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One Billion DM for Development Aid

At the start of the Second Development Decade (1970–1980) the industrial nations set themselves the target of spending 0.7 p.c. of their GNP on public development aid for countries of the Third World. Although the Federal Government, like others, has the best intentions, the industrial nations are far from reaching their target. In the DAC countries (which provide 95 p.c. of all public development aid) the public aid amounted to no more than 0.35 p.c. of GNP in 1971.

The Federal Republic of Germany is also lagging seriously behind the target. Although its public development aid rose in absolute terms from DM 2.56 bn in 1971 to DM 2.60 bn in 1972, its GNP share has fallen from 0.34 to 0.31 p.c., and it can hardly be expected to increase appreciably in the next few years. The efforts of the Federal Government to get a grip on inflation leave no room for early extra allocations to the budget of the Federal Ministry for Economic Cooperation. With the GNP likely to grow apace, the 0.30 p.c. rate reached now will not change materially.

Against this background a proposal has come from the ranks of the Social Democratic group in the Bundestag to earmark DM 1 bn in the countercyclical reserves for stepping up development aid. It deserves to be examined with an open mind. In the view of the deputies the ex-

pected economic boom in the next few years is unlikely to call for recourse to the DM 2.5 bn in this reserve, or the DM 4 bn which are to be raised by the stabilisation loan. On the contrary, it is more likely that the anticyclical reserves will mount in the next five years to anything up to DM 15–17 bn.

Several points can be made in support of the proposal: First, a decision of this kind would undoubtedly improve the development "image" of the Federal Republic of Germany. Other industrial nations may declare themselves willing to emulate the German example. Secondly, the proportion of the GNP devoted to public development aid would rise at one stroke from just over 0.30 p.c. to about 0.45 p.c., which would still fall short of 0.70 p.c., but not be so very different from the figures for Japan (0.40 p.c.), Great Britain (0.46 p.c.) and France (0.65 p.c.). Thirdly, there is certainly a danger, as the deputies suggest, that Parliament might be tempted into distributing a largesse of election presents which are not desirable on cyclical grounds, if a new Reserve Tower ("Julius-turm") piles up before the 1976 Bundestag elections.

Admittedly, the use of DM 1 bn for development aid would not necessarily leave the economy in neutral gear. The financing of individual projects in countries of the Third World could turn into a boomerang when funds

flow back into the Federal Republic in payment for contracts placed here. For this reason the Federal Ministry for Economic Cooperation is at present examining to what extent such a boomerang effect would be allayed by passing the funds through the World Bank or IDA or using them for debt conversion in individual developing countries. Thought is also given to stepping up technical assistance. But action on these lines could still not guarantee that the use of the funds will not stimulate the German economy further.

The opponents of such plans — who include the former Finance Minister Alex Möller — do not base their objections on possible repercussions on the cyclical trends but on the priority of internal reforms over development aid. It can be argued against them that undesirable consequences are much more certain to ensue from anticyclical reserves used to finance internal reforms. Besides, it should be perfectly possible to draw on the estimated DM 15–17 bn in the next few years to provide DM 1 bn annually for development aid and to spend at the same time a similar sum on infrastructure measures at home. The balance of advantage seems to lie with the proposal. In any case, a cyclically almost neutral use of the funds for the benefit of countries of the Third World is preferable to sterilising them. *Heinz-Dietrich Ortlieb*