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GOVERNMENT INTERVENTION IN FREE MARKETS: THE SHIPPING INDUSTRY

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Abstract
Over the last century the liberalization of national economies and the induction of free markets have fueled seaborne trade as a pillar for economic growth and international trade. But the prosperity that maritime shipping and seaborne trade has generated needs to be secured within the context of globalization; and so the governments will play a crucial part in promoting and fostering its sustainability. Some argue that governments have a moral and legal obligation to intervene and safeguard sustainable practices. Some on the other hand take that governments' role should be a mere promoter and capacity developer for the greater good through protecting the process of economic prosperity. The real life models show that the degree of government intervention is influenced by country specific environments and may vary according to different economic structures ranging from directive intervention by actively advising industrial policy and investing in selected areas of interest, to facilitative intervention by creating positive investment conditions and provision of public capacity for industries to foster and grow. This paper will make a brief overview on various models examining the degrees of government intervention and its impact on economic prosperity with a particular focus on maritime shipping and seaborne trade. We shall conduct a review of neoliberalism vs. statism and their respect ramification on maritime trade, and will point out to novel third way as a balanced approach that can foster best outcome for our certain study area, i.e. the shipping industry. We are of the opinion that this literature analysis not only provides an overview of the current status of knowledge within the domain of free markets and government intervention, but also serves as a salient guideline for future research directions.

Research paper

Keywords: Government intervention; Free markets; Maritime shipping industry

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Introduction

The discussion of the ideal role of government in determining economic prosperity and sustainability appears to be divided between neoliberalism favoring market-led development and statism favoring full government intervention (Yeung, 2000). According to the free market neo-classical theorists, the state should refrain from intervening in the market dynamics and let Adam Smith's invisible hand solve economic issues. Based on their argument, government interventions will distort the market and lead to deadweight loss because of inefficient resource allocation and possible misrepresentation. On the contrary, state-centered theorists argue that the state should play a more strategic role in "taming market forces and harnessing them to a national economic interest" (White and Wade, 1988). The Asian Newly Industrialized Countries (NICs) economic success is often referred as evidence of the contribution of direct state intervention (Henderson & Appelbaum, 1992; Wade, 1990). Capacity building and the development of infrastructure in innovative technologies involve a high sunk cost that is beyond the financial and technical capability of the private sector and require government reinforcement (Link and Siegel, 2007).

The resource allocation and selective support of governments for some industries and enterprises is likely to put other industries and enterprises at a disadvantage. The cost of corrective government action may be higher than its potential gains. Furthermore, it is warned that bureaucrats are less capable to identify opportunities and pick the winners if they are not familiar with the industry (Joseph and Johnston, 1985).

In addition to the two opposing discussions there is an intermediate headway made laying aside the division of markets versus state. It is stated that there should be multiple forms and organizations of the economy, where state intervention is only a matter of degree (Yeung, 2000). There are two types of government intervention; directive intervention – which aims to achieve predetermined results by making changes in investment and production patterns in selected industries; and facilitative intervention – which aims at creating positive environments for private enterprises by providing public goods such as infrastructure and education (Luedde-Neurath, 1988). Directive government intervention actively participates in picking winners as they believe some industries and products are more vital than others and therefore strategically concentrate capital in these industries. For instance, government provides R&D funding, sets up public research facilities, and assists transfer of the result to private sectors in promoting high tech economy. By contrast, the facilitative government advancing innovation through constructing institutions conducive to fostering a healthy culture and by aiming policies at overcoming obstacles to private investment in innovation (Sharif and Baark, 2009).

This body of work argues that the government should play a more active leadership role and influence the performance, the future of the industries and in coordinating a more effective implementation of equilibrium between the market forces and government intervention for the sake of the industries' development and people's welfare. Others argue that the private sector is recognizing the importance of these issues and will, when the market demands it, adopt and enhance relevant policies that are needed to produce effective use of the macroeconomic environment. Arguments against government involvement include the likely emergence of an adequate infrastructure under free market forces, the often-stifling effect of regulation, and the need to avoid a command and control mentality in an infrastructure that is best promoted collaboratively. If the government should decide to work with free market forces in development of the infrastructure; it could embrace an important role as a collaborative stakeholder supporting a successful outcome. If, on the other hand, the government should choose to pursue intervention as a regulator or as a controller, it will pervert the market from developing a value-driven, economically accountable infrastructure that is dynamic and able to adapt to the needs (Caine et al., 1996).

