

# the OECD OBSERVER

LABOUR/MANAGEMENT/GOVERNMENT  
A SEARCH FOR MORE COHERENCE



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EDITOR: Jane Bussière

ASSISTANT EDITOR: Ulla Ranhall-Jeanneney

ART, PRODUCTION AND LAYOUT:  
Marc Delemme

PHOTO RESEARCH: Silvia Lépot

All correspondence should be addressed to the Editor.

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# Theme of an OECD Conference in Washington:

## COLLECTIVE BARGAINING AND GOVERNMENT POLICIES

**W**hat methods of fixing pay and other conditions of work will contribute most to our social and economic welfare in the 1980s? What changes in present methods should unions, employers and governments envisage and encourage? Methods of fixing pay and other conditions of work have shown a continuous evolution and a continuous interaction with economic and social conditions generally. The most important method today in most countries, is through free collective bargaining in a framework of law and custom. And as a consequence collective bargaining processes have become one of the most important social and economic institutions of modern industrial societies.

In the present economic situation the relationships between collective bargaining and government policies are becoming more complex and playing a more decisive role. In order to understand better the forces which govern these relationships, to learn from the experience of others and to seek new solutions, OECD recently held a conference in Washington on this theme.

This meeting between unions, management and government representatives along with professors in the various disciplines concerned—“a dialogue with academic background music” in the words of James R. Gass, OECD’s Director of Social Affairs, Manpower and Education—helped reveal trends and aspirations which will have to be taken into account if there is to be a flexible relationship between the social partners and government—one which allows management and labour to participate more fully in national economic matters yet continue to perform the role expected of them by stockholders and union members. The reconciliation of collective bargaining with the policies needed to achieve full employment and stable prices is, as US Secretary of Labor, Ray Marshall stressed in his keynote address, one of the most difficult problems facing market-oriented democratic economies.

### The National Context

One key point which emerged at the conference is the wide variety of conditions in which social partners and governments operate in different countries. North America clearly has its own special characteristics, and the same applies to Australia and New Zealand on the one hand and to Japan on the other. In Europe, although it is difficult to compare Greece and, say, Ireland, many common features can be found within groups—the “Latin countries”, for example, and the “Scandinavian” ones.

Despite these differences, however, some general trends emerged as a backdrop to the discussion. For example, centralisation is greatest in Austria, Denmark, Norway and Sweden where the results of national collective bargaining are applicable by everyone at all levels and where the benefits are extended to non-union-members. (The latter practice seems to be followed everywhere except in the United States and Japan.) At

the other end of the scale one finds Canada, the United States and Italy where bargaining traditionally takes place at enterprise level (Chart A). The degree of centralisation of bargaining is of course connected with the degree of centralisation of the trade unions, although it is not clear which is the chicken and which the egg.

