

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Common market: The British challenge

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1974) : Common market: The British challenge, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 5, pp. 132-133,
<https://doi.org/10.1007/BF02927283>

This Version is available at:

<https://hdl.handle.net/10419/139012>

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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.

kr.

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.

ge.

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.

What then should be the reaction of the other EC states to the ultimatum-like demands from London? If they show themselves willing to make concessions in the present situation, they must expect that other member states may in future also make an issue of terms agreed upon earlier when there has been a change of government. Such a state of permanent revocability would create uncertainties which would seem to make it impossible to continue the process of European integration. If the Continental members of the EC, adopting the opposite course, refuse to negotiate under a withdrawal threat, the British threat of resignation may become bitter reality. The question is whether a reduced membership is not the lesser evil when the alternative is a Community of nine deprived of the last vestiges of credibility and the ability to develop further. ch.

Portugal

Approaching a Moment of Decision

Portugal will remain the poorhouse of Europe for quite some time to come as it began the intensive development of its industry as little as 20 years ago. That Portugal in these circumstances continues to accept the burdens of the fight for its African territories cannot be comprehended except in the light of its traditions and present foreign policy commitments. It was in Lisbon that the colonial age dawned in the 15th century. But while other colonial empires have broken up, little Portugal has succeeded in keeping a substantial part of its former possessions intact — by tenacity but also by choosing the right allies, England for many centuries in the past and now the USA.

Angola and Mozambique, like the Azores, are strategic pledges in the hands of a dependable ally who is becoming indispensable for NATO. As long as Portugal retains its African possessions, Southern Africa remains a bastion against Soviet naval domination of the Indian Ocean and the communist guerillas who are controlled by the USSR. Though in General Spínola's view the war against the guerillas cannot be won, it presumably cannot be lost either while Portugal is willing to carry on the fight.

Now a coup d'état of the army has overthrown the Caetano régime. If General Spínola would be now installed as head of the government, he might have a fair chance of realising his ideas of a new policy in Africa. But there remains the problem how the extremely conservative Portuguese establishment will react. Now a choice seems to be presented between an entirely new policy towards the African territories, which would be less embarrassing for Portugal's democratic allies, and stubborn pertinacity, which

would be preferred in the Union of South Africa and by many Portuguese living in Africa. It also involves a decision whether 46 p.c. of the budget are still to be spent on military operations in future or whether preference should be given to advancing the development of the mother country. hg.

EC — LDCs

Solidarity — Doomed to Failure

The European Community, or at least its Commission, should no longer be exposed to the charge that it only cares for regional development aid — for the well-being of the associates and associables, especially the former French colonies. In a statement to the EC Council of Ministers the Commission proposed at the end of March that a world-wide Solidarity Fund be set up "to neutralize the consequences of price increases for the developing countries hit most severely".

The Commission envisages that about 25 LDCs, the economic position of which seems to be in special peril, should benefit from Fund allocations. Not only have they long been handicapped by extremely low per-capita incomes and chronic balance of payments deficits but more lately they have in addition felt the effects of reduced capital inflows and declining export proceeds. According to calculations by the Commission and the World Bank mainly countries in Central America, South-East Asia and tropical Africa are hit most severely by price increases connected with the oil price movements because they are without adequate resources of their own. The request to help them is thus not a new variant of development aid but merely a way of compensating for additional expenditure.

Regionalisation is also to be ruled out on the donor side. All the prosperous nations are invited to contribute: industrialised countries and oil states with big revenues are to put \$ 3 bn into the Fund. The Commission has given some thought to the distribution of the burden: because of higher export proceeds the EC and the USA are to provide \$ 500 mn each and the other industrial nations together another \$ 500 mn. The oil sheikhs may pay in the other \$ 1.5 bn; after all, \$ 1 bn has already been offered by Iran.

It is, however, too much to hope that the states invited to show such solidarity will conform with the "EC guidelines" as the Commission's proposal, having failed to command a majority in the Council of Ministers itself, seems from the outset doomed to failure. All that Foreign Minister Scheel who is currently presiding over the EC Council of Ministers was able to do was to read out a benevolent statement at the UN special conference on raw materials and development. zz.