Economic reality of today has confirmed the view that free market dynamics provide the effective sanctuary for sustainable growth and economic prosperity. However, in the long run, the spontaneous effects of market laws, since they cannot provide a balanced, optimal and socially acceptable functioning of economic activities, leads the development in the opposite direction. Despite all the advantages brought about by competition, it is unreasonable to expect that a free market, which is left to its own devices, can initiate such development which will be beneficial for the society as a whole and successfully address socio-economic issues and sustainability practices. However, this does not mean that the positive role of free market as a mechanism of optimal resource allocation and coordination of economic activities, which contains an important motivational component for economic actors and which is a prerequisite for economic success and overall growth and development of economy and society should be denied. The nation building objective growth and sustainable development can therefore be successfully achieved through a free market that is in compliance with the regulatory, guiding, and corrective actions of the state. Such an integrative complementary blend of the market and the state enables the successful achievement of long-term economic, development and social goals of a society. After all, even the protagonists of the neo-liberal concepts, faced with the reality that the system based on the said grounds fall into economic, social and moral crisis, agree that the existing concept should be transformed and a new socially responsible and more humane economic model should be established if we are to achieve economic and social prosperity. Mesaric (2006) points out "the need to harmonize the principles of profit with social and ethical principles [as a way to] response to the increasingly evident weaknesses, failures, and the crisis of the existing ruthless, socially, environmentally and ethically insensitive capitalism." Hence, the disputing debate on socio-economic, environmental and ethical consequence of market fundamentalism, have had its impact on protagonists of this doctrine to the point of recognizing the need for a more comprehensive understanding of the broader social and moral interests.

Our contemporary societies are undergoing a process of rationalization in which the values and objectives of neoliberalism are artificially introduced into social processes and the subjectivity of individuals is questioned. This epistemological transformation has consequently created agents who are guided by notions of entrepreneurialism and economic outcomes, in which the relationship between these neoliberal subjects is coordinated by private concerns, consumerism and the competition for resources (Hart and Henn, 2017).

Our contemporary societies are undergoing a process of rationalization in which the values and objectives of markets are artificially introduced into social processes and the subjectivity of individuals is questioned. As a result of this transformation, there are agents who are guided by notions of entrepreneurialism and economic outcomes, in which the relationship between these neoliberal subjects is coordinated by private concerns, consumerism and the competition for resources (Henn and Hart, 2017).

The remainder of this paper develops a theoretical framework highlighting neoliberalism vs. statism as the two most discussed school of thought on the subject of government intervention. We will then set forth by introducing a novel idea of a mixed market-government approach which enables the shipping industry to make benefit of the opportunities and ameliorate seaborne trade. Conclusions are presented as the final part of this paper.

Neoliberalism (Free-Market Capitalism)

Neoliberalism, as an economic ideology in favor of market mechanisms, is primarily concerned to promote a market-led transition towards the new economic regime (Jessop, 1993). In 1980s, International organizations such as the World Bank, the International Monetary Fund (IMF) and the

General Agreement on Tariffs and Trade (GATT) were promoting and executing neoliberal policies throughout the capitalist world and neoliberalism had effectively ruled in most parts of the global economy (Taylor, 1997; Radović-Marković & Salamzadeh, 2012). In America and Europe, neoliberalism has been hailed as an institutional fix to resolve global-local challenges arising from the need for capital to globalize its productive capacity and for labor to localize jobs and employment (Jessop 1994; Tickell and Peck 1995; Joshi, 2017). According to the OECD (1998) more open and outward–looking economies consistently outperform countries with restrictive trade and foreign investment policies. Anne Kruger has no doubt those countries that liberalized trade grew faster. The IMF (1997) shares the same opinion "policies towards foreign trade are among more important factors promoting economic growth and convergence in developing countries."

