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Chile: Capital aid in dispute

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COMMENTS

World Food Conference

Missed Opportunities?

After 12 days of meetings, the United Nations' World Food Conference in Rome ended on November 16. The Conference which had drawn representatives from some 130 countries was an unprecedented attempt to rescue millions of the world's poorest people from permanent hunger. The food problem now facing mankind is probably the most serious in the world's history. Today's food statistics make gloomy reading. There is a shortage of grain in the poor countries estimated at 20 mn t and nearly 500 mn people, half of them children, are described by the FAO as permanently hungry. According to forecasts of the FAO the grain shortage in the poor countries will amount to 85 mn a year, or even 100 mn if weather conditions deteriorate.

Under these circumstances the Rome gathering left many disappointments, notably the failure of firm commitments for increased emergency food aid. At a time when people are actually starving to death, the delegates agreed to little beyond providing a framework for international action to improve the situation in the future. And whether the new instruments created by the Conference will really be made use of is still an open question. Experience shows that resolutions against hunger do not necessarily lead to practical help. Food supplies must be planned for on a world basis and enormous shipments from the rich few to the poor many will have to be paid for within the near future. Only if this immediate challenge is met the world will have time for longer-run hopes of population control and new agricultural developments. May be that it is already too late, that mass starvation cannot be avoided. But it is necessary in any event to try. ch.

FRG

A New Development Aid Bill

A struggle has gone on in Bonn for several months about the draft of a new tax law for development aid, to be known as the Developing Countries – Taxation Act. The previous law had expired at the end of 1973 already, and the new law is to provide incentives in the first place for foreign investments generally, secondly for investments in developing countries in particular, and thirdly for investments to safeguard the supply of raw materials. The compromise now arrived at however cannot satisfy if it is judged by these three objectives.

The new law, which is to stay in force for five years, contains in detail the following provisions: Firstly, capital investment in developing countries will in future be encouraged through tax-exempted reserves only, and no longer through investment valuation allowances; this reserve will amount to 100 p.c. of the investment sum in the case of investments in the 25 least developed countries but no more than 40 p.c. in the more advanced developing countries. Secondly, investments through which an exceptional number of new jobs is created will benefit further from a provision that the reserve may be run down over a period of up to twelve – instead of six – years. Thirdly, the tax benefits will no longer be granted for private property investments, undue advantage having been taken of the previous law for this purpose; the same applies to projects for the tourist trade. Fourthly, purely financial capital investments will be excluded from the preferential treatment.

These provisions should put a stop to such shortcomings of the old law as its use for property purchases in Spain and the Canary Islands. But it is doubtful whether the investments will from now on flow in the right direction because the tax benefit from investments in the more advanced developing countries offers so small an incentive that such investments are at best a question of time, i.e., the level of development in the country concerned, whereas in the 25 least developed countries nobody applying commercial standards of calculation is likely to make any investments no matter what incentives are being offered or not. That somewhat stronger incentives are offered for labour-intensive investments is certainly commendable. The third aim, that of safeguarding the supply of raw materials, remains a question for the legislative draftsmen. They will now have five years in which to gather new experience and – one hopes – make use of it. ogm.

Chile

Capital Aid In Dispute

The distribution of the DM 2.35 bn of German capital aid credits among the various developing countries has given rise to controversy. The continuation of the capital aid to Chile has become a special bone of contention. The SPD group in the Bundestag recently adopted a resolution to the effect that "no aid must be given which can be interpreted as approval of or support for the military regime". There are however two argu-

ments against discontinuing the capital aid for Chile.

One is that the Federal Government has made commitments to Chile for an amount of DM 66.5 mn. There even exists a valid inter-governmental agreement covering a sum of close on DM 22 mn. The only reason why this has not yet been paid is that Chile has for some years been in arrears with the repayments to German creditors. The Federal Government is already in breach of contract as far as this sum is concerned since a German-Chilean debt restructuring agreement was concluded last July. The other DM 45 mn were the subject of a verbal promise to the Allende Government in the spring of 1973. This should also be considered still valid. Moreover, existing German development aid promises should not be affected by a change of government whatever changes of political direction it may involve.

Raw material supply considerations also suggest that the development aid to Chile should continue. Chile provides one fifth of all German copper imports, and copper is a commodity for which the Federal Republic depends much more on imports than do other industrial countries. The USA, Canada, Australia and the Eastern Bloc, for instance, are self-suppliers, and Japan also has a substantial copper mining industry. The disbursement of capital aid to Chile can thus be regarded as a contribution to the safeguarding of raw material supplies for the Federal Republic. kw.

USA

Hard Times for Ford

After Watergate and the signs of stagflation in the American economy, the defeat in the midterm elections poses yet another grave problem for the Republican Party. Republicans have been replaced by Democrats in the individual states, in the Senate and especially in the House of Representatives in a truly massive demonstration of electoral anger. Even before the final count had been completed, President Ford accepted the election result as a mandate to the opposition to assume a greater measure of responsibility, especially in the field of economic and social policy.

The Republican defeat in the election was due to Watergate and, in large measure, to the social-economic situation. In the eyes of most Americans there is no getting away from the disadvantages of Ford's economic policy. The proposed income tax increase for incomes from \$ 15,000 a year upwards in particular was rejected by the electorate as an affront and as unfair treatment

of the working population. The ordinary American has found his hopes and expectations from the new man in the White House to have been misplaced although he should have made allowances for the onerous legacy which Ford had inherited.

It is by no means certain that, as many observers believe, President Ford and the opposition will perforce arrive at an arrangement. A majority is unlikely to come forth for price-wage controls. Congress with its Democratic majority will probably turn its guns on industry and especially on "Big Business", with the oil industry in the front-line. It looks as if the "flagship of the West" will still have its hatches battened for some time to come. lwe.

Mexico

An Oily Future

Mexico is well on the way to becoming another Latin American oil power after Venezuela. After a lapse of about twenty years the country is back in its place among the self-suppliers and net exporters. Not the least important reason for this achievement is the increase in oil selling prices which has allowed Mexico to extend its capacities and modernise its plants. It has given a fillip to prospecting work which has made good progress. The deposits proved in the meantime are estimated to be twice the size of the oil finds in Alaska.

As was to be expected, the news has caused the US energy interests to prick up their ears. But if the American oil groups thought that they had come across a new cheap source of energy close to the consumer, the Mexican Government had a bitter disappointment in store for them. It made haste to declare at once its solidarity with the OPEC countries. Solidarity does not mean that Mexico is going to join the producers' cartel but its export price will be aligned to the OPEC level. And this will be done very soon as an agreement between the Mexican state oil enterprise and three oil groups, which gave the latter exceptionally low preferential prices, is expiring at the end of 1974.

The fronts between Mexico and the USA are hardening — not on oil matters alone. Talks between Ford and Echeverria which were to have brought a clarification have proved abortive, as had indeed been expected. It is however still uncertain how far Mexico will go in conceding to other states in Latin America the preferential prices which it would not grant to the USA. It may be assumed that quite a few states will be given favoured treatment. The only hope left to the Americans is that increased oil exports from Mexico will have a moderating effect on the level of world prices. It is but a vague hope. zz.