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Automatic Transfer Payments to Developing Countries

Building Block for a New International Economic Order?

by Brita Steinbach, Bonn*

As a more critical view is being taken of traditional development aid concepts, alternative means of advancing the resource transfer between industrialized and developing countries have attracted increasing attention in recent years. A system of tendentially automated transfer payments to developing countries is one of these alternatives. The author of the following article examines whether such a system has a chance of meeting common interests of industrialized and developing countries and how it could be elaborated to make it more effective.

Automated financial transfers are a system pointing the way beyond the framework of traditional development aid. The Resolution on Development and Economic Cooperation of the VIIth Special Session of the General Assembly of the UN in 1975 characterized it as making an influx of finance into developing countries "predictable, continous and increasingly assured"[1]. It is a mechanism for coupling the flow of payments to developing countries with a quantitative-statistical indicator yet to be determined, such as the gross national product or the consumption of raw materials in industrial countries. These payments flows can be directed through the channels of existing bi- or multilateral institutions or on the way over institutions which have to be newly created.

Automation Proposals

The large number of – widely differing – proposals for the automation of transfer payments may, to start with, be divided into two main groups: global concepts and proposals for specific areas.

The *global concepts*[2] are proposals intended to stake out a framework for all transfers of financial resources between industrialized and developing countries. Some of them include the private as well as the public sector. A closer look shows that such global concepts cover a range between two extremes: At one end they have a great resemblance with mechanisms already in operation at the present time, in which case it is – in view of the usually very vague formulations – greatly to be doubted whether their realization will in fact lead to significant modifications of the existing arrangements; at the other end the financial relations between industrialized and developing countries are dissolved into the – at this moment still highly utopian – vision of a general financial settlement on an international level.

The *proposals for specific areas* differ from the global concepts[3]. These "taxes" proposed for the

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[1] Cf. UN General Assembly: Resolution 3362 (S-VII) on Development and International Economic Co-operation, Sept. 1975.

[2] On proposals of this kind cf., e.g., Angelos Angelopoulos: Zu einer Nach-Keynesianischen Weltwirtschaftspolitik (On a post-Keynesian international economic policy), Wiesbaden 1978; the same author: Le tiers monde face aux pays riches (The Third World faces the rich countries), Paris 1972; Wissenschaftlicher Beirat beim Bundesministerium für Wirtschaft: Fragen einer neuen Weltwirtschaftsordnung (Advisory council of the Federal Ministry of Economic Affairs: Questions of a new international economic order), Bonn, Nov. 1976; and the "Comprehensive System of International Financial Co-operation" discussed in the framework of UNCTAD, cf. UNCTAD: TAD/INF/1032, March 1, 1979.

[3] Cf., e.g., Jan Tinbergen et al.: Reshaping the International Order – A Report to the Club of Rome, New York 1976; Mahbub ul Haq: Toward a new framework for international resource transfer, in: Finance and Development, No. 3, 1975; Pierre Moussa: Les nations proletaires (The proletarian nations), Paris 1959; Theodor Dahms: Weltwirtschaft im Umbruch (World economy in a state of Global Point of View, in: Jagdish N. Bhagwati (ed.): The New Dellafar: The Brain Drain and Income Taxation, in: World Development, 1974; Koichi Hamada: Taxing the Brain Drain: A Global Point of View, in: Jagdish Bhagwati (ed.): The New International Economic Order, Cambridge, Mass./London 1977.

international context bear upon as disparate areas and activities as the following: taxes on the utilization of "common" international assets such as oceans, aerospace and polar regions which are (in part) not (or not yet?) under national sovereignty, taxation of the earnings of trained expatriates from Third World countries, levies on pollution, imposts on exhaustible resources, the consumption of raw materials, per-capita-incomes, a purpose-tied "development tax" to be charged in industrialized countries, (partial) transfer of industrial countries' revenues from special excise duties on such tropical produce as coffee and tea or of the additional receipts from a surcharge on the Value-Added Tax. Many suggestions have been made for coupling disarmament with development[4]. The various proposals envisage (1) use of resources released by disarmament efforts for payments to the Third World, (2) taxation of armament expenditure by the states, or (3) taxation of governmental armament exports. Last not least mention may be made of a recent suggestion by the Andean Pact countries[5] to establish a link between trade and technology transfer in such a way that a certain proportion of the imbalance of the trade (excl. armament deals) between developing and industrialized countries is used to finance the enlargement of the technological base of the developing countries.

