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## The “great transformation” in the Argentine

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thus be two-edged: a push from within, a pull from without. Brazil would not be the last to profit from this.

Lack of fantasy—even in export promotion—is not a typically Brazilian characteristic; however, it is not sufficient just to have plenty of ideas—past events have proved this. Brazil cannot be taken as an example, in every respect, for other developing countries. On the other hand, it is the overall concept

which will be decisive for whether Brazil's export drive will be successful; also the intention to stop curing symptoms and get to the root of the matter: i.e. to eliminate most of the real obstacles by decisive and logical action, to create reasonable conditions and thus promote exports effectively—at least more effectively than is done by so many artificial incentives. Brazil's most recent efforts—in spite of the many problems which remain unsolved—do seem to be setting an example.

## NATIONALIST EMANCIPATION

# The “Great Transformation” in the Argentine

By Federico Korell, Buenos Aires

On 28th June, 1966, a new revolution in the Argentine did away with President Illia's Government and replaced him by a new President of the Republic, Lieutenant-General Juan Carlos Onganía. This was not one of the traditional South American military coups, nor was it an ideologically-based upheaval. Its general background and the consensus of the Argentine population were determined by the widely accepted knowledge that it had become impossible to deal with a multitude of weaknesses of the previous regime, especially in the field of economics, through using the traditional instruments of political party rule. However, the country had to wait for about six months before the new Government took the first steps to fulfil its promises given in its revolutionary proclamations, to “modernise” the national system through using basic measures.

Among the foremost aims of the new Argentinian Government are the fight against inflation and the introduction of indispensable changes in the economic structure. It also intends to adopt an income policy of social justice, tending towards flattening out the enormous differences between individual incomes.

In addition, the Government wants to promote Argentinian exports by a suitable foreign exchange policy, meaning to abandon, at any rate, the previous habit of overvaluing the Peso. The authorities intend to avoid inflated short-term foreign indebtedness, and by guaranteeing to foreign investors equal rights with local capitalists, the Government hopes to set up efficient incentives for increased capital imports.

### **Taxation and Foreign Trade Policies**

In January, 1967, the new Minister of Economic Affairs had taken the first practical step on behalf of his government department, by completing the draft budget for the current year, which had been drawn up, in outline form, by his predecessor. It contained estimates on expenditure of Pesos 559.5 billion, and income of P. 429.9 billion, leaving a deficit of P. 129.6

billion. Already during its first months in office, the Onganía Government had started a budget reforming drive, by abolishing so-called “political pricing” for public utility services. For example, electricity prices were raised on August 1, 1966, by between 31 and 32 %, and a second increase by between 8.6 and 8.8 % took place early in 1967. The railways marked up their main-line fares on December 24, 1966, and local passenger tickets on January 1, 1967. Freight charges followed suit on January 15. Postal charges for inland mail have been doubled on 15th March, 1967, whilst mailing fees to foreign countries still expect their upward revision.

The new Taxation Law for 1967 was promulgated on March 6, 1967. It increased the basic tax-free allowance on earned income, because price inflation had pushed up many manual workers and employees into higher taxation grades, and had burdened them with socially unjust tax payments. On the other hand, existing taxation rates were increased, and new types of taxes have been introduced. Stamp duty will be doubled, excise duties on consumption and the turnover tax are to be increased as well, and even electric household appliances, including vacuum cleaners, washing machines, etc., are to be treated as luxuries which carry a tax burden of 15 %, instead of 10 %, the previous rate.

It is a principle established by the new Government to tax those who have been able to hedge—at least partially—against the inflationary inroads on property and savings, which have been caused by the general economic decay: a non-recurring 1 % emergency capital levy has been imposed upon the taxable value of all real estate, and 2 % will be levied on credit balances created by advances and loans granted by banks and other institutional lenders.

One day after the new taxation law coming into force, the international currency exchange was closed “until further notice”, and only on Monday, March 13,

this market reopened under completely changed operating conditions.