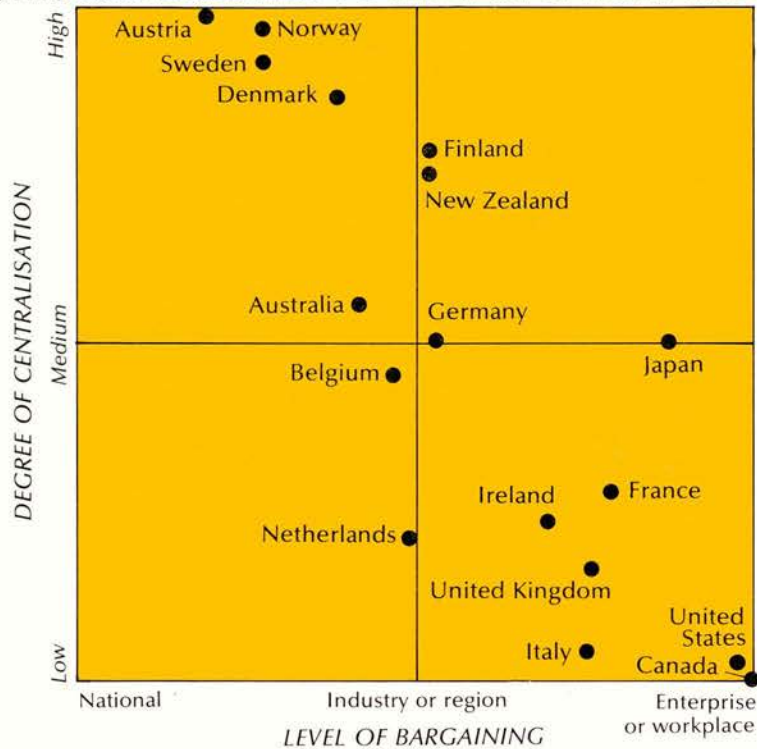
The rate of unionisation (1) ranges from about 90 per cent of all workers in Sweden to about 20 per cent in France, amounting to 70 per cent in Belgium, 50 per cent in Italy, 40 per cent in Germany and the Netherlands and 25 per cent in the United States (Chart B). A relatively low rate of unionisation often (France and Turkey) but not always (the United States) coincides with fragmentation of trade unions and sometimes of employers’ federations, and fragmentation often goes hand in hand with a high ideological content and with strong Communist parties and unions. As pointed out by Bernard Brunhes of the Commissariat Général au Plan (France), the ideological element means that, whatever the problem, “it cannot arise in the same form in countries such as France or Italy as in the

(1) When comparing these percentages, which are for the most part simply orders of magnitude, it should be noted that the way one joins a union varies from country to country. In Sweden, for example, a worker automatically becomes a member unless he or she contracts out, whereas in France he has to take the initiative and contract in.

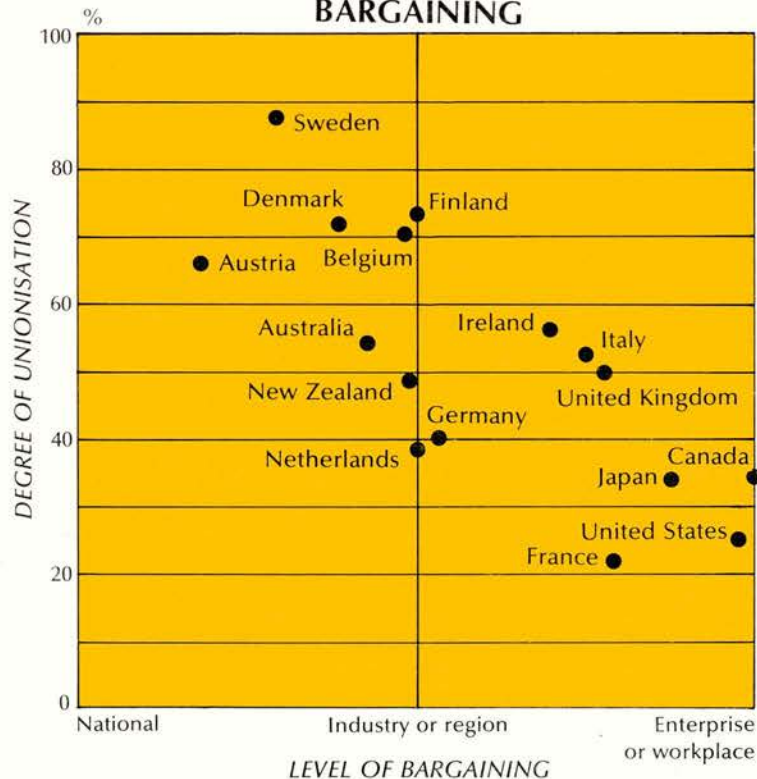


From left to right: Francis X. Burkhardt, Assistant Secretary of Labour, Labour-Management Relations and Chairman of OECD’s Working Party on Industrial Relations; James R. Gass, OECD’s Director of Social Affairs, Manpower and Education; Charles G. Wootton, OECD Deputy Secretary General; Ray Marshall, US Secretary of Labor.