Neoliberalism is a phenomenon that is simultaneously an ideology, a policy, and a form of governance. Technology, finance capital, and wealth redistribution all are important aspects of neoliberalism. Stedman Jones (2012) has defined neoliberalism as "the free-market ideology based on individual liberty and limited government that connected human freedom to the actions of the rational, self-interested actor in a competitive marketplace."

Howard and King (2002) contend that neoliberalism is a long-term consequence of the development of the productive forces, in which advances in technology are key. For Dumenil and Levy (2004), neoliberalism represents the ascendancy of financial capital over industrial capital in the pursuit of profit. Harvey (2005, 2006) maintains that neoliberalism is an exercise in the redistribution and transfer of wealth. Neoliberalism is a form of "governmentality" which has been internalized by individuals who self-regulate and discipline themselves rather than a form of ideological control which is exerted externally (Foucault, 2008).

The free-market capitalism relies on the private sector, not the state as the primary engine of economic expansion if growth is to be strong and sustainable. The supporters of the neo-liberal conception, which focused on the fundamental problems and weaknesses of state institutions proposed accelerated privatization and market liberalization as the universal solution. According to the neoliberal economic model, in which the Darwinian principle of survival of the fittest rules, the role of the government and the public sector is reduced to a minimum. It was considered that a free market and private entrepreneurship, unrestrained by the state interference, would best meet the needs of every individual (Lekovic, 2012; Salamzadeh, 2015). The basic institutional preconditions for the free acting of individuals are the free market and the free trade which serve as the basis for the division of labor and development of the economies of scale (North, 1990).

The IMF and World Bank have both urged the liberalization package with the following measures: Trade liberalization, especially the conversion of quantitative restriction to low, uniform tariffs; real exchange rate depreciation and unification of the exchange rate, an emphasis on the private sector as a source of growth, including the privatization of state enterprises; and an overall reduction in all forms of market intervention by the government, in capital markets, factor markets, and at all level of government taxation and expenditure (Sachs, 1987).

The World Bank states: "The basic strategy for economic recovery should rest upon the private sector as a main starting device of the growth of the economy and employment. Further, most of medium-term economy growth will have to come from the development of the service sector. The state firm's controlled properties which do not operate can be used by the private sector. The importance is to identify the useful parts of the state firms and to sell them through a simple and quick mechanism of privatization." The World Bank continues: "The role of the state in the economic and development strategy which is governed by the private sector is not unimportant, but it is of shifted focus. It should concentrate on the maintenance of macro-economic conditions, on the establishment of a relevant legal and institutional framework, which motivates uninterrupted functioning of a free market and provides basic public goods and social services, such as defense, public order, education, and health service."

The free, competitive market is a public good; it calls for public or collective action to maintain it. Economic liberalization encourages personal and group independence and strengthens the ability of people to resist the encroachments of an overweening state (Bobbio, 1990; Diamond, 1995; Friedman, 1962; Hirschman, 1977). Economic liberalization pluralizes power; creating a financial basis for opposition and spurring the growth of a middle class and it takes economic power out of the hands of those who also control the coercive agencies of the state. Neoliberalism today reflects a new orientation of coercive competition; with capitalist reordering relying on state rationalization, market contestability, and factor mobility across all nations (O'Conner, 2012).

Statism (Government Intervention)

State is considered as an element of the political system that is needed to facilitate market performance and secure legal mechanisms for the implementation of special regulations. State intervention in the economy distorts price signals and, thus, violates the spontaneous order (Hayek, 1967). Considering approaches that are implemented in institutionalism in relation to the role of the state in the economy, we should study traditional institutionalism and new institutionalism. The position of the (old school) traditional institutionalism is that the state is an institution that develops and provides the general rules of the game in order to increase prosperity and justice. This stream contains defending the need for government interference with the economy aimed to promote the effective functioning of the market. New institutional theory regards the state as the creator of formal rules and guarantor of their implementation. In frames of this stream there has been developed the theory of state as an organization that unites actors aspiring to influence political decisions to maximize personal gain (Hayek, 1967).

