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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

Raw 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.

All these problems are additionally, and in varying measure, influenced by the question of the Freedom of the High Seas. There had been a time, long ago, when the history and developments of events on the high seas had been clear and relatively transparent; today, what happens on the sea's surface but reflects international political entanglements, and is full of irregular developments. Opposing national interests produce an increasing number of new conflicts, which frequently form the subject of bilateral and multilateral talks and, if so desired and necessary, of agreements and treaties between two or more States. The subject of such negotiations and/or compacts is less the freedom of the high seas in the abstract but more so the claim of shipping companies to be permitted to compete freely in the passenger and ocean freight markets, which is frequently being countered by the accusation that the shipping lines are using economic power unfairly. The two camps in which opposing interests are gathered represent, on the one hand, the view of the traditionally maritime nations, and on the other, the newcomers in the shipping markets and/or young nations generally. The points of view and intentions of traditional maritime nations have had wide scope for being published in those nations' daily and trade press, whilst the younger nations, until recently, had little opportunity to give their queries and requirements sufficient weight in international discussions. They therefore profited from the formation of UNCTAD (the United Nations' World Trade Organisation), by using it as a megaphone to make it abundantly clear what they want and what worries them. It is due to their activities that UNCTAD, whose task it is to facilitate and promote world trade, has set up special committee on shipping about whose activities there has been an earlier report in these columns.

Our basic task is to find a way out from the maze of extreme liberalism and of equally extreme "dirigisme", and not to believe that pragmatism is a cure-all for every unhealed woe. The ultimate decision that has to be taken is whether shipping generally is to be used as a "national carrier", to which purpose all other measures are to be subjected. At the opposite end of the scale stands the view that shipping is a branch of business which, through its entrepreneurial activity, will contribute to the prosperity of its country. This attitude equates ocean shipping services with the output of other sectors of the economy. Services are placed on offer because the business offering them finds them operationally profitable. This way of thinking places shipping services into line with all the other international service trades. The British express this quite clearly by saying: shipping is trade. And this point of view has nothing of the extraordinary in it. In the field of world trade, it is a matter of course that countries without any fuel reserves will import from the fuel production of other countries any fuel that they require. Other countries have acknowledged that, for example, it would be uneconomic for them to melt their own steel. There are many other ex-

amples available, which show that large investment decisions to be made by a government will be ruled, at least in part, by economic considerations.

The newcomers to world shipping are not completely free of resentment, which is more or less understandable. The connection between colonialism and some of the great maritime nations seems to close for their linking. True, there are no longer any colonial overlords in their countries, but their ships are carrying larger or smaller slices of their foreign trade. The younger nations feel themselves to be dependent. Both facts and emotions push them in the same direction, influencing the attitude of the younger nations towards international shipping questions.

More recently, discussion has centered round the question whether high freight rates may form an obstacle to the young nations' foreign trade or may be even prohibitive for it, whilst formerly, matters of prestige and the paucity of currency reserves stood in the limelight. When former colonial powers own and operate important shipping services, their former colonial subjects often resent this as an arbitrary demonstration of strength and power, which hurts the former subjects and stirs up their nationalism. Considerations of economy are relegated to second rank during this phase of development. People are willing and eager to pay a high price for their freedom and independence.

Why National Shipping Companies?

In plumping for their own national shipping companies, new nations are motivated mainly by the following considerations:

☐ The Tasks of Transport

To own and operate one's own ocean-going shipping is considered essential for the new nations' foreign trade, as this should be carried, so they argue, in their own transport vessels. It does not seem important to them what such services cost, but they prefer that they should support their own imports and exports.

☐ Economising Foreign Currency

Merchant shipping is believed to be able to earn foreign currency or, alternatively, to save the expenditure of such foreign currency.

☐ Emergency Supplies

In a world that is brimful of political tension, it is believed that a minimum volume of seaborne transport should be carried by nationally-owned vessels so as to hedge against the interruption of communications and international trade.

