f, 'Personal Consumption and Saving in Malta: Time Series and New Evidence', *Papers on Malta's Political Economy*: 271 -284, Malta, Midsea Books.
Delia, E. P., 2006g, 'A Contribution to Income Distribution Analysis in

Malta', *Papers on Malta's Political Economy*: 335 -337, Malta, Midsea Books.

Delia, E. P., 2006h, 'From Numbers to Individuals: The Elderly in Malta', *Papers on Malta's Political Economy*: 117 – 141, Malta, Midsea Books

Delia, E. P., 2006i, 'Housing Services, Rent Regulation and Finance: Impact on Economic Activity and Welfare', *Papers on Malta's Political Economy*: 358 – 376, Malta, Midsea Books

Delia, E. P., 2009, *Personal Well-Being, Social Values and Economic Policy Tools: Institutional Instruments and Welfare Support*, APS Bank Occasional Papers: 8

Department of Information, Malta, 2009, Speech by the Honourable Laurence Gonzi, Prime Minister, at a seminar held on Friday, 20 November 2009, organised by the Foundation *Pro Pontefice Centesimus Annus* regarding the Encyclical 'Caritas in Veritate' - Press Release no. 2019

Discern, Institute for Research on the Sign of the Times, Malta, 2009, *Malta: Sunday Mass Attendance – Census 2005*

Discern, Institute for Research on the Sign of the Times, Malta, 2010, *Experiencing Childhood in Malta*

Doucouliagos, Hristos and Stanley, T.D., 2008, 'Publication Bias in Minimum-Wage Research? A Meta-Regression Analysis' *British Journal of Industrial Relations*

Easterlin, Richard A, 2005, "Feeding the Illusion of Growth and Happiness: A reply to Hagerty and Veenhoven", *Social Indicators Research* 74, no.3: 429-43

Ebejer, Ivan and Mandi, Ulrike, 2009, *The Efficiency of Public Expenditure in Malta*, Ecofin Country Focus, Volume 6, Issue 2.

Economic Policy Division, Malta, 2009, *Economic Survey – November 2009*, Government Press

Economics Focus, 2009, 'Measuring what matters', *The Economist*, September 19, 2009, page 79.

European Commission, 2010, *The Attitudes of Europeans Towards Corruption, Eurobarometer 72.2, Results for Malta*

European Commission, 2010a, *Domestic Violence on Women, Eurobarometer 73.2, Results for Malta*

European Commission, 2010b, *Life in the European Union, Eurobarometer EB73, Results for Malta*

Fernandez, Raquel and Fogli, Alessandra, 2005, 'Culture: An Empirical Investigation of Beliefs, Work, and Fertility', National Bureau of Economic Research Working Paper: 11268

Fuhrer, Jeff, Olivei, Giovanni, and Tootel, Geoffrey M. B., 2009, *Empirical Estimates of Changing Inflation Dynamics*, Federal Reserve