The need for a broader scope of state intervention in the economy compared with the neoclassical approach is recognized its German variant, the Ordoliberals. Representatives of this school believe it is inappropriate to limit the role of state to the sole function of maintaining economic management rules. The state, in their opinion, must establish these rules and change them when they cease to be effective. Thus, the influence of legal domain on economic activity in terms of approval of state helpfulness in establishing a free market is to increase.

The active economic, political, and the appropriate role of the state does not imply the state as the owner and CEO of the public enterprises, but, above all, as the "architect" of institutional arrangements, the leader of the activities in the area of infrastructure development, as well as the bearer of an active attitude towards global integration. The responsibility of the state for the successful implementation of establishment of institutional system is crucial in the long run. This is necessary, since "there is a connection between the lack of appropriate institutional arrangements on the one hand and spreading of the inequalities and poverty increase, on the other"(Kolodko, 1998). This situation points to the need to balance individual and collective needs, as a condition for the success of a society. The active role of the state and other representatives of public interest such as trade unions and other civil society organizations is required in order to be able to establish and maintain this balance. This means that the ways in which the state influences the behavior of the economic entities should be diverse and comply with the principles of market economy and private entrepreneurship. At the same time, it should be noted that the state, through its actions may cause certain economic distortions, which result from the inadequate solutions, price fluctuations, higher transaction costs due to corruption and misrepresentation, if the laws are being changed frequently, or if governments changed frequently. However, the occurrence of these negative tendencies, which are the result of state influence on the economic system, should not be the reason for denying the role of the state or for promoting the neoliberal policies. Proponents of neoliberalism overlook the fact that most developed countries today (U.S., Germany, Japan, etc.) achieved their impressive economic growth in the periods when national development strategies were applied, rather than at the time of strengthening the system of liberal institutions. To put it simply, the fact that the internal development and institutional relations are rarely successfully accomplished by the general liberalization of economic relations is frequently ignored (Popov, V., 2007). On the other hand, the development crises were always solved by state intervention rather than leaving the development in the hands of the unrestrained action of market forces, which might be expected if we follow the logic of liberal economic concepts. The proof is the current global crisis. Because of these different experiences, despite the widely held opinion that the liberal system provides the fastest economic growth, prosperity and freedom of economic activity, no underdeveloped and economically poor country has willingly opted for this type of system as its development paradigm because of the alleged advantages which would be brought on. At the same time, the underdeveloped countries are right to fear the competition of stronger countries and imposed restrictions in terms of protecting their own interests and defining development goals and priorities.

Old forms of state intervention must be eliminated and new ones, introduced. The state must be constantly reformed in order to be kept strong, effective. Often this process is lagging, only taking place after an economic and fiscal crisis breaks-up. As a result, what we see is a cyclical and ever changing pattern of expansion and contraction of state intervention. State regulation modernization is considered an institutional innovation which has an absolute social and economic priority in the spectrum of anti-crisis measures of economic policy (Radovic, 2012).

Not only should government provide a legal framework and maintain law and order, including the enforcement of contracts, property rights, etc. and pursue the correct macroeconomic policies with respect to exchange rates, interest rates, wage rates and trade policy in order to ensure high levels of employment without inflation and economic growth. It must also encourage competition by anti-monopoly and anti-restrictive practices legislation or by setting up competitive enterprises in the public sector, or by trade liberalization or take over natural monopolies. In addition to safeguarding competition, the government can intervene in the processes of price formation, production and finance in ways that make markets work better for all (Streeten, 1995).

The Shipping Industry: a new approach beyond Free Market and Government Intervention

The importance of maritime trade and shipping transportation as a pivotal player for economic development has been noticeable to economists for centuries. The shipping industry is considered a fundamental factor in fostering human capital, economic growth, modernization, industrialization and world's trade in view of the fact that maritime transportation is the most common mean of transportation of goods and materials. The industry has constantly witnessed modifications in terms of leadership distribution in the last century and has been characterized by a very open market where customers and competitors come from all over the world resulting in fierce rivalry at an international level (Stopford, 2009).

The shipping industry has been a subject of dispute between economists, politicians and operatives in the field for many years. Shipping policies and government actions have great impact on both socio-political and economic wellbeing of societies. The model of maritime shipping is an epic example of governance without a government. According to this model the focus is given to maritime administration and the role of expert influence. The age of supreme policy institutions with command and control almost came to an end, and the new era is about encouragement, governance without government and policy instruments which work with human nature and its irrationalities. But can we unearth new approach to all of this?

