

RESEARCH ARTICLES

Understanding Growth Policies and Economic Success: Iceland and Malta, 1945-1980

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This paper analyses how the small European island nations of Iceland and Malta transitioned from economic dependence to thriving development between 1945 and 1980. Both faced significant challenges during this era, marked by postwar global and European political volatility. In 1945, the newly established Republic of Iceland exhibited a significantly stronger economy than the non-sovereign island of Malta. The economy of Malta, which gained independence in 1964, grew faster than the Icelandic economy in the 1960s and 1970s despite a significantly lower output. By 1980, Malta had narrowed the output gap with Iceland. The paper examines the factors that contributed to the different growth rates of the two island economies during the period under review. Selected growth policies and plans adopted by both governments will be examined and compared, along with shifts in their respective political emphases, based on analytical frameworks and scholarly perspectives of dependency theory, small island studies scholarship and comparative political economy.

1. Introduction

In the postwar era, Iceland and Malta were, and still are, archetypes of European developed small island states, differing significantly from developing small island states elsewhere in the world. Geographical factors, including location and natural resources, as well as political economy and differing dependency relationships with their mother countries, help explain why Iceland and Malta took distinct growth paths between 1945 and 1980, even though they sometimes converged. Iceland is a large island located far out in the North Atlantic Ocean, and its resources—primarily from the ocean—shaped its economic life during the 20th century. Malta, on the other hand, is a small island in the heart of the Mediterranean Sea, where its main asset has been its strategic value to foreign powers (Fenech, 2014; S. Jónsson, 2022, 2024; Wivel, 2020).

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This paper aims to examine how growth policies helped Iceland and Malta transition from less-developed economies before the Second World War to becoming self-sustaining, export-based developed countries by 1980. The comparison will provide a broader context that extends beyond the study of a single island state, encouraging reciprocal inquiries into different economic structures, industrial and labour market challenges, diverse political systems and public policies. Chronic economic, industrial and political issues, or policy choices, in one island state may have been less pronounced or resolved more amicably in the other.

Both countries found themselves at a crossroads after the Second World War, facing urgent restructuring needs as the global and European political and economic landscapes influenced them. In 1945, Malta had a relatively low level of economic output and standard of living. It was described as a “fortress economy,” heavily dependent on military and war-related expenditures from the UK. Conversely, Iceland was a newly established republic with a significantly higher economic output than Malta, although it relied on a single export industry: fishing. Both nations needed to diversify their economies, strengthen their export bases, invest in infrastructure, improve living standards, and enhance public services. While unemployment was a critical issue in Malta, it was not a significant concern in Iceland. Many Maltese citizens emigrated, particularly to Australia. Both countries relied on solid political alliances and trade relations with other countries, with Malta depending on financial support from the UK government to sustain its postwar growth.

By 1980, Iceland had made significant progress, emerging as one of the most prosperous countries in Europe. It established itself as an active participant in global trade and political alliances rather than remaining a dependent recipient. Important milestones on its path to economic strength and independence included EFTA membership in 1970 and the extension of its fishing limits to 200 miles in 1975. In contrast, Malta became an independent state in 1964 and a republic in 1975, showing a significantly improved economy and a growing independent stance in its foreign relations. By 1979, Malta was no longer reliant on payments from the UK government and had successfully strengthened its export-driven manufacturing sector, which foreign investments and the transfer of manufacturing technology during the 1960s and 1970s had bolstered.

This paper will examine the developmental experiences and pertinent growth policies of Iceland and Malta, as well as their evolving comparative political economies. It will begin with an overview of methodology and the central thesis. It will examine the strategies and policies within the following economic spheres or policy domains:

- National politics, growth strategies and foreign relations.
- Public investments – infrastructure, businesses and equities.

- The principal export-driven business sectors.

These three spheres or policy domains were chosen due to their comparability between Iceland and Malta during the period under review, reflecting their progress from economic and political dependency to self-reliant, export-driven economies.

2. Methodology and Central Thesis

Iceland and Malta exhibited distinct growth paths, growth policy choices, external political alliances, geographical locations, resource endowments and economic structures. The central thesis posits that the chosen development strategies and related growth policies can be understood and examined through the context provided by the following three analytical frameworks:

- Dependency theory: The development from a dependency on a mother country relationship to an independent developed state.
- Small island studies scholarship: During the period reviewed, the island status set the context, backdrop and limitations that framed challenges and opportunities to grow.
- Comparative political economy: Examines the interrelationship between politics and economics. In small island states, the government generally plays a dominant role in the economy; therefore, the development process becomes a key theme in political economy.