Shift of the Burden of Proof

It is the purpose of development aid to contribute to the expansion of the production capacity of the economically weaker countries – at any rate according to the formula for its legitimation. Payments are made after the conclusion of negotiations – by on details widely diverging practices – with a positive decision by the donor country or the aid-allocating institution.

Automatic transfer payments differ from this in two respects – by the manner of allocation and by a broader basis of legitimation. They do not however basically diverge from development aid in regard to the arrangement of the financial terms. In both cases credits can be provided on terms in line with market conditions or with built-in elements of the nature of subsidies or in the form of free grants.

Development aid disbursements are made for a single occasion, project or programme and, in the final analysis, at the discretion of the aid-allocating institution. The automatic disbursement of transfers[6] differs from this – discretionary – kind of decision-making in that the donor's scope for decision-making is more strictly limited and the time schedule for decision-making is a different one.

The actual decision is shifted to the time of the conception and alteration of the transfer system: determination of the indicator and conditions for the revision of the system, arrangements concerning the suspension clause for individual payments and the whole system. Between these alteration dates, i. e. during the span of time when there is no intervention in the mechanism for the operation of the system, the donor's freedom of discretion is reduced. During this time there is no question of negotiations *whether* payments are to be made or not but disbursements are made as long as the conditions for invoking the revision or suspension clause are not positively proved to exist. This means that compared with the discretionary decision-making process the burden of proof is shifted to the other side.

Broader Legitimation Basis

As far as the basis of legitimation is concerned, all payments to developing countries, whether made in the framework of development aid or in the form of automated transfers, may be classified as "country-related incomes redistribution on a world-wide scale". For development aid payments however arguments of allocation policy are, in addition, put forward on the recipient side. They are to lead to an increase of the production capacity. The use of automatic transfers can, but need not, be delimited in the same manner. The proposal of the Andean Pact for instance provides for the commitment of the inflowing resources to the extension of the technological base, but other proposals are mainly concerned with the question of

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[4] Cf., e.g., Jan Tinbergen et al., op. cit.; UN Special Session of the General Assembly Devoted to Disarmament, Resolution S-10/2, July 1978; Report of the Secretary-General of the UN: Economic and Social Consequences of the Arms Race and its Extremely Harmful Effects on Peace and Security in the World, A/32/88, New York, Aug. 12, 1977; The Third Committee on High Level Government Experts of the Regional Commission for Latin America, E/CEPAL/1025, March 30, 1977; CEPAL, The Guatemala Appraisal, E/CAP/1030/Rev. I, May 1977.

[5] Cf. Financamiento del desarrollo tecnológico: Propuesta andina (Financing the technological development: Andean proposals), in: Intal, BiEL No. 7, Buenos Aires 1979.

[6] On various forms and application areas of automation and regulation mechanisms and for a comparison with discretionary decision-making processes cf. Fritz Neumark: Ermessensfreiheit oder Automatismus? (Freedom of discretion or automated mechanisms?), Basler wirtschaftswissenschaftliche Vorträge No. 6, Zürich 1971; the same author: Wandlungen in der Beurteilung eingebauter Steuerflexibilität (Changes in the assessment of built-in tax flexibility), in: Kyklos, Vol. 32, 1979; Brita Steinbach: "Formula flexibility" – Kritische Analyse und Vergleich mit diskretionärer Konjunkturpolitik (Formula flexibility – critical analysis and comparison with discretionary cyclical policies), Frankfurt-Berne 1977; Wissenschaftlicher Beirat beim BMW: Regelmechanismen in der Wirtschaftspolitik (Regulation mechanisms in economic policy), in: BMW (ed.): Sammelband der Gutachten von 1948 bis 1972 (Collected expert opinions 1948-1972), Göttingen 1973.

the manner in which the financial transfers are to be raised on the donor side: by a purpose-tied "development tax", Value-Added Tax surcharge, less spending on armaments, etc. In the absence of a clause explicitly stipulating certain applications – which, incidentally, may be drawn wider than corresponds to the allocative argument for development aid – the inflow of transfers increases the financial resources available to the recipient countries for the attainment of their respective objectives.

