

Malta and the Nineteenth Century Grain Trade: British free trade in a microcosm of Empire?

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Abstract: It is often assumed that Britain's colonies followed the British doctrine of free trade in the second half of the nineteenth century. This was not the case for Malta, which became a British colony in 1814. This paper documents the institutional changes, and calculates *ad valorem* equivalents of the duties on wheat. The level of protection remained barely unchanged over the years, despite various institutional changes. The reason for this seems to be that administrators were convinced that it was not possible to raise sufficient revenue in any other way. Taxing an inelastic demand for foreign wheat by Maltese, who were unable to grow enough food to support themselves, was certainly an effective way of raising revenue, but probably not the fairest one, as contemporaries were well aware.

JEL codes: N4, N5, N7

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1. Introduction

When the Knights of the Order of St. John of Jerusalem were offered Malta as their new headquarters by Charles V of Spain in 1524, they sent a Commission to investigate. They concluded that “Malta was little more than a rock inadequately covered with soil, its main products being cotton, honey and cumin, which were exchanged for corn”. (Pirotta 1996, p. 21) However, having been forced out of Jerusalem hundreds of years earlier, and being forced to move from place to place since then, they nevertheless made the island their home.

Although it is true that Malta is a small island with thin, rocky and dry soils, its population nevertheless flourished under the knights, who brought with them substantial income from property, in particular in France, and the Maltese population was able to grow to a level whereby it was almost totally dependent on outside sources of food.

Malta was, then, a country with a clear comparative disadvantage in agriculture and was heavily dependent on imports from abroad. Nevertheless, the knights continued a system whereby the government was heavily dependent on a tax on imported grains. This seeming paradox might, however, have been expected to come to an end with the arrival of the new rulers in the nineteenth century. The British soon came to be associated with a free trade philosophy which swept Europe in the second half of the nineteenth century, and was to usher in the first era of globalization. (O’Rourke & Williamson 1999)

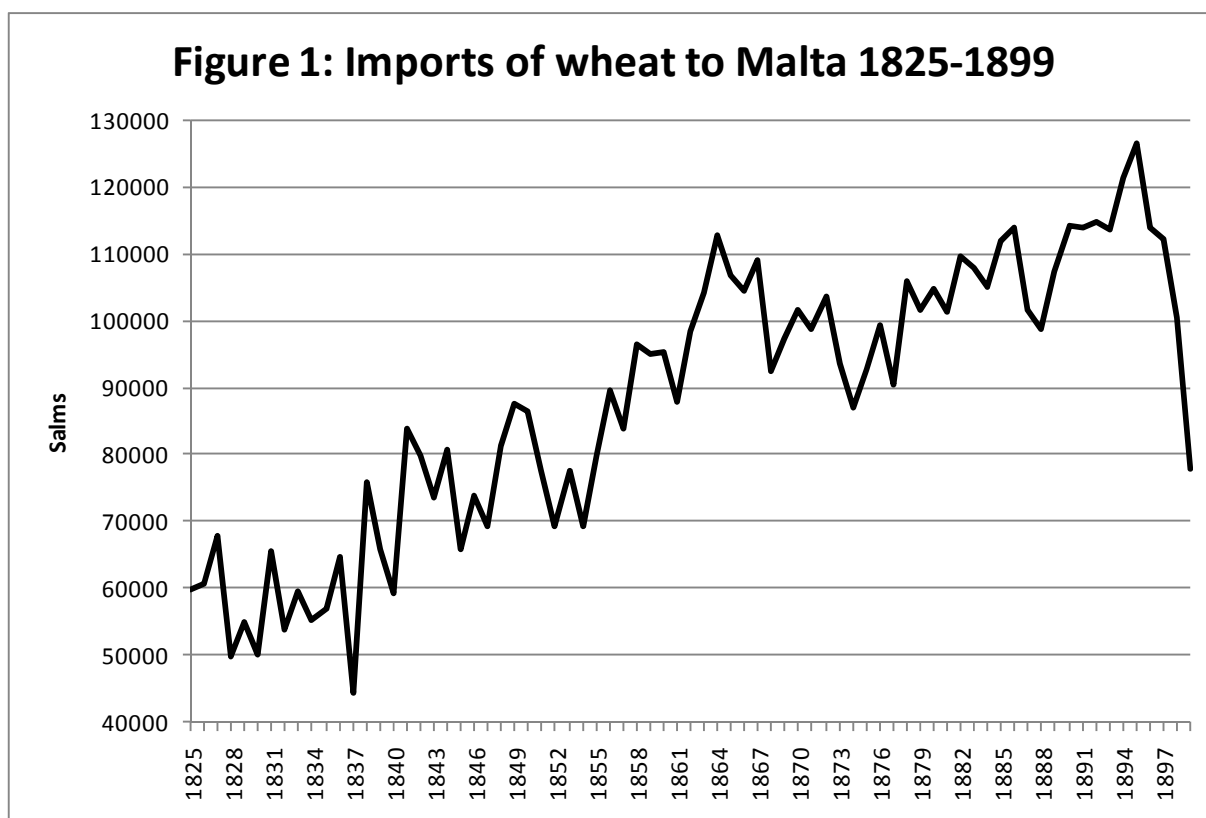
What happened to protectionism in the British colonies? They have often been assumed to have simply followed in their master’s footsteps, but in the case of Malta this was not the case. Malta remained a small island of agricultural protectionism in a European sea of free trade in the second half of the nineteenth century. And this despite the seeming futility of remaining so given her dependence on foreign supplies.