## A. CENTRALISATION OF UNION-MANAGEMENT STRUCTURE RELATED TO LEVEL OF BARGAINING



## B. UNIONISATION RELATED TO LEVEL OF BARGAINING



unemployment—for which public opinion holds governments responsible despite the inflation-transmitting role often attributed to collective bargaining—have gradually helped to blur traditional distinctions between action by the social partners and that of governments.

### Diversification of Level...

The effects of high rates of inflation and under-employment on the various regions, sectors and categories of worker plus the desire of the rank and file to have a voice in decision-making explain the general trend towards diversification of bargaining levels. Contrary to past experience, this trend has been reinforced during the recession.

On the one hand there is a clear tendency towards centralisation. "The job of government is easier in countries where collective bargaining is centralised," said Fritz Scharpf, Director of the International Institute of Management in Berlin. That is one of the reasons why governments try to encourage a trend in that direction with the means at their disposal—by setting up a legal framework for example. On the other hand for some time there has been a contrary movement towards decentralisation. As explained by Albert Verschueren, Director-General of the Federation of Belgian Enterprises, in countries with highly centralised bargaining, where national agreements had become increasingly detailed leaving little room for manoeuvre at lower bargaining levels, there have been more and more cases of 'loss of control' following additional bargaining intended to be more exhaustive (Scandinavian countries, Netherlands).

### ... and Broadening the Scope of Collective Bargaining

Meanwhile the economic difficulties have strengthened the tendency, already perceptible in varying degrees in OECD countries, to broaden the field of collective bargaining to include such subjects as measures to prevent dismissal or the reduction of working hours without maintenance of pay; measures to protect employment and provide for occupational training as a way of mitigating the effects of unemployment; tax reductions, etc. in response to inflation and even investment policy. An example of this widening scope is the action of the AFL-CIO in the United States which, according to Rudolph Oswald, its Director of Research, has drawn up a tax programme, a programme for sectors in which inflationary pressure is particularly strong (food—setting up reserve stock-piles of certain commodities; energy—more vigorous economy measures; health—drawing up an overall programme) and an inner city renewal programme for the major cities.

While some voices were heard in support of limiting discussions to the traditional trade union-employer confrontation, most participants thought that the wider scope of collective bargaining was a *fait accompli* and thus focussed on defining its impact on the relationship with government policy or to assessing the implications for the parties concerned.

An Italian delegate, Franco Archibugi, Professor at the University of Calabria and Director of Research in the CISL (Confédération Internationale des Syndicats Libres), went furthest in the direction of favouring a wider scope for collective bargaining, advocating cooperation on the part of social partners in framing government policy as the ideal. A necessary transition stage would be to give the trade unions a voice in macro-economic discussions by making these more concrete, "disaggregating" them and stating more clearly the needs of each sector, especially with regard to employment.

Anglo-Saxon world". Politicisation may go as far as the legalisation of political strikes, as in Italy.

For some years, however, irrespective of the system or rules of the game, the machinery which determines the relationships between collective bargaining and governments' economic and social policy has been under pressure.

The factors responsible for this trend are multiple, and the direct effects of each are often difficult to trace. Among them is the fact that the government itself has become a major employer and that at the same time it acts more than ever before, through fiscal policies. Rapid inflation and persistently high rates of

Francis X. Burkhardt, US Assistant Secretary of Labor and Management Relations and Chairman of OECD's Industrial Relations Working Party, sounded a cautionary note, suggesting that, as presently organised, collective bargaining simply cannot cope with too wide a range of issues and without new mechanisms the bargaining on these subjects would come to nought.

## **Tripartite Relationships and their Impact on Trade Unions**

Widening the scope of collective bargaining inevitably involves articulation with government policy and therefore new kinds of relationships between trade unions, employers and public authorities.

These tripartite relationships, as the participants in OECD's Conference did not fail to point out, may take widely differing forms—open and continuing cooperation without apparent problems as in Norway; cooperation under a give-and-take contract as in the United Kingdom (*Social Contract*) and in Germany (*Konzertierte Aktion*), and informal contacts as in Sweden where the government normally keeps out of the negotiations but not always; several years ago the government stepped in to "swap" tax reductions on incremental income for moderation in wage claims.