☐ Earning Good Will

Ships of a national merchant fleet will earn good will for their country of origin in all the foreign ports where they call.

Motivation generally has nothing to do primarily with operational profitability of individual shipowners' fleets; the determining question is whether national shipping is nationally useful or will benefit the over-

all economy. Incidentally, economic arguments are freely used both by the traditional maritime nations and by the younger peoples, in order to state one's case for creating and operating a merchant fleet of one's own. It is not our intention to pass judgment on them but only to state that people seem to consider it fully legitimate to adduce nationalist or over-all-economic reasons for setting up their own merchant marine. Not infrequently, criticism is levelled at the younger maritime nations, starting by cavilling at existing shipping services and terminating by the forming of national merchant fleets. Preferential treatment of one's own shipping and discrimination against any foreign fleet seem to be used as political tools. A rich gamut of administrative obstacles is used against the traditional maritime nations, though such administrative illiberalism is totally opposed to the general endeavour to liberalise world trade.

When assessing the meaning of young maritime nations' policies, we should never forget that protectionist and educational tariffs have, in the past, been acknowledged as fully legitimate instruments of economic liberalism and are still so recognised. After all, the history of the British merchant navy is highly illustrative of such practices. The British Navigation Act excluded foreign shipping from British ports for nearly 200 years. The leading part played in international shipping by the British has been built up, to a very important extent, by the British hampering, with dour determination, the entry of foreign ships in their own ports. There were, of course, also other favourable factors operating in the interest of the British, including their insular position, their colonial possessions, early industrialisation, and the natural talent of the insular nation for ocean trading and shipping.

On the other hand, there are ample proofs supplied by history for the statement that a state-protected shipping monopoly, designed to favour the creation of a national merchant fleet, will not in the long term, which is decisive for the life of whole nations, be accompanied by success. At about the same time as the British, the French, too, pursued a maritime policy which was largely equivalent to the British Navigation Act. Its success was limited: Though France is an important seafaring nation today, the British merchant fleet is approximately four times larger than that of the French. And it must not be forgotten that the French State, over the last eighty to one hundred

years, has developed a whole arsenal of public shipping subsidies and other favours extended to shipbuilders and shipowners. The inference is obvious: long-term successes can be achieved, even with massive State aid, only when a certain starting position is available in maritime trading and in the structure of the entire economy. In the long run, political action will not prevail against economic rationality.

The Neglect of Economic Facts

It is a pity that the international discussion is much more concerned with political motivations, about which disputes and quarrels break out, than with digging for economic facts, though there are indeed several economic oddities influencing ocean shipping.

In a German study made in the 'thirties', the balance sheets of ten German shipping lines were added together, and the combined balance sheet resulting from this operation was then subjected to analysis. The result was: 80 % of all assets were found to be fixed assets, and seven eighths of the fixed assets, making 70 % of the total, consisted of ships. It is highly likely that, on average, the same relations prevail in today's shipping, worldwide. Tramp ship owners invest an even larger proportion of their capital in ships alone, because they own almost no onshore installations which are so typical of shipping lines, or their share is at least much smaller. This implies a high risk for all free enterprise shipping. Fluctuating ocean freight rates and fluctuating income yields will lead to considerable changes in the effective value of the assets sunk in ships' bottoms. Fluctuating valuations of these ships, in their turn, may affect deeply any shipping company that buys or sells ships. It is true that sales results may be far higher than the book values of these ships, but on the other hand, cases may be as frequent in which not even a ship's book value is earned at a sale. Corresponding risks attend the purchase of ships, as first outlays exert a strong influence, through depreciation provisions and interest payments on capital, on operating costs and thus on competitive power. Fluctuating real values of ships' assets also affect the securing of loans on mortgage.