This paper takes a look at the history of grain protection in Malta until the end of the nineteenth century. More specifically, the available evidence on the structure of protection in Malta is pieced together and *ad valorem* equivalents of the annual protection afforded by the Maltese duties are calculated and compared with those found for the UK by Sharp (2006). Maltese protection is on a comparable level to that in the UK in the first half of the nineteenth

century, but continues at that level after the UK repeal of the Corn Laws and movement to free trade. Malta did not, therefore, participate in the first era of free trade from about 1850-75.

2. The history of the Maltese regulation of the wheat trade

The knights established a grain monopoly, which bought wheat and sold it at a fixed price. The British allowed this to continue until 1822, when wheat imports by private interests were permitted. Figure 1 shows the increase in the imports of wheat into Malta from shortly after the abolition of the monopoly.



Sources: BPP(Various). The figures are actually for wheat released from bond for consumption, which is when the duty was payable, and not imports as such.

The picture is one of growth, but this is almost certainly attributable to the growth of the population. The abolition of the monopoly did not mean a free trade in wheat. In fact, during all the period illustrated, the trade was restricted by protectionist measures.

2.1 Under the Knights

As was common in medieval times (Persson 1999), the government of Malta was heavily involved in the regulation of the supply of grain, and under the knights the Grandmaster really was the “baker of last resort”. The importation of wheat was governed by a state monopoly, the *Università* of Valletta, which took over from the *Università* of Mdina with the granting of Malta to the Knights of St. John of Jerusalem in perpetual fief in 1530.

The *Università* was originally a form of local government, first established in 1397, but under the knights it became almost exclusively involved with the management of the grain trade and the *massa frumentaria*, or grain fund. The *Università* of Valletta had a monopoly on the importation of wheat, but it also imported other goods, such as oil, cattle and tobacco. Moreover, it controlled the markets by fixing the price of wheat, as well as by administering the system of weights and measures and controlling its quality. It was financed by a loan system from the inhabitants at 6 per cent interest. Although wheat was exempt from direct duty, the interest paid to shareholders was an indirect tax, which regulated the price of bread upon which an excise duty by way of a stamp was also imposed. (Mea 1957, p. 88) The *Università* also became a form of public bank, receiving private capital to finance its operations. (Pirotta 1996)

The *Università* sold wheat at a set price to the millers, thus ensuring that the price of bread was constant for many years. As the world price of wheat fluctuated, so too did the losses and gains, whilst the population was shielded from the effects of this. This system was a product of unstable times, when the Knights were concerned with ensuring adequate supplies for the population at a time of piracy and frequent international conflicts. In this it was successful, but on the other hand it also inflated the price of wheat, due to the institutional demands of the grain monopoly, which had to both purchase wheat and distribute it locally.