2.1. Dependency theory

The nucleus of dependency theory is the external dependence of small, open economies on the international system for their growth. Such dependence may differ in nature and scope across countries and over time, but, according to the theory, it will influence economic growth. Initially, dependency theory was applied to analyse underdevelopment as caused mainly by the peripheral position of developing countries, which offered cheap labour and raw materials to the benefit of developed countries. The theory posits that former colonies remained underdeveloped due to the structural conditions imposed by colonialism (Munoz, 1981; Prebisch, 1988). In a more modern context, dependency theory helps comprehend the progress of small, open economies that rely on exports, foreign income, foreign investments, foreign aid, as well as external political and economic alliances.

Figure 1

Dependency theory has been applied in the analysis of Malta's political and economic history, but less so in the case of Iceland. Oglethorpe (1983) analysed the relevance of dependency theory in Malta. He concluded that dependency themes could help evaluate Malta's development process. In the early 1980s, Malta faced a crisis of dependence that was somewhat more severe than the one the island had faced at independence in 1964, due to excessive reliance on subsidiaries of multinational corporations (MNCs).

Spiteri (2004) examined the island's transformation from a naval and military-based colony, heavily dependent on British military expenditures in the 1950s and 1960s, to its evolution into a self-reliant modern industrial and service economy. Malta's dependency relations with Britain, especially since the late nineteenth century, had become uniquely forceful. The stage had been reached when the island's dependency on British defence spending had become absolute. Consequently, the island's further internal development inevitably and unavoidably became a function of Britain's overall strategy in the Mediterranean.

Dependence in Iceland, from 1945 to 1980, was primarily based on three external pillars. Firstly, volatile export markets for fish products in the US, Europe, and the Soviet Bloc, which, along with undisciplined domestic policy processes, led to fluctuating exchange rates, monetary instability, and variable but strong export earnings. Secondly, the country's strong political and multifaceted economic alliances and trade with the US, partly due to its membership in NATO. Thirdly, the growing European economic cooperation, as EFTA membership in 1970 marked the first formal step (S. Jónsson, 2023, 2024). The key attributes of dependency theory, as an analytical concept applied to this study, are highlighted in Figure 1.

2.2. Small island studies

How do island processes and 'islandness' affect and shape the development of small island states? Baldacchino (2004) presented an insight into the emerging academic field of 'island studies', defined as the interdisciplinary study of islands on their own terms. His exposé was undertaken both conceptually and analytically. The island status has set the context, backdrop, and limitations that have framed the challenges and opportunities for small island states to grow. Some have taken advantage of immense strategic value based on their unique location, others have become tourist attractions or global financial hubs, and still others are rich in resources.

Small island states share several common characteristics: low population levels, small domestic markets, open economies, economic vulnerability, high dependence on trade and foreign relations and external transport links based on shipping and aviation. Many small island states have been recognised for their success in international relations, which has proven vital to their

foreign trade endeavours. (Armstrong & Read, 2003, 2006; Baldacchino, 2023; Baldacchino & Wivel, 2020; Bertram & Poirine, 2018; Briguglio & Vella, 2018; Poirine, 2014; Thorhallsson, 2018).

Small island states, such as Iceland and Malta, have faced a paradox: they have needed to trade due to their limited internal markets, but have suffered from high transport costs that diminish the benefits of trade. Empirical findings by McElroy & Lucas (2014) suggest that remoteness negatively impacts economic performance, whereas political ties to larger countries positively enhance it. Small states face unique challenges and opportunities in the global economy due to their size and institutional capacities.

2.3. Comparative political economy

The literature on comparative political economy argues that economics alone cannot fully explain variances in growth and policy choices. Historical evidence suggests that the smaller a state, the more dominant the government's role will be in the local economy. Creating and sustaining growth in small island states has been critically determined by political decisions in response to local or global market conditions, over which the small island state has little or no control (Baldacchino & Wivel, 2020; Bertram & Poirine, 2007). Most governments of small island states, including those of Iceland and Malta, have dominated the local economy as employers, investors, controllers, and landowners. They have, furthermore, issued contracts and licences to service providers, often in oligopolistic or monopolistic situations, which have at times distorted competition. The private sector has tended to concentrate in one or two export sectors, which have been controlled, taxed, or subsidised by the state (S. Jónsson, 2024). Enlightening political-economic analyses, relevant for the study era and broadly applicable to both Iceland and Malta, are provided by Tabb (1999), Drazen (2000), Persson and Tabellini (2000), and Stilwell (2002).

