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Germany: Investments abroad

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COMMENTS

Germany

Investments Abroad

In March the cabinet of the Federal Republic passed the draft of a new Development Aid Taxation Law (EHStG) which is initially to stay in force for five years. As an important innovation it envisages the abolition of the depreciation allowance: tax concessions for investments abroad will thus in future be given only through tax-free contingency reserves which may be built up and drawn down according to certain development objectives. The rates of allocation for these reserves, for instance, will depend on the state of development of the country in which the investment is made. The rules for liquidating the reserves remain as hitherto although the period allowed for their liquidation will be extended from 6 to 12 years in the case of wage-intensive kinds of production.

It is, however, very doubtful whether the development objective of giving priority to the encouragement of labour-intensive investments can be achieved by means of this law. The abolition of the depreciation allowance is unlikely to offer a decisive incentive to turn to labour-intensive productions because the moves to eliminate discrimination against labour-intensive investments do not go far enough. The envisaged method of encouraging wage-intensive investments is also most unlikely to have such an effect. The general liquidity aids in the early years are more likely to provide a crucial investment incentive than the additional interest income resulting from tax deferment.

It is also questionable whether the differentiation in investments to the disadvantage of the poorest countries can be ended by graduating the reserve rates. Basically the EHStG is only an instrument for assisting countries which already possess an infrastructure of some kind and a market potential. In this respect it will in spite of certain faults fulfil a useful purpose and act as a complement to other development instruments. To expect more would be a delusion.

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Monetary Conference

An Interim Solution Only?

Since the oil crisis it has become usual practice in the discussion on the reform of the international monetary system to make a difference between long-term plans of reform and urgent points of reform the solution of which is considered to be merely an interim phase on the way to a final reform. These points include the elaboration of

guiding lines for a system of floating exchange rates, the evaluation and interest of SDRs as well as the improvement of the structure of the IMF.

All three points formed the main subjects at the March Meeting of the deputies of the Group of Twenty in Washington. The fact that agreement has not yet been reached is surely not a "sensation". It is astonishing, however, that the Group of Twenty partly still close their eyes to reality and give the impression as though it were possible to return once more to a slightly modified Bretton-Woods-System with stable but adjustable parities. This belief is bound to remain Utopian, for internationalisation in the sphere of enterprise and finance will continue to increase rather than to decrease. Moreover, there will always be events like the oil crisis, so that only a flexible monetary system will be able to meet future requirements.

Such system should consist of manipulated and controlled floating exchange rates, the necessary liquidity requirements being covered by attractive SDRs. Their creation and control should be the responsibility of the IMF. The attractiveness of the SDRs is necessary so that they may serve as a means for neutralizing existing foreign-currency overhangs independent of the hands which hold them. The responsible politicians and experts should concentrate their efforts on these subjects, for the points of reform designed as an interim solution could then be advanced to the final reform.

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Common Market

The British Challenge

The speech which the British Foreign Secretary Callaghan delivered to the EC Council of Ministers in early April contained a blunt threat to leave the European Community unless fundamental renegotiations took place on the terms of accession with results acceptable to the British people. He made it clear in his speech that the new Labour Government does not mind flouting a valid international treaty as a matter of election tactics. The Wilson Government has indeed nothing to lose as far as the next elections, to be called in the foreseeable future, are concerned: if the European partners yield to the British demands, Wilson can cast blame on the Conservatives for having sold Great Britain to the EC at a bargain price; and if the other members refuse to concede new special rights to the British, he can turn this also to his domestic political advantage by making play with the unreasonableness of the people on the Continent. The negative long-term effects of resignation — also for Great Britain — seem to be a minor consideration in Wilson's calculations.