Apart from this possibly substantively broader basis of legitimation, the transfers may also differ from development aid in that they may be based on international ramifications to be specified in greater detail. Taxation of the earnings of trained emigrants from developing countries stems from international factor migrations – in this case of the factor labour. In other proposals more consideration is given to ecological ramifications, interdependences in the area of military security, etc.

This idea can be developed further in the direction of a system of international transfers pointing beyond the North-South dimension and generally linked to international interdependences. Linkage with migratory movements of workers would, in this sense, merely amount to a differentiation between countries of net immigration and net emigration and not to a distinction between industrialized countries and the Third World. In the case of armament transfers a difference would only have to be made between net exporting and net importing countries. Such a system of international financial transfer comes however near to a part of the above-mentioned "global concepts" and runs the risk of ending up as a concept for a general financial settlement on an international level for which there exists for the present no economic or political foundation whatsoever.

Two questions have therefore still to be considered: (1) Whether automated transfers are not only warranted but could satisfy an interest of the countries concerned, and (2) to what extent their chances of realization could be increased by an arrangement deviating from the ideal design.

Economic Effects of Automated Transfers

It is obvious that higher as well as tendentially automated financial transfers are in the interest of the recipient countries – which, limited to the North-South dimension, means the developing countries. Increased inflow of economic resources alleviates trade-related constraints and/or subsidizes the state budget. The availability of economic resources is invariably increased, and attainment of whatever concrete objectives have been set is facilitated in this respect. Tendential automation lessens, by virtue of the shift of the burden of proof, the dependence upon decisions within the realm of the donor countries or institutions.

The answer to the question whether the donor side has also an interest in such transfers is less obvious. To deal with the primary effect, payments are always identical with an outflow of economic resources; they are no longer available for internal use and insofar as this is the case represent a "burden". Seen thus, transfer payments should, from the donor's point of view, as far as possible be linked to indicators foretokening a comparable minimization of the payments burden in the medium term[7]. On such a system it should be possible to reach a consensus if the recipient countries are – to a certain degree – especially interested in the automatic element of the payments and less interested in their size.

The primary effect of the payments – their formal incidence – is however only part of the picture. To assess the material incidence – i. e. the longer-term effect[8] – possible repercussions must be taken into account. The inflow of transfers widens the scope for imports and thereby as a rule increases the actually effected imports of the recipient countries[9]. To go by empirical calculations, repercussive effects are certainly not inconsiderable as regards the development aid by the Federal Republic of Germany[10]. Although the sums involved in automated transfers are in detail of a different order of magnitude, such a system will certainly not amount to a zero sum game between donor and recipient countries in the medium term.

[7] This applies for instance to the (partial) transfer of the revenue from the taxation of the consumption of tropical produce. It is true that the revenue from the tax on coffee has approximately trebled in the Federal Republic of Germany between the early fifties and 1978 and now amounts to over DM 1 bn. Its contribution to the Federal tax revenue has however fallen at the same time from 7 to 3 %. Its share of the national product, which has always been low in recent times, is now down to a minute level of less than 0.1 %. These figures have been calculated from data of the Federal Ministry of Finance in its 1979 financial report.

[8] For the distinction between the two formulations of the question reflected by the concepts of formal and material tax incidence, which are often mixed up, cf. Konrad Littmann: Problemstellung und Methoden der heutigen Finanzwirtschaft (Problems and methods of present-day public finance), in: Fritz Neumark (ed.): Handbuch der Finanzwissenschaft, 3rd ed., Vol. 1, Tübingen 1975; Brita Steinbach: Untersuchungen zur Steuerinzidenz (Studies on the incidence of taxation), Speyer 1978.

[9] It seems likely that at least part of the extraordinarily big increase in the exports of the Federal Republic of Germany to developing countries in the first half of 1979 was connected with the greatly improved foreign currency situation of many importing countries.

The crux of the problem is that the primary effects can be established with a fair degree of certainty but the sequential effects less so. In view of their economic potential the industrialized countries must on no account neglect them. They are of particular importance for those among them which depend on foreign trade and are competitively strong[11]. On the side of the donor countries there thus also exists an economic interest in financial transfers.