3. From Dependence to Development: Iceland and Malta Compared

Iceland and Malta experienced dissimilar growth paths and political developments in the postwar period until the early 1960s, after which their political institutions, foreign relations, and economic policies became more akin, as is contrasted and compared in Table 1 (S. Jónsson, 2023, 2024). Post-war Iceland was at a more economically advanced stage than Malta. Iceland had severed all economic ties to its former mother country, Denmark, by the time of the First World War (Hálfðánarson, 2006). By the end of the Second World War, Iceland had a stronger national economy than many war-torn Western European countries; however, it remained a relatively underdeveloped country in many respects. Infrastructure was basic and non-existent in many parts of the island, and the economy was mainly at a pre-industrial level, except in the fisheries sector. The educational level was low, and farming was basically at a pre-mechanised subsistence level. The majority of the population lived in rural areas.

During the period under review, fish exports were the *sine qua non* of Iceland's economic development and the focus of national growth policies. Iceland's membership in NATO since 1949, along with its strong political and economic relations, made Iceland heavily dependent on the United States in the 1950s and 1960s. The US built a large military base and an international airport in Iceland. The US became the principal export market for frozen fish products. It exported machinery, tools, and vehicles to Iceland. The US concluded a defence agreement under NATO with Iceland in 1951, and the two states signed a bilateral aviation agreement allowing Icelandair (Loftleiðir) to fly between the US and Europe. Iceland received Marshall Plan aid from the US in the early 1950s. Iceland relied to a great degree on Europe for bilateral trade, based on fish exports. It joined EFTA in 1970 and signed a free trade agreement with the EEC in 1972. Iceland traded with the Soviet Union and the Warsaw Pact countries during the 1960s and 1970s. It was a barter trade where Iceland exported fish products and imported a range of goods, including oil, steel, and vehicles. The power-intensive aluminium production gained a foothold in the 1970s as a secondary national export sector, based on foreign investments and technology.

Table 1

The main challenges facing Iceland in the 1960s and 1970s were the mammoth task of developing the country's infrastructure, the confrontation with the UK and other fishing nations over control of the fishing grounds and the need to maintain access to European seafood markets in an era of growing economic and trade cooperation in Western Europe, which was the drive behind Iceland's EFTA membership in 1970. Another important task was diversifying the export economy from its excessive dependence on fish exports. The global oil crisis, frequent devaluations of the Icelandic króna, hyperinflation, a lack of monetary stability, over-investments in fishing vessels and fish plants, extensive transfers, and rising public debt marked the 1970s. The extension of fishing limits to 50 miles in 1972 and 200 miles in 1975 was a significant turning point for the fisheries.

Malta's dependency relations with Britain had become uniquely forceful during the Second World War. Consequently, the island's further internal development inevitably and unavoidably became a function of Britain's overall strategy in the Mediterranean (Fenech, 2014). For this reason, unemployment on the island was practically non-existent during the war. The British government began laying off employees in Malta's dockyards in significant numbers in the 1950s and 1960s. Malta's strategic location as a British military outpost in the Mediterranean weakened after the 1956 Suez Canal debacle (British Government, 1957, 1963). It became clear to the Maltese self-governments in the 1950s and early 1960s, and to the government after independence in 1964, that other types of industries were needed to provide employment for displaced dockyard workers and to secure future economic growth; otherwise, those seeking work were encouraged to emigrate (Stolper et al., 1963).

Malta, despite gaining independence in 1964, was severely affected by the declining defence spending of its former imperial ruler, had no natural resources to speak of, and was in urgent need of economic growth and diversification, which could only be achieved through the attraction of foreign investment. Malta was economically under the wing of the British government until the 1970s, after which it pursued a more independent attitude in international relations. Mintoff, Malta's Prime Minister from 1971 to 1984, pursued quite eventful foreign relations during his tenure. He stretched Malta's alliances to Libya, the rest of the Arab World, Eastern Europe and China. Libya exported oil to Malta after British forces left in 1979 (Fenech Adami, 2014).