Bank of Boston, Working Papers, No 09-4
Gates, Bill, 2008, 'Making Capitalism More Creative', *Time*, July 31, 2008
Grech, Mario, 2010, 'Biex nagħtu wiċċ uman lis-soċjetà'
Grima, Noel, 2010, 'Based solely on emotion, economic policy can lead us to the Greeks', *The Malta Independent on Sunday*, 21 March 2010, p.15.
Guinnane, Timothy W. and Martinez-Rodriguez, Susana, 2010, 'Did the Cooperative Start Life as a Joint-Stock Company? Business Law and Cooperatives in Spain, 1869 – 1931', Yale University, Economics Department Working Paper No. 81
Hausmann, Ricardo, Tyson, Laura D., and Zahidi, Saadia, 2009, *The Global Gender Gap Report*, World Economic Forum
Hawthorne, James, 2010, 'Voting in Search of the Public Good: the Probabilistic Logic of Majority Judgements', hawthorne@ou.edu
Heracleous, Loizos and Lan, Luh Luh, 2010, 'The Myth of Shareholder Capitalism', *Harvard Business Review*, April 2010:24
Hoff, Karla, and Stiglitz, Joseph E., 2010, 'Equilibrium Fictions: A Cognitive Approach to Societal Rigidity', The World Bank, Policy Research Working Paper 5219
Holahan, Catherine, 2009, 'The real unemployment rate? Try 15.6%', *MSN Money*
Inguanez, Joe, 2009, 'On leaving the 51 per cent' in Discern, 2009.
International Monetary Fund, 2009, *Malta – 2009 Article IV Consultation, Concluding Statement of the Mission*, Valletta, June 22, 2009
Kanter, Rosabeth Moss, 2010, 'Powerlessness Corrupts', *Harvard Business Review*: July-August 2010:36
Kaufmann, Eric, 2009, 'Shall the Religious Inherit the Earth? : Demography and Politics in the Twenty First Century'
Kay, John, 2009, 'Do not discount what you cannot measure', *Financial Times*, Wednesday, September 23, 2009, page 13
Kay, John, 2010, 'Economics may be dismal, but it is not a science', *Financial Times*, Wednesday, April 14, 2010, page 11.
Knotek 11, Edward S., 2007, 'How useful is Okun's Law?, *Economic Review*, Federal Reserve Bank of Kansas, Fourth Quarter:73 – 193
Kummissjoni Inter Djocesana – Zjara tal-Papa, 2010, *Benedict XVI in Malta: 17 – 18 April 2010*
Kummissjoni ghat-Tisħiħ tal-Koperattivi, 2009, *Rapport lill-Ministru għall-Politika Socjali mill-Kummissjoni għat-Tisħiħ tal-Koperattivi*, Malta, Ottubru 2009
Layard, Richard, 2005, *Happiness: Lessons from a New Science*, London, Penguin
Lin, Justin Yifu, 2010, 'New structural Economics: A Framework for

Rethinking Economics', The World Bank, Policy Research Working Paper, 5197

List, Christian and Goodin, Robert E., 2001, 'Epistemic Democracy: Generalising the Condorcet Jury Theorem', *Journal of Political Philosophy* 9: 277 - 306

Lubich, Chiara, 2006, *Essential Writings*, London, New City

Luckey, William R., 2000, 'The intellectual origins of modern Catholic social teaching on economics: an extension of a theme of Jesús Huerta de Soto', Austrian Scholars Conference, Auburn University, March 2000

Luttmer, Erzo F.P., and Singhal, Monica, 2009, 'Culture, Context, and the Taste for Redistribution'

Mallia, Pierre, 2009, 'Dumping children on grandparents', *The Malta Independent*, Malta, 30 September, 2009

Martin, Roger, 2010, 'The Age of Customer Capitalism', *Harvard Business Review*, January-February 2010: 58 – 65.

Martin, Stephen, 2000, *The Theory of Contestable Markets*. Purdue University

Media Centre, 1990, *Peter on the Island of Paul, Volume Two – The Speeches Delivered During the Visit.*

Malta Environment and Planning Authority and National Statistics Office, Malta, 2010, *The Environment Report, 2008*

Maltatoday, 2010, 'Maltese Catholics: à la carte believers? Survey results, Sunday, 4 April, 2010.

Megginson, William L. and Netter, Jeffry M., 2001, 'From State to Market: A Survey of Empirical Studies on Privatisation', *Journal of Economic Literature*, June.

Minford, Patrick, 1998, *Markets not Stakes: The Triumph of Capitalism and the Stakeholder Fallacy*, Orion Business Books

Ministry of Finance, the Economy and Investment, Malta, 2010, *Pre-Budget 2011: Ideas, Vision, Discussion*

Ministry for Social Policy – Strategy and Sustainability Division, Malta, 2009, *National Report on Strategies for Social Protection and Social Inclusion: 2008 - 2010*

Montebello, Mark, 2010, 'Irridu stat lajk', in *Torca*, 7 March, 2010, page 27.