In the opinion of many negotiators, the condition *sine qua non* for a tripartite agreement between government and social partners is the "deliverability" of their promises. "Can each member of a tripartite agreement deliver on its commitments?" asked Sidney McKenna, Vice-President of the Ford Motor Company. "In the United States, the political structure and low rate of unionisation, together with other factors, make this type of agreement impossible."

But whatever the form taken by the new relationship between government and social partners, it cannot fail to have an impact on the bargaining organisations themselves which by definition cover a wide range of interests. This problem is particularly acute in connection with the relations between trade union leaders and the rank and file. How can a leader remain "pure" in the eyes of his constituents if, instead of a wage increase, he has, for example, obtained a widening of a tax bracket or basic agreement on occupational training?

If the problems which bedevil relations between trade union leaders and the rank and file as a result of tripartite arrangements become really serious, the state may intervene in various ways to reinforce the trade union as an institution. This "institutional compensation", in the words of Lloyd Ulman, Professor at the University of California and Rapporteur-General of the Conference, might be an element in the plan which has been under consideration in Sweden (but also rejected for the present) to establish wage funds designed ultimately to achieve joint ownership of enterprises: under this plan, power would be transferred, not from capital to individual workers, but to a body managed by the trade union, thus strengthening the union as an institution.

## **Role of the Government**

In any event it is undeniable that, with the widening of the scope of collective bargaining, the development of the social partners' role and new kinds of tripartite relationships, the role of the public authorities is changing too. According to Derek Robinson of Oxford University "the question is not 'should government influence bargaining?', but how, in what form and to what extent." However, one should not underestimate what

the market can do; John Crispo, Professor at the University of Toronto, considers that there is a tendency to reject machinery of the market as a whole because it doesn't work in some areas. "If there must be intervention, let us make it temporary so as not to create rigidities." This concern was also expressed by Charles Schultze, Chairman of the Council of Economic Advisers to the President of the US: "One must be careful in seeking to alleviate problems not to introduce measures that inhibit future growth."

With these reservations, most participants deemed that government intervention was necessary. As Derek Robinson also said, government has a heavy responsibility, and collective bargaining, which affects others than those represented at the table, cannot remain immune from government action. How then can and should the State intervene?

Although one Danish trade union leader, Holger Jensen, suggested that governments should pass laws so as to make possible joint ownership of enterprises in return *inter alia* for moderation in wage claims, the vast majority of delegates saw the ideal situation in a quite different light. The government would keep out of collective bargaining but open its dossiers to the social partners. Several possible "models" were mentioned, including the "Spring labour offensive" in Japan which, according to Haruo Shimada of Keio University (Tokyo), is admittedly "a ceremony, but also involves an intensive discussion between labour and management lasting about three months in which information circulates in all directions, the instructional value of this being considerable and evident to all". The consensus of the Conference as to what is desirable seems rather to be the *Konzertierte Aktion* practised in Germany and "envied by all" according to Professor Ben Roberts of the London School of Economics, who considers that it is an "attempt to create an inherent logic; where information comes from the government, it is up to the social partners to respond if they want to". It is nevertheless clear, Lloyd Ulman pointed out, that if the information provided, especially the economic forecasts, prove to be false, the unions are in trouble with their members and there may be wildcat strikes or at least wage drift. One possible way of avoiding this kind of situation, according to the Rapporteur-General, would be to 'bargain over information'. "Provid-



Meeting between Otto Graf Lambsdorff, Economics Minister (right) and Oskar Vetter, President of the German Trade Union Federation (DGB) (left) to discuss "Konzertierte Aktion" at DGB headquarters early in 1978.

ing information is not a neutral process but a bargaining process. Unions now have the macroeconomic expertise to bargain on an equal footing with government experts over what forecasts to adopt."