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

4. National Growth-enhancing Strategies

4.1. Iceland

Iceland's strategies and policies for promoting growth varied significantly from those of Malta. For instance, profits from fish exports during the Second World War were reinvested in modernising the fishing fleet and upgrading fish processing plants. However, over-investments in the fisheries sector, combined with the return of foreign trawlers to fishing grounds after the war, soon resulted in declining catches and unprofitable operations. To address these issues, the government implemented measures aimed at stabilising the fisheries sector. Monetary and foreign exchange policies were adjusted to support the industry, and a system of transfers and subsidies was introduced. An export tax was imposed on fish exports, and devaluations of the Icelandic króna became common in the following decades. The 1950s were characterised by extensive government intervention in the national economy.

The coalition government that held office from 1959 to 1971 introduced various stabilisation policies and trade liberalisation measures. From 1961 to 1967, a boom in the herring industry had a positive impact on the economy. During this period, extraordinary growth policies were unnecessary, except for extending and modifying the country's inferior infrastructure. However, a brief recession in 1968-1969, triggered by the collapse of herring stocks, resulted in new government efforts that evolved in the 1970s to address changing needs.

In 1971, a new coalition government consisting of the Progressive Party and two left-wing parties took office. Their agenda included the establishment of a new centralised economic development and planning institution, which was approved by an Act of Parliament in December 1971. In the early 1970s, the government initiated expensive capital investment programmes, primarily funded by foreign loans.

The extensive investment schemes led to an overheated labour market in the 1970s, contributing to skyrocketing inflation, while also increasing prosperity for the working population. At the end of the 1970s, Iceland faced mounting foreign debts, overcapacity in its fishing fleet and plants, overfishing and diminishing returns in the fishing industry. As a result, the economy suffered during this period, and inflation rose significantly (Nordal, 1981, 1992, 2022). The government was repeatedly compelled to devalue the Icelandic króna (ISK).

Overall, Iceland experienced sustained but variable economic growth during the 1960s and 1970s. The government's planning approach involved excessive political control over investment loans, subsidies, and grants. Generally, a short-term perspective prevailed, with plans often created in response to crises rather than reflecting long-term, strategic, and proactive thinking (Nordal, 2022). Iceland's centrally planned efforts were devoted to infrastructure investments, agricultural support and subsidies, fisheries capital investment programmes, and extensive fisheries transfers and subsidies, as explained earlier. Unlike Malta, Iceland lacked the parental or guardian discipline and financing necessary for effective development planning during the 1960s and 1970s. The country's monetary, fiscal, and foreign exchange policies also regressed in the tumultuous 1970s.

4.2. Malta

Various government advisors assessed the prospects of the Maltese economy during and after the war. Reports by Macleod (1943), Woods (1945), Schuster (1950), Balogh and Seers (1955), Schuster and Scott (1957), and Stolper et al. (1963), as well as Malta's first development plan (Malta Department of Information, 1959), laid the groundwork for Malta's post-war growth policies. These reports advocated for export-led manufacturing growth, supported by foreign investments and technology, with Malta providing a technically trained workforce, tax incentives, and facilities in industrial parks.

The Balogh and Seers (1955) report, prepared for the Maltese self-government, provided valuable insights into the Maltese economy in the mid-1950s. They described the civilian economy as an “economic fossil.” The report highlighted a unique economic situation characterised by a reliance on employment funded by the UK and expenditures from the British armed forces stationed in Malta. Exports were minimal compared to imports. Most food was imported. Mass emigration had resulted in a loss of skilled and talented individuals, many of whom never returned. In response to these challenges, the British government advised and supported a development plan for Malta. The British Forces operated like an independent economic unit; their payments for salaries, services, and other expenditures were not recorded as export income. Much of the imports to Malta were financed by income generated from the British Forces, benefiting both Maltese residents and British service members.

The first five-year development plan, which ran from April 1, 1959, to March 31, 1964, was launched on October 14, 1959, through a British government initiative, as Malta did not yet have self-government. The Secretary of State approved the plan in August 1959, and it was revised in July 1961. Over the five years, the British government contributed £29 million towards the capital development program of the plan, which included converting the dockyard to civilian use and encouraging new industries. The Maltese government also provided £3.25 million in loans. There was a pressing need for a power station, and industrial policies required significant changes. Generally, industrialists looking to invest in new projects in Malta preferred to rent facilities on industrial estates rather than build their own factories. The plan aimed to enhance funds for factory construction (Malta Department of Information, 1959, 1961).