Muscat, Joseph, 2009, 'L-Impenn ghall-Iżvilupp soċjo-ekonomiku f''Malta fid-dawl ta' l-Enċiklika Caritas in Veritate' – Diskors mill-Kap ta' l-Oppożizzjoni, il-Ġimgħa 20 ta' Novembru, 2009.

Myrdal, Gunnar, 1968, *Asian Drama: An enquiry into the poverty of nations*. New York, Pantheon Books

National Statistics Office, Malta, 2008, *World Population Day 2008 -* News Release, 125/2008.

National Statistics Office, Malta, 2009, *Demographic Review 2008*
National Statistics Office, Malta, 2009a, *International Day of Persons with Disabilities*, NSO News Release, 216/2009
National Statistics Office, Malta, 2009b, *Social Security Benefits: ALocality Perspective 2009*
National Statistics Office, Malta, 2009c, *Accrued-to-date Pension liabilities: 2006 – 2007*, NSO News Release, 058/2009
National Statistics Office, Malta, 2010, *Survey on Income and Living Conditions – 2008*
National Statistics Office, Malta, 2010a, *Children 2010 – Official Statistics of Malta*
National Statistics Office, Malta, 2010b, *Household Budgetary Survey, 2008*
National Statistics Office, Malta, 2010c, *Labour Force Survey: Q1/2010*, NSO News Release, 120/2010
National Statistics Office, Malta, 2010d, *Gross Domestic Product for Q2/2010*, NSO News Release, 169/2010
National Statistics Office, Malta, 2010e, *Economic Accounts for Agriculture: 2009*, NSO News Release, 165/2010
National Statistics Office, Malta, 2010f, *International Economic and Financial Transactions: Q1/2010*, NSO News Release, 116/2010
National Statistics Office, Malta, 2010g, *Social Protection: Malta and the EU 2009*
National Statistics Office, Malta 2010h, *Expenditure of General Government Sector by function 2004 – 2008*, NSO New Release 016/2010
Neumark, David and Wascher, William, L., 2008, *Minimum Wages*, Cambridge, Mass: The MIT Press
North, Douglass C, 2005, *Understanding the Process of Economic Change*, Princeton, Princeton University Press
O'Brien David and Shannon, Thomas A., 2004, *Catholic Social Thought: The Documentary Heritage*, Orbis Books
Office of Fair Trading, United Kingdom, 2010, *The impact of price frames on consumer decision making*
Office for Social Justice, Archdiocese of St Paul and Minneapolis, 2009, 'Major themes from Catholic Social Teaching'
O'Keeffe, Dennis, editor, 2004, *Economy and Virtue: Essays on the Theme of Markets and Morality*, The Institute of Economic Affairs
Olstrom, Elinor, 2009, 'Beyond Markets and States: Polycentric Governance of Complex Economic Systems' (Nobel Prize Lecture, Economics, 2009)
Organisation for Economic Co-operation and Development (OECD), 2010, *Employment Outlook*

Ratzinger, Joseph, 2007, *Gesù di Nazaret* , Milano, Rizzoli

Reflection Group on the Future of the EU 2030, 2010, *Project Europe 2030: Challenges and Opportunities – A Report to the European Council*

Reinhart, Carmen M., and Rogoff, Kenneth S., 2010, 'Growth in a time of Debt'

Rice, James Mahmud, Goodin, Robert E., and Parpo, Antti, 'The Temporal Welfare State: A Crossnational Comparison', *Journal Of Public Policy*, **26,** 3:195 -228

Rifkin, Jeremy, 2010, 'Towards the empathic civilisation', *Financial Times*, March 17, 2010:9.

