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Aid Act in Need of Reform

A lively discussion has now been in progress for about a year about the extension of the "Entwicklungshilfesteuergesetz" (Development Aid Taxation Act) of 1963 which is due to expire at the end of 1972 and about its indispensable reform. The German Forum for Development Policy, a politically independent body of representatives of political, economic and scientific life, has now joined this debate by formulating proposals for amending the Act.

The Act encourages capital investment in less-developed countries (LDCs) by tax concessions. German businessmen investing in LDCs can save close on 20 p.c. of their initial investment outlay by making use of these concessions. According to the provisions applying at present the extent of the tax concessions depends on the sum invested in fixed assets, so that industrialists are encouraged to use capital-intensive production processes. These are certainly beneficial to the LDCs insofar as they lead to the imparting of know-how, export diversification and the establishment of joint ventures. But the discussion has revealed that the Act has by and large failed in its purpose: the share of the LDCs in German direct investment abroad has declined from 38 p.c. in 1962 to 28 p.c. in 1971, and, according to Minister Eppler, "the Development Aid Taxation Act has had very little influence on investment decisions".

For this reason the Forum in submitting its proposals criticises the bias in favour of heavy capital spending, and in view of the heavy unemployment in LDCs recommends that the Act should be used rather to purposely encourage job creation. The Forum believes that the Federal Republic should make it part of its overall economic aims to use its own limited manpower in the sectors of highest potential productivity and establish more labour-intensive production facilities in the LDCs because they will have a super-abundant labour force for a long time to come. This would enable these countries to create additional jobs and to alleviate their structurally high unemployment. At the same time it would give relief to the German labour market.

It is the view of the Forum that tax concessions should in future be graduated according to the number of new jobs. The more jobs are created by a certain investment, the greater should be the tax relief. Besides, the efforts to stabilise the price level in the industrialised countries would be furthered if their markets were opened to products which the Third World produces at a low cost.

Investments in dependent territories — i. e., colonies — should in the opinion of the Forum be excluded from the benefits, in accordance with the general recommendations of the UN. But assistance should be available after thorough examination if it can be shown that such investments help to set on foot or speed up a process leading to future economic and political independence. Unlike the Forum, however, the Bundestag parties agree that these territories should be excluded from benefits when the Act is amended.

On the whole, such an amendment of the Development Aid Taxation Act would be in conformity with the intentions of the Federal Government as emerges from its development policy concept for the Second Development Decade: "The Federal Government for its part especially welcomes private direct investment in partnership form which serves the economic and social needs of the LDCs, e.g. by infusion of technology, utilisation and development of domestic resources, reinforcement of domestic production structures, export diversification and creation of employment opportunities".

It is however to be regretted that, though the Act needs amending, this will not be done in the near future, in spite of thorough discussion and commendable proposals, because it has been impossible to reach agreement in Bonn on a bill involving significant changes. The Act in its present form will probably only be extended for one more year, so that the few modifications envisaged will for the time being fall by the wayside. The only hope left is that after the elections the next Federal Government, of whatever bent, will tackle this important task without delay.

Hubert Höping