Shipowners do not only tie up big capital sums, since a modern cargo liner will cost between DM 15 to 20 million but they also have to apply a very high capital ra-



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tioper person employed, which means that capital values invested in shipping companies employ an exceedingly low number of operators. In Germany, per person employed in ocean-going shipping, DM 184,000 were invested in 1963. Highly specialised ships cost much more, and their investment per head of crews employed rises up to DM 500,000.

Another characteristic of shipping operations is the relatively low rate of capital turnover. Capital sums invested in shipping are turned over, on average, three to four times per annum. More rapid capital turnover, naturally, will improve the profitability of any business.

Profit yields, especially in tramp shipping, are highly dependent on extremely sensitive prices for ocean transport services. Shipping companies are frequently going through periods when not even total average costs can be earned by the business. Persisting periods of recession lead to such acute problems of cost recovery that the very existence of shipping firms is undermined, especially when fixed assets consisting of ships have been built up from a large proportion of loan capital.

It is true that a number of the characteristics named above can also be found in other branches of the economy, but there is one major difference: what is true in its full complication for an entire industry, that of ocean-going shipping, will hardly apply, in other sectors of the economy, in such massive combination, to even a single business.

To summarise again the special characteristics of the shipping industry, which are of major importance for its economic operation and which impose considerable strain upon its management—these are:

- ☐ High capitalisation;
- ☐ High capital unit cost per job created;
- ☐ Slow capital turnover;
- ☐ Strong fluctuations of transport rates;
- ☐ High yield fluctuation;
- ☐ Fluctuating real values of fixed assets consisting of ships.

By whom and how ships are owned will make no difference to these characteristics. Wherever true ownership of shipping companies is vested is im-

material for the operations of the international shipping freight market. What is important in any case is whether shipping concerns are being operated profitably. Even the Minister of Shipping in the Soviet Government has underlined this obligation as the main operating motivation of the Soviet merchant fleet. However, it ought to be recognised that operating profitability will have the same meaning for all the competitors in ocean shipping, and that individual shipping concerns will draw identical conclusions from identical economic facts—e.g. that insufficient earnings must lead to a winding-up of any company.

A shipping industry which is run according to the principles enumerated here may be operated by private owners or by State entities—for the market, this will not make the slightest difference.

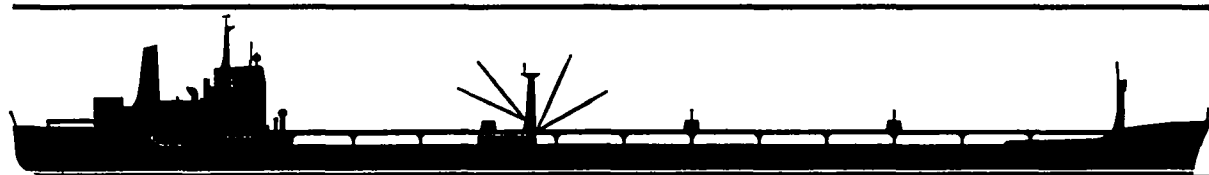
National Benefits Versus Profitability

Young nations will frequently be hard put to it to meet these requirements of operations and of the market. On principle, however, it will be highly advisable to set up shipping lines subject to the same economic conditions adopted by these countries for the formation and expansion of export industries.

Therefore, prior to any decision to invest, the main question to be answered should be to what extent the funds to be applied will contribute to added values and thereby help to raise the standard of living.

In the long term, even politically motivated decisions must not violate economic principles. If investments are being made from other than purely operational motivations, and if such investments prove unable to earn their operational yield, the bill will have to be met from outside. "Outside" means the taxpayer, i.e. the State budget, which represents the sum total of all the dues, imposts, duties, and taxes levied on the citizens. Investments in uneconomic operations will therefore always be at the expense of the population.