The new rules regulating international payments provide for the complete liberation of trade in foreign currencies, which means that buying and selling foreign currencies, and making remittances to foreign recipients and from abroad, are no longer controlled. Only currency earnings from Argentinian exports have still to be exchanged against Pesos inside the country, as had been the case before.

In order to carry out its programme of economic reforms without a time lag between its various parts, and on the widest possible front, the Government has associated the revision of currency controls with a complete reconstruction of foreign trade levies. The duties on importation, which had consisted of nearly 200 different rates, ranging between almost nil and 605 %, the arithmetical mean being 119 %, has been simplified, and the duty rates reduced to 17 stages ranging between nil and 140 %. On average, though the highest import duty now, at 140 %, is lower than one quarter of the previous maximum, the duty rates have been halved. The arithmetical mean of all the rates is now 62 %.

At the same time, the new Government has also introduced export duties, graduated from 16 to 20 and 25 %. The highest rate will be levied on the traditional exports of Argentinian farms and cattle ranches—meat, grain, and wool. This means that exporters will receive for each dollar earned by exports, not the standard rate, fixed at Pesos 350 : \$, but only P. 262.50 for the US \$, which is currently sufficient to keep Argentina's exports going. On the other hand, export duties prevent a considerable upsurge of exports, which had been expected to follow on the Peso's devaluation. Export duties are to be reduced gradually in line with the rise in production costs, so as to avoid throttling the export business.

This charge upon the country's exports is to serve a variety of purposes. The Government wants to prevent a sell-out of cheap farm produce, which would drive up the local cost of living and cause social and political unrest. It is also intended to hinder a redistribution of national income in favour of farmers and cattle growers, which would affect adversely the industrial population. And, last but not least, the perpetually empty coffers of the Government are to be replenished by the new taxes. Export deliveries estimated at a total value of US \$ 1½ billion p.a. will yield, from an average export duty of 20 %, additional Government revenues of \$ 300 million—or about P. 100 billion—covering about 77 % of the budget deficit.

### **The Fight Against Inflation**

Without overcoming inflation, which has ravaged the Argentinian economy for the last twenty years, the new economic policy will not be able to succeed. The main cause of local inflation is the Government's budget deficit, which has been growing from one year

to the next. This in turn has been caused in the main by a badly organised public administration, which is completely strangled by red tape, employing far too many civil servants, and by the State monopolies run by this bureaucracy, almost invariable with big losses, including the railways, crude oil, electricity, coal, natural gas, the heavy industry, telecommunications, etc. To reform these branches of the national economy and to place them on a new and healthy basis is the most important and also the most difficult task of the revolutionary Government. In order to achieve its aims in this field, the Government has to reeducate the public towards a new mentality and new patterns of behaviour.

At present, the railways cost the State an annual subsidy of between P. 70 to 80 billion, which alone represents about 60 % of the annual budget deficit. Overall railway income is not even sufficient for paying the labour force employed by the Railway Board.

Though "political" pricing of railway fares and freight charges have been wiped out, the enormous operating losses of the railways can be radically reduced only by ruthlessly cutting the number of persons on the payroll of the State-owned enterprises. At present, the railways are employing about 170,000 persons, and even the Government admits that about half of them are—in the true sense of the word—redundant. The same seems to be true of "SEGBA" (Servicios Eléctricos del Gran Buenos Aires, a state-owned power-station and power distribution concern), whose labour force of 26,000 is double as strong as actually needed. SOMISA (Sociedad Mixta Siderurgica Argentina) is operating similarly uneconomically, in its San Nicolás blast furnace plant and steel mill. In order to shield SOMISA against competition, import duties on all the products made by this State concern have been kept exceedingly high, which imposes heavy sacrifices on the entire metal-processing industry of the country.