Rösch, Michael, 2009, 'The German Social Market Economy and its transformations'

Rouse, John and Juhasz, Janos, 2006, 'FAO experience in Agriculture Co-operative Development Assistance', in *Reconsidering Co-operatives*, APS Bank Occasional Papers: 6:95 – 120

Saiz, Albert, 2002, 'Democracy to the Road: The Political Economy of Potholes', Federal Reserve of Philadelphia, Working Paper No. 02-17

Saviano, Roberto, 2008, *Gomorra: Italy's Other Mafia*, Pan Books

Seldon, Arthur, 2007, *Capitalism: A Condensed Version*, Institute of Economic Affairs

Skidelsky, Robert, 2010, 'Once again we must ask: 'Who governs?'', *Financial Times*, Thursday, June 17, 2010:11

Stevenson, Betsey and Wolfers, Justin, 2008, *Economic Growth and Subjective Well-Being: Reassessing the Easterlin Paradox*, Brookings Papers on Economic Activity Spring 2008

Stiglitz, Joseph, E., Sen, Amartya, and Fitoussi, Jean Paul, 2009, *Report by the Commission on the Measurement of Economic Performance and Social Progress*

Tavares, Jose and Wacziarg, Romain, 2001, 'How Democracy Affects Growth', *European Economic Review*, 45: 1341 – 1378

Tettamanzi, Dionigi, 2009, *Etica e Capitale: Un'altra Economia è davvero possible?* Milano, Rizzoli

The Economist, 2010, 'Agents of Change', July 24, 2010: 64

The World Bank Group, 2007, *Poverty Manual*

Tullock, Gordon, Seldon, Arthur and Brady, Gordon L., 2000, *Government: Whose Obedient Servant? A Primer in Public Choice,* London, Institute of Economic Affairs Readings: 51

Wagstaff, Adam, 2010, 'Benefit Incidence Analysis: Are Government Health Expenditures more pro-rich than we think?' The World Bank, Policy Research Working Paper 5234

White, Stuart, 2004, 'Social Minimum', *Stanford Encyclopedia of Philosophy*

Wohlin, Lars, 2010, 'Swedish Lessons cannot be applied to eurozone', *Financial Times*, Tuesday, June 15, 2010:8

Woods, Thomas, E., Jr, 2007, 'The unanswered questions of the just wage' in Philip Booth, editor, *Catholic Social Teaching and the Market Economy*,: 91 – 109, London, The Institute of Economic Affairs

Zammit Cutajar, Rachel, 2010, 'The changing face of charity', MaltaToday (http://www.maltatoday.com.mt) 09/06/2010

APS Bank Seminars Proceedings Series

2001	*Water and Agriculture in a Competitive Environment*
2002	*The Code of Conduct for Responsible Fisheries and its Implementation in the Mediterranean*
2003	*Ecosystem Based Fisheries Management in the Mediterranean*
2004	*The Future of Co-operatives in the Agriculture & Fisheries Sectors*
2004	*Il-Ġejjieni tal-Kooperattivi fis-Setturi tal-Biedja u s-Sajd*
2005	*Insuring the Agriculture & Fisheries Sectors in the Maltese Islands*
2006	*Future Products for the Agriculture and Fisheries Sectors in Malta*
2007	*Safeguarding Water Resources in the Maltese Islands*
2008	*Waste Management and a Viable Economy*
2009	*Ecosystems Based Fisheries Management Revisited*

Occasional Papers Series

1. E.P. Delia, *Keynote Speeches 2000 – 2001* (2nd Edition), 2002

2. E.P. Delia, *Retirement Pensions in Malta: A Holistic Approach*, 2003

3. E.P. Delia, *Malta's SME's in the EU: New Realities and Old Structures*, 2004

4. E.P. Delia, *Lessons from Economic Thought for Fiscal Discipline in Malta*, 2004

5. E.P. Delia, *The Economic Relevance of Agriculture for Malta's Economy*, 2005

6. David Fabri, E.P. Delia, et. al., *Reconsidering Co-operatives: Lessons for Maltese Co-ops*, 2006

7. E.P. Delia (editor), *Evolving Legislation on Consumer Credit and Trade Practices: Stimulus or Drag on Economic Activity*, 2007

8. E.P. Delia, *Personal Well-Being, Social Values and Economic Policy Tools: Institutional Instruments and Welfare Suppor*t, 2009

Catholic Social Teaching, Economic Thought and Four Hundred Thousand Maltese

E.P. Delia

ISBN 978-99932-697-6-2

APS bank