The knights exercised almost complete control over the *Università*, and they understood two important benefits, which the British were later to exploit. First, any rebellion against the Order could easily be crushed, since they controlled all the grain supplies. Second, keeping the people well fed would avoid political agitation provoked by the nobility they had displaced. (Pirotta 1996)

The confiscation of their lands in France in 1789 after the French Revolution hit the knights hard, and they readily capitulated to Napoleon when he invaded in 1798. According to Thornton (1836, p. 33), the *Università* was insolvent even before the arrival of the French, with a deficiency of capital equal to 1,230,098 *scudi*. This meant that more loans were needed: 233,047 at 6 per cent interest, and 997,051 at 3 per cent interest, thus giving an annual charge of 43,894 *scudi*. Despite aid from the Grandmaster in the form of an excise on wine, which brought in 28,500 *scudi*, this still amounted to a considerable indirect tax through the price of bread.

2.2 The transition to British rule

In 1798, Napoleon conquered Malta. A two-year siege of Valletta by the British ensued during which the French garrison depleted the *Massa Frumentaria*, taking 1,203,660 *scudi*. (Thornton 1836, p. 34) After an uprising by the Maltese in 1799 Britain took the island under its protection. The first years of the British occupation are well documented by Gregory (1996).

The British found just eight days supply of grain left when they took over. As an emergency measure, the British Treasury first paid for large imports, so that already by 6 March 1801 there was enough grain to last until the following December. However, after this the British generally resisted active participation in the grain trade, but simply restored the institutions that had been present under the knights, including the *Università*. This might be explained by the British being sceptical as to the value of the island and expecting that their occupation would only be temporary. (Busuttil 1988, pp. 155-156). In fact, it was many years and rounds of international negotiation before it became clear that the knights were not to return.

Besides, the regulation of the grain trade was not at this time as anathema to the British as it was later to be. The British Corn Laws, although effectively inoperative until the end of the Napoleonic Wars in 1815, had otherwise regulated the British supply of wheat for centuries, and there was a general acceptance that regulation was necessary for price stability. So it should not come as a surprise to find the adviser to the British Civil Commissioner in Malta, William Eton, write in 1807 that it was important that the present system be maintained. He noted that with low grain prices people “drank more wine” leading to them becoming “idle and

dissipated". If prices then became high, people were then not able to work harder and "great misery and discontent ensued". Constant, rather high, prices were of utmost importance: "When the prices became stationary, they could proportion their means of earning and their mode of living to their expenses, which they could exactly ascertain. And it was found, that moderately high prices encouraged industry by perpetuating a habit of assiduity, first called into action by necessity. Too low prices produced the opposite effect." (Eton 1807)

Although the *Università* was left heavily in debt after the French occupation, these debts had been assumed by the British government. The British recapitalized the *Università* and constructed new granaries. (Thornton 1836, p. 62) However, in 1812 Royal Commissioners discovered that it was again badly in debt, largely due to maladministration. When the Plague came to Malta (from May 1813 to January 1814), the island was cut off, and the *Università's* debt increased even more.

The Commission did not, however, recommend dismantling the monopoly, and the Colonial Secretary reluctantly agreed to maintain the *Università*, partly because this had been promised to the Maltese over the years. (Pirotta 1996, p. 96)

2.3 Under British rule

In July 1813 Britain annexed Malta, and in May 1814 the Treaty of Paris was signed, acknowledging British sovereignty over Malta, which remained a Crown Colony of the British Empire until 1964. It took four years for this to bring institutional changes to the grain trade.

By 1814 the government had lost £60,000 and in 1818 the duties of the *Università* were given to the new Commissioners of a Board of Supply. When this failed to bring improvement, the *Università* was abolished and the trade in grain was opened up in 1822 after a campaign by Maltese merchants. Private commercial interests now took over the import of grain under a system of open competition. A Grain Department under a Superintendent was established which was independent of the Collector of Sea Customs. The Grain Department was divided into two branches: the Government Grain Concern and the Revenue Branch. The former was responsible for purchases abroad and for local sales, and the latter collected the consumption duties and the store rent.