The Second Development Plan was prepared by Malta’s self-government, rather than the British representatives on the island (Malta Department of Information, 1964). This plan was reportedly developed with the assistance of the UN Mission in 1963, as detailed in the Stolper Report (1963). The primary recommendations from the Stolper Report were to create a viable export economy, establish a new Development Corporation, set up a Freeport, establish a Central Bank, lower import duties, and implement a capital investment program.

In his assessment of the plan, Simpson (1969) concluded that there had been an accelerated reduction in defence employment, significant growth in employment in tourism and industry, and an expansion of construction activity. Economic progress in Malta in the 1970s was influenced by other developments and events that overshadowed the plans, including:

- Malta signed an Association Agreement with the European Economic Community (EEC) in 1970, which came into force on April 1, 1971. The agreement aimed to eliminate trade obstacles between Malta and the EEC.

- In March 1972, a new agreement was signed with the UK government regarding the use of land for military facilities in Malta. This agreement remained in effect until March 31, 1979, during which time the UK paid Malta a total of £100 million from 1972 to 1979.
- The closure of the Suez Canal from 1967 to 1975 reduced marine traffic through the Mediterranean, negatively impacting the Malta dockyard's business prospects.
- A change in government in 1971 led to a shift in political direction and foreign relations. The new government placed less emphasis on development plans and adopted economic controls and import-substitution policies instead of promoting international trade.

5. Public Investments: Infrastructure, Businesses, and Equities

5.1. Iceland

Developing the post-war infrastructure was a monumental task for the state, which took decades to reach modern standards for the entire island, encompassing roads, harbours, airports, electricity, water, sewage, and telecommunications. Such projects were primarily funded through foreign loans, which were repaid over several decades through user fees and other revenue streams. Local authorities were also involved in various infrastructure developments in their towns.

The public investment efforts of the 1970s can be broadly categorised into five principal types of investment programs, in addition to substantial agricultural support schemes:

- State-funded capital investment schemes for renewing the trawler fleet and fish plants (Framkvæmdastofnun ríkisins, 1974).
- State-funded rebuilding programme of the small island of Vestmannaeyjar after massive damage to this fishing town caused by a volcanic eruption in 1973 (Viðlagasjóður, 1977).
- In the mid-1970s, the government initiated a programme of new geothermal projects for heating houses in response to surging global oil prices.
- The National Power Company invested in new hydro-power projects, and foreign investors were attracted to power-intensive metallurgical industries (Nordal, 1979, 1980).
- In the 1970s, significant state investments were made in infrastructure all over the island.

During the latter half of the twentieth century, significant investments were made in state- and community-owned enterprises. Key investors included the state, local authorities, community-owned cooperatives, and the National Federation of Cooperatives (SÍIS), which held extensive business investments both in Iceland and internationally. With limited private capital available, investments in commercial enterprises often relied on funding from state-owned banks and investment funds. As a result, state- and community-owned enterprises came to dominate government-controlled markets, such as banking, power, water, harbours, dairy factories, and abattoirs.

During the post-war period, several local authorities and cooperatives invested in deep-sea trawling companies and fish processing plants. They were primarily funded through loans from state-owned investment funds and banks. The state utilised Marshall Plan aid in the early 1950s to invest in fish plants, manufacturing facilities, and power projects (Gunnarsson, 1996).

A profile of state-owned enterprises in the 1960s and 1970s reveals a diverse portfolio of companies. The state played a leading role as an investor, developer, producer, distributor, and regulator in the electrical power sector and was also a key player in the local geothermal sector. It dominated the banking sector and the most significant investment funds. The state owned the national broadcasting company, as well as telephone and postal services, and the aviation authority. The state made investments in industrial production, which included a fertiliser plant, a cement factory, and fish meal processing plants. It also invested in a geothermal-powered silica plant and another plant for silicon products. Additionally, the state invested in a construction company that served the US government at the NATO base in Keflavik. The involvement of the state, local authorities, and cooperatives in Icelandic business life and economic activities was almost boundless in the post-war period and until the 1980s, with limited opportunities for private investors.