To get rid of redundant civil servants and of the superfluous staff of State enterprise has been planned in two successive stages: redundant individuals are to be "redeployed" into private employment, whilst those remaining in State service are to continue being paid the old and low wages and salaries. Only during the second stage of the reforms, after successful rationalisation has led to higher output, is it intended to improve payment by the State concerns. The Minister of Economic Affairs has dubbed this method, "the economic use of available funds". Private enterprise, too, is to practise this method. By strongly encouraging competition, those businesses which do not use their funds to the best effect are to be persuaded to engage in new productive activities.

These new measures will lead the Argentine far forward on the road towards an "open" economy. They aim at stabilising the national currency, at making local industry internationally competitive, and at the highest possible rate of expansion of

Argentina's foreign trade, so that the country will be able to draw level with economic progress as achieved by the leading industrialised countries.

### **The Political Problem**

Though there is hardly any justification for a massive rise of local prices, in view of the new export duty and the reduction of import duties, everybody in the Argentine seems to expect a new inflationary wave, for price increases are judged to be inevitable. The Government hopes to keep them within reasonable bounds, so that the wages freeze can be held. If the Government be forced to grant new wage increases, this would endanger the entire economic programme that has just got under way.

The "Great Transformation" of the Argentine, which is the aim of the Government's reforming zeal, has as its background the fundamental political problem of the country, with its three roots:

- ☐ the traditional middle-class parties of old-style liberalism have become ossified in their structure, their political principles, and their methods; they have outlived their usefulness;
- ☐ the broad lower stratum of Society, which gravitated from the northern rural areas to the cities, being attracted by industrialisation, has been emancipated and its political weight has grown;

☐ the "old" economic system of the Argentine's historical tradition, which was based on a completely free economy, open to all the influences of the wide world, when farming and cattle raising dominated the local scene, exporting unlimited quantities of farm produce and importing an equally unlimited volume of industrial products, all of them being handled, as were even public utilities, by big foreign concerns, now appears to be dead and gone.

The economic and political future of the Argentine, in line with continued nationalist emancipation efforts, will very probably exclude a revival of a completely free economy without planned direction, it will see a severely limited influence of foreign enterprise, and private enterprise will not be permitted to be the dominant factor, because all these factors would appear to the Argentine citizen as symbolic of foreign rule.

However, the Onganía Government does not proclaim an ideological struggle against "international monopolies", but the change in the local economy which this Government has initiated affords progressive Argentinian entrepreneurs and the skilled and docile masses of the Argentinian working classes a big chance to assist at a well-balanced reorganisation of the country's economy and at a gradual, but determined, political consolidation.

## **MARITIME PROBLEMS**

# **Shipping Policies of Young Nations**

By Dr Bruno Arnold, Bonn

**R**aw materials are distributed in different density from one country to another, and similar differences exist in the spread of other production resources. It is a truism that the climate is different in different longitudes and latitudes, and that men differ in their inborn gifts and faculties. All these differences are basic requirements for the development of international trade. However, the worldwide exchange of goods and services can take place only with the aid of an immense and highly elaborate ocean shipping network.

About seven tenths of the world's surface are covered by the sea. This huge share of the oceans and the wide spreading of the islands and the continents make abundantly clear the decisive importance of seaborne traffic.

Of all the goods and commodities moved by world trade, 70% travel by sea. Without ocean shipping, an expansion and intensification of world trade would simply not be possible; lacking the merchant fleets of the world's shipowners, mankind could not trade

worldwide. Viewing our problem from this side, we might be surprised that the problems of international shipping, compared with the monetary side of world trade, the problems of balance of payments equilibrium, or those of tariff burdens hampering worldwide trade relations (GATT, and the Kennedy Round), have rarely figured on the agenda of international negotiations and conferences. This might lead us to the conclusion that the shipping system has been operating smoothly, and without a hitch. However, bitter complaints of newcomers to the maritime scene and of young nations against the prevailing system tell a different tale.

### **Differing Interests**

What has happened in world shipping during the last twenty years or so has been determined by four sets of complex problems, listed as:

- ☐ Flag discriminations,
- ☐ the Shipping Conferences,
- ☐ State-owned shipping in authoritarian states and
- ☐ the World Trade Conferences.