Little surprise needs to be caused by this conclusion, but in most cases, no mention is made of it. As a compensation, people mostly emphasise the national utility of an investment whose operational profit cannot be shown, but no calculating pencil has ever been able to put down on paper in round figures what



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represents this mysterious boon—national utility. Emotions will replace reason in this field. Nobody, neither a person nor a Government nor the administration of a State, is free of emotions and of actions based on emotions. Reason should teach everybody to reduce the decisions made for sentimental reasons, or

because of resentment, which frequently prevail today, to a reasonable minimum. To lead to this type of reform, operational profitability of shipping concerns will be a much surer guide than "national utility" of a national shipping entity, which lives on deficit spending.

World Business Trends

**Department for Business Trends Research,
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Slower Growth of Private Consumption in West Europe

The cyclical downward tendency of expansionary forces in most West European countries has noticeably taken hold of private consumption, too. In 1967 the total of West European consumer expenditure should still rise by 5 % at most, after it increased by 7 to 8 % in each of the two preceding years. Simultaneously, however, the upward trend of prices slackened noticeably and thus the quantitative increase of private consumption slowed down less, and after 3.5 % in the previous year it is to be estimated at an ample 2 %. But in view of the growing population this implies that in Western Europe the living standard—measured by the per capita consumption in terms of real value—will in the aggregate rise by little more than 1 % in the current year.

These average values, it is true, hide big differences between the individual national economies. Although for some time already the sluggish tendencies of private consumer expenditure interpenetrated the majority of West European countries, the total result of 1967 is in part considerably determined still by the preceding major expansion of demand. In Britain alone, where in 1967 expenditure on consumption is growing merely by about 3 %, and in the Federal Republic of Germany, where the increase is smaller even, the retarding influences had decisive effects for a longer period already. In most of the other West European countries private households, on

an annual average of 1967, will increase their expenditure by 6 to 7 % vis-à-vis 1966. Italy and Norway, whose economies continue expanding vigorously, with an increase by 8 to 9 % should hold a top position also in this connection.

The differentiated development of private consumer expenditure is reflected in particular by the retail turnovers in individual countries. Although statistical registration in this field is showing big differences, it is significant that from January to May, 1967, in the Federal Republic no more than the turnovers of the previous year's corresponding period have been reached, and in Britain they have been surpassed by a mere 2 %. By quantities this meant a slight decline in both countries. On the other hand, Italy and Norway also in this sphere are showing the most rapid expansion with turnover increases of 8 % and 10 %, respectively (first quarter only). It is rather conspicuous that in many countries the retail turnovers are obviously increasing at a smaller rate than total consumer expenditure. This should be an indirect reflection of the growing weight of expenditure on services which in part is a result of their above average advance in prices, e.g. rents and leases.

At present motor vehicle purchases of private households prove to be particularly sensitive. Thus from January to May, 1967, the number of registrations of new motor-cars was smaller by almost

18 % in the Federal Republic—in Britain by 16 %—than it had been a year ago. Just the other way round Italy registered an increase by 24 % and Norway one by 10 % (until April). In France, on the other hand, a growth rate of a mere 4 % (until April) is already indicating a slackening of the expansion in demand. Apart from fiscal influences the development of motor-car purchases is reflecting very clearly the private households' expectations of incomes, if only because purchases financed with credits are fixing high expenses for a longer period.

In many countries the growth of mass incomes has been considerably smaller in the first half of 1967 than it had been in 1966. Thus industrial wage increases partially slowed down considerably. While in the past year government intervention still played an important role, in the meantime the progress of the sluggish business trend and its repercussions on the labour market have decisive effects. According to the latest available figures the standard hourly wages surpass by only 3 % in Britain, by 4 % in the Federal Republic, and by 5 % in the Netherlands the previous year's corresponding level. In Switzerland, France and Italy the wage increase by about 6 % is not much higher. Although the other, smaller national economies in part are still showing considerably more pronounced wage increases, Western Europe as a whole has only a relatively moderate raise. However, the mass incomes are much more differentiated. This is a result above all of the differing development of