The government's new role was then as follows: first, to reserve a stock of wheat to guard against scarcity and high prices; and second, to charge a duty of four *scudi* per salm for wheat carried by British or Ionian vessels, and five *scudi* per salm for wheat imported in other ships. This duty was intended to cover the expenses of maintaining the reserve stock, and to finance the government. It has been suggested that the duty of four *scudi* was inspired by the difference between the purchase and sales prices of wheat of 20 and 24 respectively under the *Università* before 1793. (Mea 1957, p. 89) Additionally, on importation there was a Custom House Duty of 1 per cent *ad valorem*.

In the 1820s and 1830s, Malta seems to have mirrored many of the institutional changes adopted in the UK. So, from June 1824 goods were admitted in bond and a sliding scale of duties, varying monthly with the prices, was imposed by the Collector of Customs. A similar system was adopted for the UK in 1828.

The 1824 sliding scale stated that duties were to be levied on Egyptian wheat if imported under the British or Ionian flag as follows:

When the average price of Egyptian wheat per salm was...	... the duty was...
Under 25 shillings	10s.
Above 25 shillings	8s. 4d.
Above 33 shillings	6s. 8d.
Above 42 shillings	5s.
Above 50 shillings	3s. 4d.
At 58 shillings and under 67 shillings	1s. 8d.

Wheat from other countries was however subject to the following scale:

When the average price of Egyptian wheat per salm was...	... the duty was...
Under 25 shillings	13s. 4d.
Above 25 shillings	11s. 8d.
Above 33 shillings	10s.
Above 42 shillings	8s. 4d.
Above 50 shillings	6s. 8d.
Above 58 shillings	5s.
Above 67 shillings	1s. 8d.

Moreover, a protecting duty of 1s. 8d. per salm was imposed on importation under the foreign flag when released for consumption.

Administrators, when considering the reform of the tariffs which was to come into effect in 1832, noted the special dependence of Malta on foreign food supplies for “two-thirds of their food” and that the “first care of the government must be to extend the intercourse with foreign countries”. (Thornton 1836, p. 67) However, it was recognized that attempts to tax more luxury goods were futile, both because of the small consumption of these goods, and because of the difficulties in preventing smuggling. The reforms thus simply removed the link of wheat duties to the Egyptian price of wheat (Egypt had stopped supplying grain), reduced the expense due to bonding of grain, and attempted to promote trade with British shipping. (Thornton 1836, p. 73) The duty on import was also abolished.

The sliding scale from December 1832 was as follows:

When the average price of foreign wheat per salm was...	... the duty was...
At or under 25s.	12s.
Above 25s.	11s.

Above 30s.	10s.
Above 35s.	9s.
Above 40s.	8s.
Above 45s.	7s.
Above 50s.	6s.
Above 55s.	5s.
Above 60s.	3s.
Above 65s.	1s.

Additional rates were payable on importation by foreign vessels: If the average price was under 45s., this should be 2s. "within the Mediterranean from Gibraltar to the Dandanelles" or 2s. 6d. "without the Mediterranean". If the average price was between 45 and 50 shillings, it should be 1s. "within" and 1s. 3d. "without".

The reserve stock was eventually abandoned in 1837, and the Grain Department was closed down. Under the recommendations of the Austin Commission¹ the sliding scale was replaced in October 1837 by a fixed duty of 10 shillings per salm, independent of the national origins of the importing ship. This rate was somewhere between the old preferential and foreign tariff rates and was close to the average duty under the sliding scale from 1833 to 1836 of 10s 3.75d. (Porter 1851, p. 732) This fixed duty remained in force from 1837 to 1935, when the duty was first reduced and then, in 1939 replaced by a system again giving preferential rates to British ships.

If it is sometimes assumed that Malta followed the free-trade philosophy of Britain (e.g. Atkins & Gastoni 1997, p. 130), the above account shows that this was assuredly not the case. The difference between Malta and Britain was that the former did not rely on the Corn Laws for

¹ To investigate "How the resolution to discontinue the Government interference with the corn trade of Malta can be carried into execution most effectually, and with the least temporary inconvenience or distress to the parties who will be more immediately affected by the measure".

