Moser, Carsten R.

Who is going to pay for it?

Suggested Citation: Moser, Carsten R. (1970) : Who is going to pay for it?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 05, Iss. 5, pp. 139, http://dx.doi.org/10.1007/BF02928730

This Version is available at:
http://hdl.handle.net/10419/138338

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.
You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

www.econstor.eu
Who Is Going to Pay for It?

Rightly, the developing countries feel annoyed about the high rates of interest demanded from them by the industrial countries for development loans. On the one hand it was stressed in various recent reports, such as the Pearson, the Jackson and the Rockefeller reports, that stepped-up development aid would be the means towards a quicker pace of their economic development. On the other hand, however, the developing countries saw loan facilities of banks and industry curtailed because of the relative scarcity of available funds in the donor countries and, as a result, have had to pay interest at the rate often of 12 p.c., and occasionally even more, for credits and loans if and when granted at all.

Such interest rates are, for them, all the more of a burden as they tend to increase their indebtedness. There has in recent months been a slight cooling-down of the trend of money rates in the USA as well as the Euro-dollar market, but the hope of an early downward movement of international interest rates near enough vanished when the Federal Republic of Germany increased its official discount rate from 6 to 7.5 p.c. on March 6th.

Is there, then, the possibility at all for a scaling down of the level of international interest rates? The American Ministry of Finance is of the opinion that a return to what used to be regarded as "normal" rates of interest will be a long and arduous process. Wilhelm Hankel of the German Ministry of Economics supported this prognosis with the argument that the rate of interest was a price like any other price, being therefore subject to the so-called ratchet-effect, meaning that it is rigid in any downward direction. It follows according to Hankel that both industrial and developing countries must get accustomed to live with high rates of interest.

If, in fact, receding international interest rates cannot be expected, the industrial countries will have to think of ways and means to direct credits and loans to the developing countries at cheaper rates of interest regardless of the general trend of money rates. A possible solution could be the granting of private credits at similar favourable conditions as the ones agreed upon between several Western industrial countries and the East-bloc. It surely did not help towards the developing countries' understanding for the high interest burden when they heard, for instance, that banks and industry in the Federal Republic of Germany prepared to extend credits at half the interest rate to the Soviet Union, and soon also to other states in the Eastern bloc.

But the governments of the industrial countries will also have to concede more advantageous terms to foreign investors if the volume of foreign private investments is to grow in spite of the high rates of interest prevailing in the money and the capital markets. The concession of subsidised rates of interest for foreign investors might, in this connexion, well have to be recommended. In such a situation the governments will have to keep a watchful eye on these subsidies not being claimed for investments in other industrial countries, for it is particularly those countries that enjoy an economic boom. The most urgent pre-condition for a "normalisation" of the international level of interest rates, however, is, and remains, a cooling-down of the boom in the USA and Western Europe.

If the developing countries are to be spared further frustration, the Western industrial countries will either have to find their way back to a policy of cheap credits as soon as possible or be prepared to concede favourable conditions for credits and loans to them. The targets for the second development decade have been set ambitiously high. For the realisation of these aims the developing countries need the help of the industrial nations. The times have passed when they were satisfied with good advice and wishes.

Carsten R. Moser