5.2. Malta

In the post-war period, Iceland had a strong but volatile economy, whereas Malta's economy was weak but had better infrastructure. Malta's primary task was to strengthen the economy through exports, create more jobs, and reduce emigration, with a lesser emphasis on infrastructure investments. After gaining independence, Malta saw increased government involvement in economic activities and business operations, as well as a rise in state ownership of commercial enterprises. The Nationalist government implemented several policies from 1964 to 1971, including five-year development plans, the expansion of industrial estates, and incentives to attract foreign direct investment in export-based manufacturing (Malta Department of Information, 1964, 1970).

During the Labour Era, from 1971 to 1987, state investments in the economy grew significantly, particularly through the takeover of services previously owned and controlled by the British government. Labour policies during this period focused on generating employment and developing

essential services, while private sector initiatives were lacking. The business environment in the 1970s was characterised by high tariffs, a limited local market, a weak private sector, and stagnant operations under the British administration. Residents and community groups on the island were seeking more jobs, economic growth, and an improved standard of living.

Between 1971 and 1987, the Maltese state made significant investments in the economy. Various Acts of Parliament established corporations, including Malta Drydocks, Enemalta Ltd. (for electricity), and Telemalta Ltd. (for telecommunications). The government treasury held shares in Air Malta and several banks (Scicluna, 1993). The Malta Development Corporation (MDC) managed shares on behalf of the state in various commercial enterprises. By 1987, it had held shares in 25 companies, seven of which were wholly owned by the state.

In the early 1970s, the government sought to nationalise several companies owned by foreign investors. It established new enterprises, including Air Malta, and acquired foreign-owned manufacturing companies that were ceasing operations due to financial difficulties. The Malta Development Corporation took over a few bankrupt foreign-owned subsidiaries and converted them into parastatal companies or workers' cooperatives to preserve jobs (Brincat, 2008).

Malta also formed joint ventures with foreign government-owned investment agencies from Libya, China, and Czechoslovakia, as well as private companies from the UK, France, and Switzerland. The state invested in export-based manufacturing to create jobs and provide an alternative to further inward foreign direct investments. The results were mixed; some initiatives, such as a troubled chocolate factory, ended in liquidation. It became clear that government-run businesses thrived in monopolistic situations but struggled when competing in foreign markets. By the end of 1987, 40 state-owned companies had either ceased operations or were in the process of liquidation (Scicluna, 1993).

Around the time of independence, it was evident that the Malta dockyard was run-down and outdated. It was loss-making, overstaffed, and of immense importance to the island's economy. It was politically sensitive, facing bleak business prospects, and in need of substantial new investments and a revamped business strategy for future survival. Earlier, the British government had determined that, due to changes in its defence policy, it could no longer justify the operation of the dockyard, which employed approximately 9,000 people. Consequently, the burden of liability for the dockyard was essentially transferred to the Maltese government after independence through a series of negotiated steps spanning two to three decades.

6. The Principal Export-driven Business Sectors

6.1. Iceland

Export-led growth policies targeting business sectors in Iceland during the 1960s and 1970s primarily focused on the fishing industry and power-intensive metallurgical plants (Gunnarsson, 1989). In the 1970s, regional policies gained significant political importance, offering additional incentives and support for sparsely populated areas, particularly those with a strong fishing industry presence and limited alternative opportunities.

Throughout the second half of the twentieth century, the fishing industry emerged as Iceland's most significant economic activity and its primary source of export income, accounting for 59% of the country's total export income in 1980. Technological advancements and substantial state-funded investments played a crucial role in the industry's development and expansion during the post-war period, modernising the fleet, fish processing plants, and export marketing strategies. From the 1950s to the 1980s, the industry's economics were regulated through complex transfer and redistributive schemes funded by income from export levies on fish products and 'devaluation gains' (Árnason, 1994; B. B. Jónsson, 2002; S. Jónsson, 1984).

In the 1970s, the government initiated a massive investment program for the deep-sea trawler fleet and freezing plants, as previously mentioned. By 1977, however, the trawler fleet had exceeded its capacity, leading to various government measures over the years to restrict fishing efforts. The oversized fleet was, by 1980, debt-ridden, and many of its operations were loss-making.