The ideal level of state intervention for the neoliberals is very low, for the statists, very high, and for the pragmatists, intermediary. As modern economies become more and more complex, the need of market and state coordination of the economy turns bigger and bigger. Successful in all developed economies implies institutional combining and complementarity of a free market incentives and government intervention (Eatwell, 1995). It is here that the modern economy is presented as a mix of institutional market force and state regulation, and the maritime shipping is known for being a bridge between market power and government's regulated framework.

The term mixed economies has been attributed to systems where the market, especially the private sector, drives the needs and makes most of the decisions in the financial transactions of an economy, where at the same time governments play an equally important role by supervising those transactions. Such supervision can be accomplished by means of regulating the market via laws and rules of financial conduct imposed frequently in our days (Samuelson and Nordhaus, 2001).

The market and the state are the two mechanisms that respond for the coordination and ultimate prosperity of a thriving economy. Although they are not parallel institutions, and the state is previous to the market and responsible for its institutionalization and regulation, it is possible to think that they also have complementary roles in the coordination of the economy. These roles have to be performed in a balanced way. Stiglitz is convinced that optimal and sustainable socio-economic development cannot be achieved without proper guidance and regulation of economic processes, particularly from the standpoint of social justice and environmental balance. The solution should be sought in the optimal combination of market activity and government intervention, which will be different at different stages of development and under different circumstances (Stiglitz, 2002).

A similar view is advocated by B. Mc Kibben (1990), who is convinced that radical changes of development priorities will be necessary in order to save the Earth from destruction: instead of the current focus of development to satisfying the interests of a group of highly developed countries and the insatiable appetite of minority privileged class of population with increasing profits and wealth, it will be necessary to give priority to long-term development strategy (Natalie & Wandebori, 2018). These positions are joined by J. Green (2007) "Overcoming the ecological crisis requires regulation of the 'invisible hand' of free market that does not care for long-term effects, but is focused only on the increase of short-term profit." New development planning in his opinion should not be limited to economic restructuring that imposes the prevention of ecological disaster, but it must also contain a social component in order to avoid social explosion that will happen if they do not reduce the gap that separates rich part of the world and wealthy classes from the marginalized and poor countries and classes. So how does all of this apply to the Shipping Industry?

According to Selkou and Roe (2004), there are seven major reasons for maritime policy:

- Dealing with the competition (Monopoly or excessive competition)
- Government intervention and fiscal support (high cost infrastructure, subsidies, public goods, privatization etc.)
- Externalities (environmental debates)
- Development (economic impact of the industry)
- Labor force (labor rights, education)
- Defense (maritime piracy)
- Prestige (holism, flag waiver)

As a mission of maritime governance, the state of shipping competition is expected to be monitored for eliminating both monopolies and excessive competition. In the developing stages, many countries support particular business groups based on their lack of entrepreneurs and the high cost of critical services and infrastructures. These business groups are supported financially or politically through lending, subsidy or legal permit instruments. The organizational transition reduces the number of large family controlled business groups while waxing the professionally managed firms. Looking from a wider perspective, the constitution of large business groups backing public sponsorship seems essential for developing nations while the monopolies and family-based organizations should be eliminated or forced into organizational transition after an initial industrialization stage. Therefore, for action to take place, a monopoly of large business groups is needed to establish an origin point of industrial development (Chandler, 1977, 1990). A novel term, "cosmic capitalism", demonstrates the post-modern maritime governance scheme which has less rigidity and more flexibility, less regulation and more follow-up and less hierarchy and more collaboration. Post-modernism is also a strategic shift from economy of scale to economy of scope while manpower shifts from specialization to flexible skill formation (Roe, 2013).

Government intervention is negatively correlated with the stage of development. Undeveloped countries and developing countries strongly need the public-private partnerships, subsidies, public investments (especially marine ports) and paternalism (Thaler and Sunstein, 2003; Salamzadeh et al., 2013, 2015). As development progresses, governments transfer their physical instruments (maritime hard power) to industrial institutions for establishing a self-regulative regime.