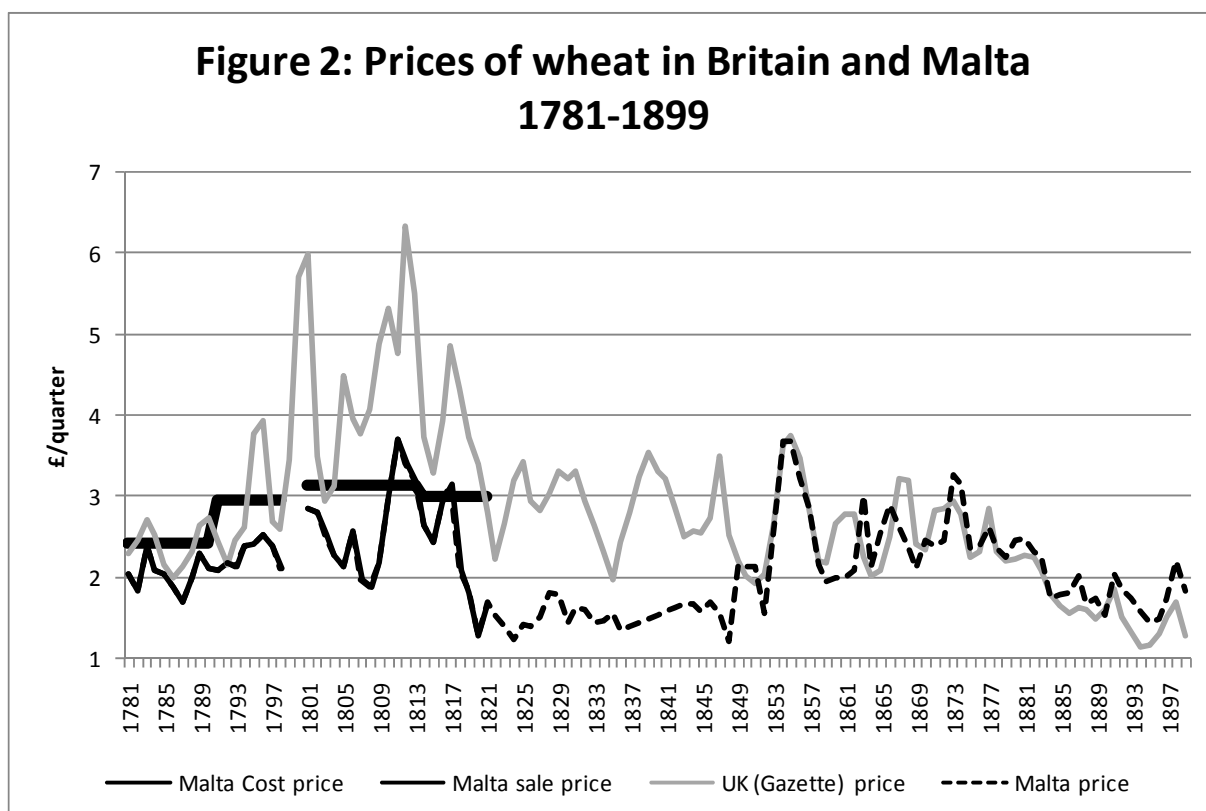
tariff revenues, but in Malta the government remained heavily dependent on a new duty on grain, which accounted for about a third of total revenue.

Of course, many people in Britain wondered how this system could be allowed to continue. So, for example, on recommending more focus on education in Malta, a British Commission suggested that “If these elementary truths had been generally understood by the inhabitants, the economical interests of the island would have been saved from many of the evils which the ignorance of its former Governments inflicted upon them; for example, they would not have been visited with the Government monopoly of corn; with the subsequent intervention of the Government in the corn trade of the island; with long and complicated tariffs needlessly shackling its general commerce...”. BPP(1837, p. 126) But despite these occasional protests from free traders in Britain there was no change.