However, as Carl Tham Under-Secretary of State in the Swedish Ministry of Labour pointed out, any cooperation at macroeconomic level between government and the social partners, whether to curb wage increases or for any other purpose,

is illusory unless "based on a minimum of confidence in the system and an overall acceptance by the trade unions of the fairness of the government's income distribution policy. It is more important to get this kind of consensus than to create new institutions". In short, the Rapporteur-General concluded, what matters for the social partners and public authorities is to "make expectations regarding the distribution of national income mutually consistent".

# COLLECTIVE BARGAINING: NEED FOR REFORM?

by Conrad Blyth (1)

Looking to the future, most governments wish to retain the essential features of trade unions and free collective bargaining, not only as social institutions which play a valuable role in the life of many working people, but also as the main way of settling pay and working conditions at the workplace level. Workplaces show such a variety of conditions and problems that, even with legal provisions for minimum wages and standards, it is only at the workplace that most problems immediate to the worker can finally be resolved. Even the most highly centralised trade unions which negotiate with employers at the national level recognise the importance of negotiation, administration and grievance settlement on the factory, office and shop floors. Centralised, national negotiations are frequently the tip of an iceberg which also contains predominantly local, if sometimes informal and unwritten, decisions. For many governments, trade unionists and employers this flexibility is the strength of collective bargaining, and what makes it such an acceptable form of the pricing process.

However, this *micro-economic* role of collective bargaining, with its freedom from any real constraint other than that of the long-term self interest of the parties, is often believed today to conflict with the needs of national economic policy, and in particular with the so-called *macro-economic* goals of full employment and price stability. The conflict is felt not only by many governments, but as time goes on by more and more workers and employers, and has become most visible in recent years in connection with inflation. Rarely, if ever, does the collective bargaining process start inflation. But it is a large part of the process by which inflation is propagated and can escalate: the elementary fact is that one man's price increase, however justified or justifiable, is always some other man's cost increase. Since in all countries the wage and salary bill is much the largest component of the price of finished products or services, rises in labour costs push up prices which in turn become the bases of further wage increases, and so the spiral may go on. Individual trade unions and employers may with some justification assert that *their* wage increase or price rise will have a negligible effect on the cost of living, but the combined effect of myriads of similar actions is inescapably inflationary when inflation is already at a high level.

In recent years the reaction of governments to inflation, usually supported by public opinion, has been to slow down the growth of their economies in an effort to eliminate inflation, but the ensuing stagnation has inevitably brought in its train rising

unemployment as the heavy price paid for the search for price stability.

Many of those who find this situation unsatisfactory assert that the institutions and practices of modern economies are outmoded. The discussion by no means centres on trade unions: the pricing policies of enterprises and the actions of governments as employers are also candidates for reform. To some extent the supposed need for reform arises from the ambitious nature of the goals electorates and governments have set themselves, but it may equally arise from changes in economic institutions themselves which make them speedier propagators of inflationary shocks: the recent expansion of indexation agreements, for instance. But, whatever the origin of the pressure for reform, it is clearly directed at the need to achieve a new co-ordination between the micro-economic results of the operation of free market institutions on one hand, and, on the other, the aims of governments, and in particular, that of full employment and price stability. Until new financial arrangements make inflation a costless phenomenon, or until our ways of taking leisure make unemployment privately and socially acceptable, it will be argued that the pressing need in today's economic world which still regards inflation as costly and unemployment as undesirable, is for better co-ordination between what emerges in the market and overall economic and social goals.

## Incentives and Disincentives

In the area of collective bargaining, how can this be achieved? The critics of institutional reform, particularly monetarist economists, point to a long history of what to them are unsuccessful attempts to interfere with the processes of free collective bargaining. Some governments have tried statutory controls over incomes and prices over lengthy periods: the United Kingdom between 1966 and 1970, and again between 1972 and 1974, the United States from 1971 to 1974, the Netherlands for many years until 1967, Canada from 1975 to 1978, and New Zealand for most of the period 1971 to 1978.