Political Aspects

Automatic transfers would of course be of even greater interest also to the donor countries if the economic interest were matched by a political one. Because it involves a shift of the burden of proof a system of automated financial transfers represents a novelty and alters the character of the relations between industrialized and developing countries[12]. Insofar as this is the case it may be appraised as a concession by the industrialized countries to the Third World demands for an institutional reform of the international economic system. Whether the industrialized countries have a political interest to accede to such demands depends upon the question how anxious they are to embrace the developing countries in the international economic and political system.

Self-segregation of the industrialized countries is notionally conceivable, inversely to the dissociation strategy for the developing countries, and it may also be conceded that it has certain chances of practical realization – even in the raw material and energy sector: through economies, more intensive development and increased use of already existing raw material and energy sources, and search for new ones, on the geographical terrain of the industrialized countries, promotion of new technologies, etc.[13]. Apart however from the fact that such compartmentalization is, under world-economic aspects, an inefficient form of resource utilization, all the opportunities of this kind are limited. A long time elapses as a rule before markets mature, some sectors such as nuclear energy have strong political undertones, the geopolitical situation is encumbered with imponderables[14]. Not only are the developing countries of importance for safeguarding the raw material and energy basis of the industrialized countries but in view of the growing number of political problems requiring a world-wide solution it is in the industrialized countries' own interest that the developing countries should be incorporated in the international economic and political system.

This interest is likely to increase rather than abate in the future because the past and present changes of the international scene suggest that the at the starting point asymmetric dependence of the developing countries upon the industrialized countries will continue to diminish. Several intertwined circumstances and developments have a bearing on this[15].

□ A direct offensive strategy in the raw material and energy sphere is bound to run into limits because of the different economic-strategic positions of the developing countries in the individual commodity

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[10] The immediate return flow ratio was 80 % and the multiplier effect amounted to 1.5–1.8 times the original payments. Cf. Christel Bergmann, Helge E. Grundmann: Arbeitsplatzsicherung durch Entwicklungshilfe – Kredite und Exporte in Entwicklungsländer (Job security by development aid – credits and exports to developing countries), Prognos AG, Basle, April 1978; Helge E. Grundmann: The Effects of Development Aid on Exports, in: INTERECONOMICS, No. 9/10, 1978, p. 242 ff.; Guido Ashoff, Dieter Weiß: Binnenwirtschaftliche Wirkung der deutschen Entwicklungspolitik (The internal economic effect of German development policy), Deutsches Institut für Entwicklungspolitik Berlin, Feb. 1978; the same authors: Effects of German Development Aid on the Internal Economy, in: INTERECONOMICS, No. 5, Sept./Oct. 1979, p. 215 ff.; and the statements of DIE, DIW and Prognos AG at the public hearings of experts on the subject of "North-South ramifications" on April 23 and 25, 1979, in the Bundestag committee for economic cooperation.

[11] In the case of the Federal Republic of Germany for instance the return flows from international public-tender contracts are almost invariably larger than corresponds to its share in the finance of the international institutions concerned. The Federal Republic supplied about 5 % of the finance for the World Bank and the UNDP but its share of the total disbursements amounted in 1976 and 1977 to more than 10 %. In the case of IDA the return flow to the Federal Republic (over 15 % of the total) also exceeded its share in the financing (about 10 %). The only exception is the European Development Fund; in regard to EDF-financed orders France predominates. This is of course the consequence of her close economic links with her former colonies. For statistical information cf. Guido Ashoff, Dieter Weiß: Binnenwirtschaftliche Wirkung der deutschen Entwicklungspolitik, op. cit.; the same authors: Effects of German Development Aid on the Internal Economy, op. cit.

[12] Cf. Günther Esters: Neuordnung der Weltwirtschaft, Nord-Süd-Dialog und Orientierung der Entwicklungspolitik: Die Notwendigkeit einer einheitlichen Perspektive (New international economic order, North-South dialogue and the orientation of development policy: The need for a uniform perspective), in: Günther Esters (ed.): Nord-Süd-Politik, Bonn 1977.

[13] Cf., e.g., Manfred Tietzel: Internationale Rohstoffpolitik (International raw material policy), 2nd ed., Bonn 1978; Günter Keiser: Die Energiesicherung (The safeguarding of energy supply), Munich 1979.