In fact the importance of the regulation of the grain trade remained for a long time into the twentieth century. *Sette Giugno* is the Maltese National Day, and commemorates events which happened on 7 June 1919. Riots ensued after the authorities raised the price of bread during which British troops fired into the crowds, killing four people. This would hasten the movement to self government, with the first Maltese Parliament inaugurated under the new constitution of 1921. Even under self-governance, however, the grain tax was to remain the main source of government revenue until the introduction of income tax in 1948. (Pirota 1996, p. 158)

3. Impact of the grain duties

Figure 2 illustrates the price of wheat in Britain and in Malta. For the years until 1822, data is available for the price at which the monopoly purchased wheat, and that at which it sold wheat. After this date, the prices for Malta are the price paid by consumers, including the duty.

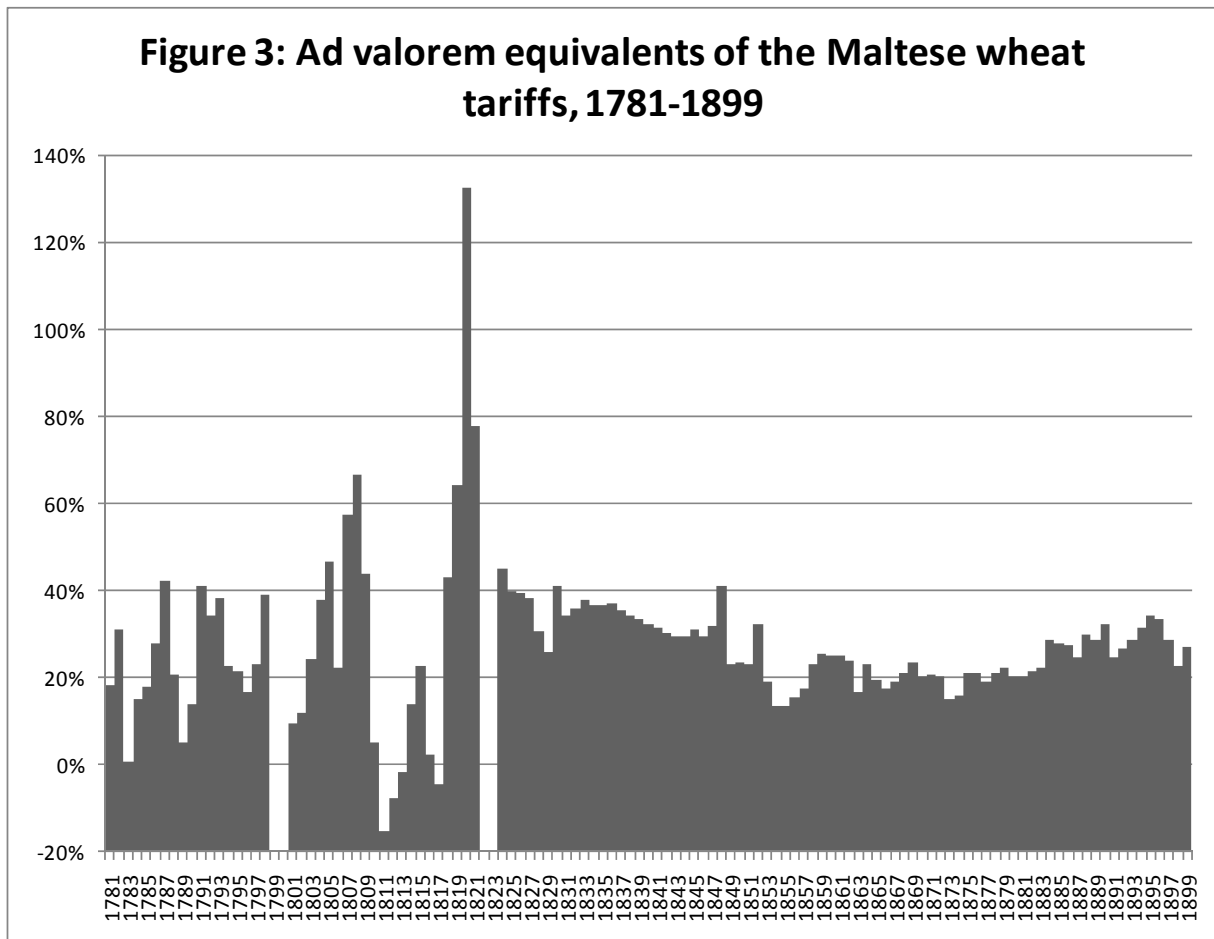


Sources: BPP(various). No price data for Malta is available for the years of the French occupation (1799-1800). Likewise, it has been impossible to find data for the years 1822-23 and 1837-42. Here linear interpolation has been used to fill the gaps. For 1876-1899 an average of the low and high values recorded in the *Statistical Tables* has been used.