On other occasions governments have attempted to per-

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(1) Professor of Economics at the University of Auckland, New Zealand and Consultant to the Social Affairs, Manpower and Education Directorate of the OECD. The present article is based on a paper prepared for the OECD Conference on Collective Bargaining and Government Policy. The views expressed here are those of the author.



*Thomas P. O'Neill Jr., Speaker of the United States' House of Representatives addressing an AFL-CIO group in support of a law to extend the collective bargaining rights of federal employees.*

suaude trade unions and employers by incentives or disincentives. The rationale behind measures of persuasion is that the government's policy rests on certain assumptions about the decisions to be taken by trade unions and employers and their effects on the economy; by telling unions and employers what these assumptions are the government hopes to influence these decisions in ways which will have a less damaging effect on the achievement of its objectives. Successful persuasion pre-supposes some degree of consensus about economic and social objectives. While it is likely to be most effective in wartime or other emergency situations, persuasion has been used on less critical occasions. In an attempt to moderate pay and price rises the United States had voluntary guidelines from 1962 to 1966, the United Kingdom has experimented with a *Social Contract* since 1974, and there has been occasional intervention by government with centralised bargaining: Norway in 1977, Finland frequently in recent years, Ireland since 1970 and the Netherlands since 1976. Austria provides an example of continuous government involvement in centralised pay settlements and pricing decisions, while in Germany there has been a long standing practice for representatives of government, trade unions and employers to meet frequently to exchange views and information about the economy and its future prospects. There is another category of countries, like Sweden where centralised, national bargains between unions and employers have been struck in a framework of informal understanding with the government.

What is controversial and can probably never be decided definitively is whether this intervention by governments did in fact improve the performance of their economies over what it would have been in the absence of intervention. Some of the governments concerned believe that their intervention was productive; others now doubt the value of their influence. Some critics have even asserted that intervention has made the situation worse than it otherwise would have been: all inter-

vention, it is said, whether through controls or by persuasion, attempts to thwart the normal operation of market forces, and thus creates inefficiencies; persuasion, it is argued, insofar as it involves trade union leaders entering into agreements with governments, will tend to separate the leaders from the rank and file and progressively make co-operation between government and the parties to collective bargaining more difficult to attain. Such criticisms are difficult to assess, but there seems no doubt that much intervention has been ill-judged, especially when used as a substitute for firm measures to control excess demand through monetary and fiscal means.

### **A Possible New Approach**

Those who think the situation might be improved can agree with much of the criticism of past and present attempts to intervene in the processes of fixing pay, but may still with reason assert that the inflationary and employment problems of the industrial countries are so great that a new effort is required to co-ordinate the results of collective bargaining with government policy. New compromises between conflicting principles are required. It is of primary importance to get agreement on long-term growth of real incomes, after tax and with proper allowance for social security and other benefits provided through public expenditure. This means agreement on the distribution of income between wages and profits, which implies agreement on the division between consumption and investment and on the output growth rate. Agreement on these matters can never be easy, particularly because economic forecasts are always highly uncertain, and because real income growth in many countries will be affected by unforeseen changes in the terms of trade.

The challenges ahead for governments, unions and employers can be glimpsed by considering the implications of a common understanding on the above matters so that pay set-

tlements are based on real income growth. Such agreements would contain a normal annual increment linked to the long-term productivity growth of the economy. Protection against rises in the cost of living would take the form of an increment at intervals to compensate for rises in the cost of living during the previous period. At this point two major complications arise. Firstly, if it is generally agreed that the rate of inflation is at a dangerously high level and must be reduced, the compensation for previous cost-of-living rises must normally be less than full. Secondly, if, despite a country's productivity growth, its real income is growing less than proportionately because of a decline in its terms of trade (e.g. import prices rising faster than export prices), the combined productivity and cost-of-living increments must be reduced by the amount of this loss because the country's output is worth less in world markets. Correspondingly, if the terms of trade improve, pay packets would contain a terms-of-trade bonus. This sort of understanding on economic fundamentals presupposes a common fund of economic and statistical expertise available to government, unions and employers alike.

