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COMMENTS

Commodity Agreements

Don't Mix Trade with Aid

Reports concerning the UN Cocoa Conference in New York, the Geneva Sugar Meeting and Senator Mansfield's intention to summon a World Copper Meeting in New York under the auspices of the United Nations at the end of this year give an impression of one common idea: stabilise the markets by means of international commodity agreements.

Meanwhile the Cocoa Conference has been frustrated because of differences about maximum and minimum prices within the agreement. The decision of the sugar producers to give up the minimum price scheme negotiated only in March makes the conclusion of a new sugar agreement rather doubtful. Also the prospects of an agreement for the stabilisation of the world copper market are not exactly favourable, as different economic and political interests oppose such a regulation.

Even if the conclusion of an international commodity agreement referring to these three markets would be reached within a measurable space of time, there are reasonable doubts whether this way the expectations of the producing countries will be realised.

As far as the compensation of short-term price fluctuations—likewise undesirable for the producers and the consumers—is concerned corresponding regulations are certainly welcome. However, efforts of some producer countries to increase their export price level pretending price stabilisation must be rigorously rejected.

Commodity agreements are not designed to delay necessary structural changes by fixing average prices at an excessive height within the framework of development aid.

In our opinion "trade" should not be mixed with "aid". Aid should be given by means that will not distort the flow of trade or the trend of prices.

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Foreign Labour

Not to Ignore Mobility

The gratitude, with which a few years ago the first foreign labour was welcomed, has partly given way to scepticism about the employment of foreigners. At the beginning the employment of aliens was mainly regarded as a welcome relief to our domestic labour market, but today opinions which speak of a curtailment of our own living standard can no longer be ignored. These critical arguments hold one thing in

common: They concentrate on the German living standard and thus have a way of self-sufficient thinking which in view of the EEC seems to be doubtful. At all events this is applicable to foreign labour from EEC-countries and the associated states. This urges the impression upon us that the mobility of labour proclaimed in the articles 48 and 49 of the EEC-Treaty and in article 69 of the Coal and Steel Treaty is simply ignored. The great difference between the living standard of natives and aliens, unless they come from third countries, cannot be explained otherwise. So a possible cut in the domestic living standard due to foreign labour employment from the EEC must more correctly be regarded as a contribution to the accomplishment of the European economic union rather than a burden for our economy.

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Capital Aid

When Will They Ever Learn?

Just recently the United Nations Secretary published a study on the capital flow into developing countries under the title "International Flow of Long-term Capital and Official Donations 1961-1965". This publication, too, points out that the institution of development aid—especially the financial aid by the industrialised countries of the free world—has come into a crisis. In total view its main result is that after the fast growth of financial aid in the second half of the 1950-ies the growth rates of long-term capital and donations flowing into the "have-nots" in Africa, Asia and Latin America are decreasing and smaller than the growth rates of production and income in the industrialised countries. In structural view the following points are essential: 1. Two thirds of the financial aid in 1964 resulted from bilateral transactions; 2. The bilateral aid mostly is tied to projects and/or the market of the donor countries, and 3. The share of hard loans is growing.

The result of these practices of "aid" is getting clearer and clearer. The foreign debt of the developing countries has trebled between 1955 and 1965, and the poorest among the poor are not able to meet the progressively increasing debt service charges. So sometimes new financial aid is used only to repay old foreign aid.

Even the advanced ones among the developing countries have to use a steadily growing share of their export-proceeds for repayments and to cut their imports to avoid a deficit of their balance of payments. To cut imports, however, means to reduce economic growth.

This precarious situation can be altered and be prevented for the future only by a fundamental reorganisation of financial aid. The whole aid system should be concentrated by creating a multilateral organisation sponsored by grants and loans of the industrialised countries. The numerous studies on economic structure, which the World Bank carried out for nearly every developing country within the last years, should be used to provide a classification of these countries according to their debt servicing capacity. According to this classification the multilateral organisation should distribute the financial aid: to the countries with the lowest debt servicing capacity only grants, to countries with some more debt servicing capacity soft loans and to the most advanced countries with a relative high debt servicing capacity only hard loans. By a procedure of this kind the industrialised countries would multiply the efficiency of their aid and—in the long run—reach their political and economic ends sooner than by bilateralism. But when will they ever learn?

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Taxes

SET – Deus ex Machina

It is the duty of financial experts all over the world to be suspicious of a new tax created somewhere on an island, especially if this tax claims to solve a bouquet of problems all nations are more or less confronted with: to find a more effective structure of the nation's industry, to stabilise the inner and outer equilibriums, and even to increase the current surplus of the public budget.

Though the construction of the Selective Employment Tax will cause the authorities some headache, the basic idea is rather simple: from all establishments 25 s per male, less per female worker will be collected weekly; quarterly the public sector will get back the sum it has paid; the construction, financial, and distribution services will get no refund, but the manufacturing industries are lucky enough to get the refund plus a 30 % premium. That's all.

As every new tax the SET will certainly bring a net gain to the budget and—as all taxes with a time lag between collection and expenditure—will also have a deflationary effect. This alone would not justify the gigantic SET instrument or the experts' interest, but the combination with the chief aim could: namely to achieve a shifting of labour from the service to the manufacturing sector for an increase in productivity and exports.

But it is rather uncertain whether the workers really losing their jobs in the service sector will be absorbed by the manufacturers. Even in case of this shifting one has to ask whether this fact would help to bring productivity up to a higher level. The collection of premiums could lead to a hoarding of labour but not at all events to a rationalisation process in industry. Besides, the SET—as a tax on services combined with subsidies for all manufacturers—is far

too rough an instrument which makes no difference between those services being important and those manufacturers being completely unimportant for an increase in the economy's productivity. The SET is actually no selective tax at all.

Therefore, the experts all over the world must not be startled by the SET; it is by no means the universal tax expected. Meanwhile they may go on having the waves of subsidies rolling over right and wrong, —perhaps more selective and more effective than the SET.

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Shipping

Flag Must Follow Trade

Shipping policy in developing countries is sometimes exposed to violent criticism not only by "traditional" shipping countries. Investment in the field of maritime shipping, it is said, is one of the least profitable methods of earning an income. It requires much capital and produces relatively moderate returns. And even these small profits first of all require an experience in the shipping business which cannot be achieved without many years of "trial and error".

Would not investments for the development of domestic resources be economically more sensible, that is to say more productive and sooner effective than the development of a national merchant fleet—particularly since there is a shortage in available capital?

Indeed, the developing countries are tacitly admitting the difficulties for their very extensive shipping ambitions if they revert to the wellknown methods of protecting their own and discriminating foreign flags in order to build up and operate a national fleet.

However, protectionism in shipping is a matter of shipping policy not only in developing countries. Almost all shipping countries in the world are trying to protect and to promote shipping under their national flags in competition with foreign flags.

Among the main motives of protectionism in shipping one is deserving of particular consideration as regards developing countries. They are frequently of the opinion that in international merchant shipping they are passed over or even opposed. They fear that their sea-borne foreign trade—if totally dependent on the shipping services of foreign flags—would be prejudiced by arbitrarily fixed rates and by discriminatory practices in favour of other countries' external trade.

Although according to the traditional principle national shipping could open up new fields of activity for one's own foreign trade—i. e. "trade follows flag"—, the developing countries believe in the principle that national foreign trade needs national shipping and consequently "flag must follow trade".

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