Clearly, the financial difficulties of the knights and the *Università* led to them charging a far higher price for wheat than that which they paid for it, although the difference is less marked under the British. In general, however, it is clear that the Maltese were consuming much cheaper wheat than the British, until the British liberalize the grain trade in the second half of the nineteenth century, and the situation is reversed.

Figure 3 illustrates the level of protection afforded by the Maltese duties on wheat from the time of the knights until the end of the nineteenth century. From 1824 they are *ad valorem* equivalents calculated using the method described in Sharp (2006), i.e. total revenue, divided by the value of imports. Under the monopoly, data is available for the purchase and sales price

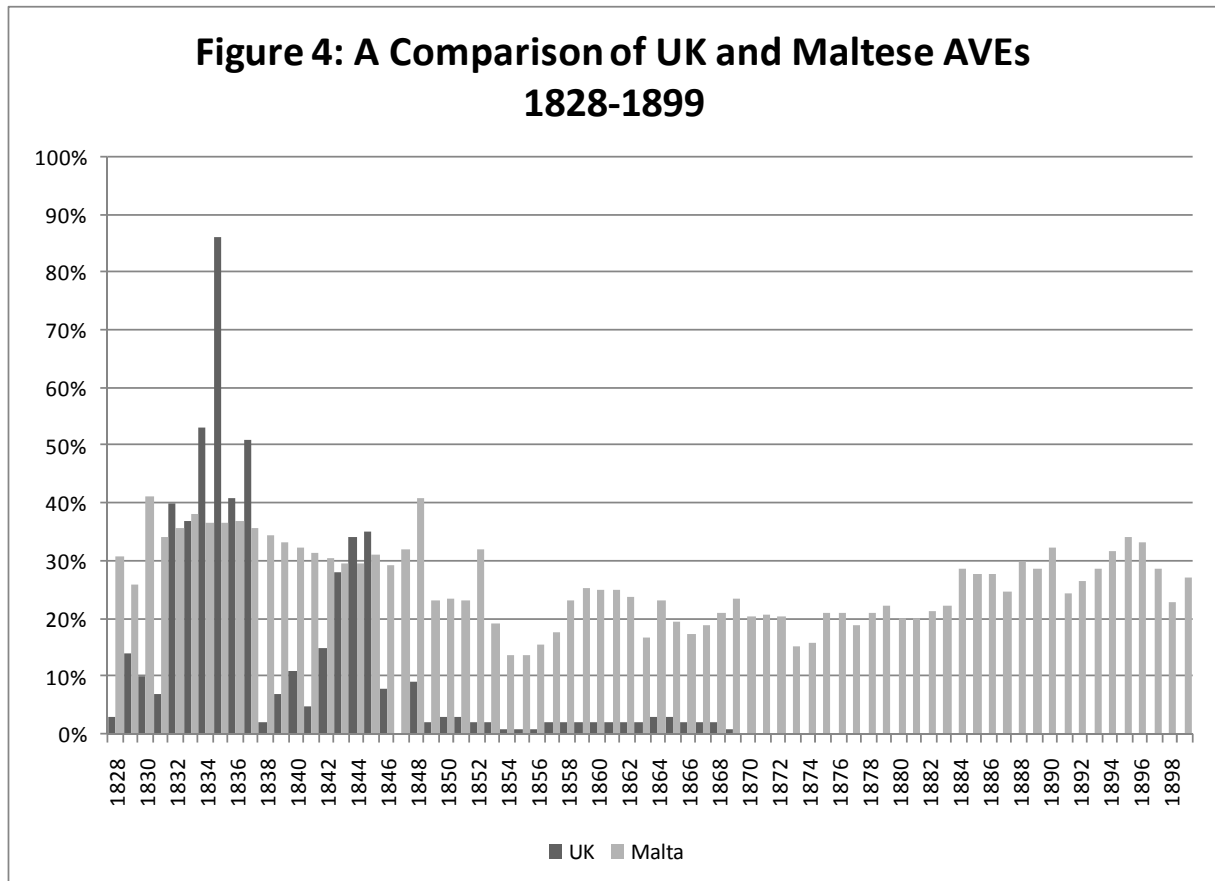
of wheat, and the *ad valorem* equivalent is estimated by expressing the difference between these prices as a percentage of the cost price. This means, of course, that negative protection will be implied if the fixed sales price was under the cost price, as it was for a few years.