In the early 1960s, the government took an active role in developing large-scale hydroelectric power projects and related industries that required significant energy. This initiative led to the formation of the National Power Company in 1965, which was a joint venture between the state and the City of Reykjavík (Þórðarson & Kjartansson, 2023). The company was tasked with overseeing major power projects, including the power supply to an aluminium plant near Reykjavík, by the Swiss company Alusuisse. During the 1970s, two additional hydropower projects were initiated, and a ferrosilicon plant was also constructed. To support these initiatives, the state provided various forms of financial assistance, such as state guarantees for local authorities investing in power projects and subsidies for power lines and electricity costs in sparsely populated areas.

6.2. Malta

During the 1960s and 1970s, central policies aimed at promoting business sector growth in Malta focused on boosting manufacturing for exports and enhancing tourism. Prior to this, Malta had experienced industrialisation primarily through dockyard services, mainly involving naval repairs. However, like many defence-related activities, the dockyard did not generate a surplus; its primary purpose was to serve Britain's strategic interests. At its peak, the dockyard provided substantial employment, trained thousands of men in

industrial and technical skills, and supported significant urban development, particularly in the three cities and surrounding communities near the Grand Harbour (Caruana Galizia, 2016; King, 1978).

Following the 1956 Suez Canal crisis, it became evident that Britain would no longer maintain its military presence in the Mediterranean to the same extent as it had before. As a result, many dockyard employees faced layoffs. The Maltese authorities recognised in the 1950s and early 1960s that new industries were needed to provide employment for those displaced by the decline of the dockyard and to ensure future economic growth. Without these initiatives, many individuals seeking work might have emigrated.

As mentioned earlier, the development plans primarily focused on export-driven manufacturing, instigating the government to establish several industrial estates that attracted foreign manufacturing firms (Brincat, 2008, 2015; Muscat, 2007). The initial steps in providing financial support for manufacturing growth were handled by the Aids to Industries Boards, and later by the Malta Development Corporation (Brincat, 2017). These organisations promoted Malta internationally, handled inquiries and applications from potential foreign investors, and assisted them once their proposals were approved.

Several foreign companies have established specialized production facilities in Malta for exports, with many choosing to remain in the long term. As a result, Malta experienced significant export-led industrialisation driven by foreign direct investments and technology. This industrial growth helped replace jobs lost due to the decline of British and NATO military bases, as well as the downsizing of the dockyard.

The government's recognition of tourism as a promising growth sector, along with its subsequent initiatives, played a crucial role in advancing the industry in Malta. A program initiated in the late 1950s funded improved access to beaches, advertising, and the promotion of Malta as a tourist destination. The establishment of the Malta Government Tourist Board in 1958, along with a successful grant program that encouraged hotel development in the mid-1960s, proved particularly effective (Lockhart, 1997; Lockhart & Ashton, 1991).

Tourism in Malta primarily grew due to private sector initiatives supported by the government. The sector benefited from strong ties with Britain, and initially, British tourists dominated the market. The government assisted with planning and development permits; however, finding suitable sites for hotel developments proved challenging. Despite these difficulties, one of the government's most significant steps in developing tourism in Malta occurred in 1973 with the founding of Air Malta. The airline began scheduled services to the UK, France, Germany, Italy, and Libya a year later.

7. Economic and Population Growth: Iceland and Malta Compared

Both Iceland and Malta experienced fluctuating growth rates, as illustrated in Figure 1. The growth curve for Iceland from 1945 to 1980 is well-represented by an exponential function (Figure 2). In contrast, Malta's

growth curve during the same period is best described by a polynomial function (Figure 3), exhibiting virtually no growth in the early years, followed by a rapid increase from the mid-1960s onwards.

Figure 2

The period from 1945 to 1980 in Iceland was marked by sustained population and economic growth, despite some volatility (Figure 1). Living standards improved significantly, with notable increases in employment levels and salaries, alongside developments in welfare services. In 1945, Iceland's population was 129,000, and by 1980, it had risen to 228,000. The population grew at an average annual rate of approximately 2% until around 1960, after which the growth rate declined, resulting in an average annual growth rate of 1.67% for the period from 1945 to 1980. During this time, GDP per capita increased at an average annual rate of 3.07%, measured in real ISK. Annual growth rates varied significantly, ranging from -6.7% to +13.0% (Figure 1).