[14] This holds good for instance for the political protection of deep-sea mining prospects but also in the face of autonomy efforts. Since Greenland gained her autonomy, for instance, the long-term access of Denmark – and thus of the EC – to Greenland's raw material sources depends on the future internal political developments in this country: Will the pro-EC Atassut party regain its position or will the anti-EC Siumut party strengthen its position further?

[15] This is true for example of the aspirations of Latin American countries to sever their traditional economic and political ties with the USA. The EC and Japan are enhancing their positions in the foreign trade of the Andean Pact countries. Mexico is cooperating with France in the mineral oil sector. Colombia and the USSR have also initiated an economic cooperation in the energy sector.

markets. This however does not apply as much to a parcel of raw materials as to *one* commodity market viewed in isolation. This is illustrated, for example, by the willingness shown of late by the USA to make concessions for the conclusion of a rubber agreement: the cost of synthetic rubber, available as a substitute, has risen greatly as a result of higher oil prices.

□ Against the background of the world powers' struggle for hegemony the mere existence of the Eastern bloc provides the developing countries with an opportunity to exert political pressure although the political importance of this alternative declines as a result of a successful policy of *détente* and increasingly differentiated assessment of this factor by the developing countries themselves.

□ The armament potential of Third World countries – low in absolute terms but growing tremendously – can represent a threat to the industrialized countries if it leads to a further proliferation of nuclear potentialities or impairment of raw material and energy supplies through the emergence of local centres of conflict.

□ The increasing diversification of the external economic and political relations of the developing countries with the various industrialized nations of the West and the individual countries in the Eastern bloc amounts to a strategy which will gain further importance in the future and will enable them to evade or counter pressure that may be exerted from one particular quarter because it offers them a wide range of alternatives.

□ The progressing initiatives for cooperation between developing countries in the economic and technological sphere represent a further move towards the strengthening of their position which is however coming up against certain obstacles because of their different economic, political, and ideological interests and postures.

Elementary Practical Considerations

From what has been said it is clear that a system of tendentially automated transfers may serve the interests of the donor countries as well as those of the recipient countries. The chances for its realization can be improved by balancing out its innovatory contents. To do this, it will have to be linked up in some way with already existing institutions but this link-up must not go too far. Otherwise the advantages arising in the political sphere would be thrown away.

One possibility exists in a relaxation from the extreme of unconditional payments and a narrowly limited modification and suspension clause as the starting point. This is brought about by successive incorporation of "discretionary" elements such as, for instance, a general clause and, thereby, provision of a wider scope for interpretation. In this case however one must avoid that the differences from the development aid disappear altogether, the more so as in the allocation of development aid payments there is also a tendency towards substantial relaxation of the strings and conditions attaching to their use.

The second possibility is a linkage with existing institutional facilities. In the EC area for example the system of compensatory payments for export earnings (STABEX and in future also SYSMIN) practised by the Community and the ACP states under the Lomé Convention could be considered in this context. This system, as perhaps also the European Development Fund, could be automated from the revenue side. It would be possible, for instance, to draw upon a certain percentage rate of the total EC revenues as an indicator. A similar procedure could be applied to individual revenue items: a certain percentage of the revenue from Value-Added Tax due to the EC could be tied to a particular application, or else a surcharge on the VAT might be considered.

Similar arrangements are conceivable for the Federal Republic of Germany. A certain proportion of the general revenue from taxation or of certain individual taxes could be committed to particular purposes. In the latter case it would also in principle be possible to levy a surcharge and to tie the revenue from it to a particular application. It would however be inadvisable to subject the so-called "Gemeinschaftssteuern", which include the VAT, to such a surcharge. The extra revenue of these taxes is shared out between the Federal authorities and the Länder whereas the commitment to make transfer payments would – at any rate preponderantly – fall on the Federal Government.

All these and similar proposals certainly need being translated into concrete terms, and the details must be given further thought. It has also to be considered to what extent they could contribute to improvements in various fields. Automated mechanisms linked to the STABEX system for example could be used at the same time to safeguard the EC's raw material basis, heavier taxation of consumption in the Federal Republic could help to harmonize taxation in the EC area, etc. A system of automated transfer payments ranks in any case as a possibility of advancing the resource transfer between industrialized and developing countries which is well worth considering.