Sources: BPP(various), own calculations. Since prices are not available for 1799-1800, and the duties received are not available for 1822-23, there are no estimates for these years.

Overall the picture of tariff protection is one of not much change from the time of the knights to the period under British rule. Prices fell substantially after the Napoleonic wars, hence the spike due to the sales price not following suit. The protection which ensued after the abolition of the monopoly is surprisingly constant, however.

Finally, figure 4 compares the Maltese protection with that in Britain (taken from Sharp 2006). The point is clear: Malta did not follow the free trade ideology of Britain.



Sources: As figure 3, Sharp (2006).

This level of protection had consequences of course. The maintenance of high tariff protection in Malta led to an increase in the price of bread in comparison to other nearby countries, as documented in BPP (1878, p. 13). The same report concludes that due to the intrinsically regressive nature of the duties on wheat, the incidence of taxation was 10s. 10d. per head per annum for the “Maltese upper and middle class” (5s. for wheat alone), but 15s. 7d. per head per annum for the “Maltese working class” (10s. for wheat alone). (BPP 1878, p. 15)

4. Conclusion

The arrival of the British changed little as regards the protection afforded to wheat in Malta. Even with the onset of a radical free trade ideology in the motherland, Malta continued to levy a duty of 20-30 per cent of the value of wheat. Successive administrations failed to reform this, because the Maltese government was so dependent on the revenue from the grain trade. This was then the crucial difference between the UK and Malta. In the UK, the Corn Laws were in part a product of ideology, protecting landed interests. In Malta there was little landed interest to protect. Instead, the administrations made use for revenue reasons of an inelastic demand for imports of foodstuffs and wheat in particular by a population which was unable to supply itself. Whether alternative methods of financing might have been possible, it is beyond the scope of this paper to say. What is clear, however, is that these duties hurt the poorest in society and made Malta an outsider in the first free trade era.

Appendix: A note on the historical currency and units of measure of Malta

The *salma* (plural *salme*), sometimes written in English as *salm*, was a Maltese unit of volume, and was 98.5% of an imperial quarter, i.e. 286.59 litres. From 1875 it was declared exactly equal to an imperial quarter, i.e. 290.95 litres.

The silver *scudo* (plural *scudi*) was the currency of Malta until 1798, and remained in circulation until 1825, when it was replaced by the British pound at the rate of £1 = 12 *scudi*. It was subdivided into 12 *tari* (singular *taro*), each of 20 *grani* with 6 *piccioli* to the *grano*. The exchange rates used here are those given by Mallia-Milanes (1988, p. 135), i.e. £0.1 to the *scudo* from 1781 until 1798, and £0.083 to the *scudo* from 1801 until its replacement by the pound in 1825. The UK pound (£) was equal to 20 shillings (s.), which were equal to 12 pennies (d.).

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Malta Blue Books, available online at <http://www.nso.gov.mt/site/page.aspx?pageid=392>.

These contain, amongst other things, data on the revenue collected from wheat, and details of the rules governing the duties payable.