In maritime governance and policy making, the interaction between shipping companies, professional institutions and public institutions should be revisited and probably redesigned to develop incentives which improve the governance and policies while eliminating overregulation, commission incentives and moral muteness. Overregulation is one of the most popular topics in political science, and many governments have recently been working to reduce and simplify the existing regulations, as well as to transfer some instruments to professional agents. This approach is very much a key point in the Governance without Government perspective.

Through the emergence of non-governmental resolutions, new forms of governance and policy making have been developed to deal with the problems of this century. Post-modern enlightenment has contributed to the criticism of the conventional perspectives on maritime governance and legislation. In the 21st century, maritime public governance is expected to promote non-governmental participation on regulatory processes (e.g. self-regulation, quasi-regulation, co-regulation) as well as acting on behalf of public institutions (e.g. voluntarism and empowerment). The Governance without Government perspective has spread out influencing trends of deregulation and simplification.

Maritime governance without government does not imply total elimination of the regulatory instruments, but it means shifting from hard power politics to soft power politics. In political science, the hard power is usually thought of as a military power. However, it is not limited to military power and actually covers a wide range of instruments including economic or legislative ones. For the politics and governance of maritime affairs, hard power may refer to ports, flag state instruments, taxation, authorization-certification, auditing-inspections, amongst others. Legitimate and coercive powers are some examples of bases for hard power. However, these kinds of power can easily be lost if the leadership role of public institutions is not recognized by stakeholders in the maritime industry. Maritime soft power is an indirect form of governance through the construction of preferences, mainstreaming and supervisory functions accepted and trusted by stakeholders. The expert power and informational power play a significant role in the building of a maritime soft power (French and Raven, 1952; Radovic Markovic et al., 2013). The essential objective is to serve as a reference for influencing the improvement of individuals and institutions.

Rather than a direct regulatory role, other forms of regulatory functions are utilized on behalf of government intervention. For example, self-regulation or quasi-regulation methods can be used as alternatives. Voluntarism is a form of self-regulation. In the maritime industry, voluntarism is already employed for some purposes (e.g. professional associations for certification) in many countries. The conventional classification societies serve on behalf of governments which is a form of voluntarism. On the other hand, the promotion of the maritime industry and attracting investors need different kind of institutions. Different forms of non-government solutions can be developed from existing experiences. Incentives, behavioral law and empathy are some important drivers of the outcome of such solutions. Private institutions do not move voluntarily without economic incentives. Political actors need to focus more on how to push and motivate people in the maritime industry.

Conclusions

In this paper we ventured into the ways governments intervene within markets, in an attempt to better understand how they can impact the shipping industry and seaborne trade. Government intervention is an unavoidable malevolence that needs to be studied and optimally programmed to reach an efficient market. This study is among few who have explored the impact of government intervention and the role of free-markets on the shipping industry. Too much government interference could lead to the concentration of resources funneling towards a limited number of players, while too little government support would result in a shortfall of development opportunities. We have highlighted and evaluated the dynamics of free market and state intervention approach. We have introduced a third way as a balanced mix between the two argued discussions of free markets vs. full government control. The new approach has tremendous value for the effective functioning of many global industries. The key to success is for better governance, more private sector-led innovation, and possibly some public incentives in new ventures along with the means to capture and redistribute the benefits of disruptive technologies. Governments should define their involvement with respect to the shipping industry as a global vehicle of the global economy and work on a multilateral agreement, setting the pace towards a more constructive mix for all beneficiaries.

Governments will interfere in markets whether we like it or not, but the question will remain to what extent and for what purpose. Countries need to tailor their own mix of state and market-led institutions to their specific contexts, and we should expect considerable variations coming about as a result of this approach. A new business-government model may be necessary with government entrepreneurship being more common. Future research could place particular attention on the global impact of maritime transportation and its greater influence on the advancement of world economies. Finally, as with every other study, this paper has its limitations. Although being comprehensive in its kind, the literature review does not encompass all related theories and approaches on the subjects raised. As continued research, it is suggested to conduct a specialized study based on real life examples of good governance in maritime industries.

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