In Malta, the population increased from 283,000 in 1945 to 319,000 in 1980, reflecting an annual growth rate of 0.34%. According to statistics on real GDP per capita, there was minimal economic growth until after Malta gained independence, when the growth rate fluctuated, averaging nearly 10% from 1965 to 1980 (see Figure 1). This economic performance was influenced by the significant presence of the British military, which was only partially reflected in the civilian economy.

While Western Europe enjoyed economic growth and prosperity during the 1960s and until 1973, Malta faced various challenges, including depopulation, unemployment, and low wages (Briguglio, 1988). The island also experienced unrest at the dockyard and frequent strikes. The Labour Party, led by the charismatic Dom Mintoff, governed Malta from 1971 to 1987, with Mintoff serving as prime minister from 1971 to 1984 (Mizzi, 1995; Montebello, 2021).

In 1972, an agreement was signed with the United Kingdom for the continued use of military facilities in Malta, which remained in effect until March 31, 1979, when the British Armed Forces withdrew from the island. The 1960s and 1970s saw a surge in manufacturing for export, driven by foreign investment and technological advancements. Additionally, the 1970s marked the beginning of growth in the tourism sector, which would continue to expand in the years to come.

Figure 3 & Figure 4

Following the war, the government's reluctance to devalue the overvalued Icelandic króna (ISK) hurt the economy. From 1939 to 1945, the consumer price index rose by 180%, while the exchange rate remained constant, resulting in a disparity between export and import prices. This resulted in a flood of cheap imports, while exports faced significant challenges (Björnsson, 1984).

The Marshall Plan was implemented from 1948 to 1953, which facilitated additional investments in infrastructure and production facilities. Steil (2018, p. 450) provides a table detailing the authorised Marshall Plan procurements by country. For Iceland, the amount was USD 29.2 million, which, when adjusted using a USD deflator, was equivalent to USD 250 million in 2020. During this time, export taxes, import duties, and quotas reached high levels. The government also adjusted the foreign exchange rate to support the booming fishing industry (Ásgeirsson, 1955; Gunnarsson, 1996; Ingimundarson, 1996).

8. Conclusion

The central thesis of the paper posits that development strategies and related growth policies are suitably analysed and interpreted within the structured approach provided by the frameworks of dependency theory, small island studies scholarship and principles of comparative political economy. The sovereign status and political system of each island state influenced the nature of their external dependency relations and the national policies adopted. With many common attributes and qualities of small island states, both Iceland and Malta were, after gaining sovereign status, highly dependent on foreign trade and international relations. The growth of their national economies and industries was better understood through the principles of comparative political economy rather than economic fundamentals alone. Both had small markets, lacked economies of scale, and suffered from insularity, high transport costs and small-society political influence peddling; private businesses were overall weak, with low profits and high indebtedness. The two governments played a significant intervening role in the respective local economy. They invested in capital-intensive enterprises and infrastructure and signed foreign trade agreements. Furthermore, they controlled and taxed imports by adhering to import-substitution policies, provided financial incentives to businesses, imposed price controls and regulated the labour market.

The period from 1945 to 1980 was unique in terms of global politics and international relations, which significantly impacted the foreign trade and external political relations of Iceland and Malta, including the postwar division of Europe, the threat of nuclear war in the 1950s and 1960s, and the effects of the oil crisis in the 1970s. For Malta, the 1969 army coup in Libya, led by Gaddafi, had a significant economic impact on the island during the 1970s and thereafter. Malta became, to some extent, dependent on oil-rich Libya.

Iceland and Malta exhibited somewhat fluctuating, long-term growth rates from 1945 to 1980. The dominant role of their governments in their national economies and local business activities grew steadily over the decades following the Second World War. Malta's growth rates generally surpassed those of Iceland, and a more diversified economy evolved, while Iceland's economic output remained significantly greater but concentrated in its principal sector.

Based on the political-economic analysis in the paper, it can be concluded that there is neither a single formula for the transition of small island states from dependence to development, nor was the development process a smooth ride. It was marked by complex and compromising political and economic dynamics. Iceland and Malta exhibited distinct yet successful paths to economic growth and development, stimulated by sagacious growth policies. Their sovereign status, small size, insular nature, and political systems shaped their dependency and foreign relations, with growing export incomes being crucial for economic growth. The two success stories of Iceland and Malta offer valuable lessons for growth policy choices, comparative political economy and economic development strategies for other small island states, set within the historical context of the paper.

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