To achieve new compromises, new co-ordinating institutions may be required. Experience shows a great variety of institutional means to bring about co-ordination. Four basic types may be identified:

- deliberative and consultative tripartite organisations, representing government (or its agencies) employers and unions, as in Austria, Germany, Ireland and Norway;
- mediative or arbitral bodies, as in Australia, Denmark, Finland and New Zealand;
- independent investigating and reporting bodies, such as the present United States Council of Wage and Price Stability;
- agencies of statutory control, such as the Canadian Anti-Inflation Board and the British Pay Board.

To this list needs to be added the type of relationship that exists between government and the bargaining parties in France, Japan and Sweden, informal and largely non-institutional, but which nevertheless provides a basis for co-ordination and understanding.

It has been suggested that centralised bargaining systems with traditions of bargaining at the national level are more conducive to effective co-ordination than more fragmented systems. The more decentralised systems, with their numerous points of decision-taking, present the greatest problem of co-ordination. Government intervention in the past has not noticeably increased the degree of centralisation, and the evidence of some natural tendency towards centralisation, in the highly localised systems of Canada, the United Kingdom and the United States, for instance, is mixed. From countries like Australia, Ireland, and New Zealand come experiences with national co-ordinating institutions which work in largely decentralised systems.

Here, then, is an emerging concept of collective bargaining which is responsive to the needs not only of workers and employers, but of government also: government representing the wider public needs, including those of groups not represented at the bargaining table like the unemployed and the pensioners. As has sometimes been said, there has to be a "national interest" presence, a "third man", whether present physically or not, at the bargaining table.

## Lessons for the Future

The experience of the past suggests some lessons for governments for the future development of this kind of responsive bargaining: governments must work continuously to achieve

co-ordination: discrete, stop-go policies are disruptive; they cannot expect to achieve their price stability and employment objectives quickly; they need to increase the educational element in their policies of persuasion; and governments must themselves be responsive bargaining partners in their role as employers in the very important public sector. It is also clear that, without a considerable degree of consensus and general acceptance of what constitutes national needs, reactions to attempts to check political and market forces may render a government's position ineffective or even divisive.

In trying to develop a vital system like collective bargaining into forms that suit present and future needs, workers, employers, and governments are dealing with one of the major problems of modern industrial society. In all countries systems of settling pay and other working conditions have developed over long periods of time, and collective bargaining, like all social systems, has developed rules and procedures based on custom, law and a knowledge of what "works". No society has ever found it easy to reform an essentially conservative institution. The basic issue is how far people can be encouraged or persuaded to alter their behaviour.

Attitudes to collective bargaining undoubtedly reflect not only vested interests but also political beliefs. Those who find the free, peaceful, localised solution of social problems a source of value in itself will wish to encourage the further development of collective bargaining within the framework of certain, workable laws with a minimum of government intervention. Others—and recent experience suggests they are a large and growing group—will attach importance to the establishment (or re-establishment) of a stable economic environment within which free individuals and free social relationships may develop. Such an environment requires compromise and the giving up of some freedoms in return for others: it requires some reduction in the use made of freedom of collective bargaining in return for more effective reaching of overall social goals. At this point those who take this view divide. On the one hand are those who believe it imperative for the government to exercise control by statutory means over the institutions that settle pay. On the other hand are those who see government entering into what might be called a partnership with unions and employers to settle pay. Such a limited sharing of power in a responsible way by the three partners may be the most beneficial, and least costly, way of achieving stable economic growth.

It is necessary to refer briefly to the connection between the reforms referred to above and democratic institutions like parliament. It may well be that parliaments are inefficient institutions to manage, or help in managing, modern economies. Personally the present writer believes that inefficiency is an acceptable price to pay for democracy, the pleasant right and duty to change our rulers every few years. However, critics of the partnership concept of reform assert that such co-operation places economic government in the hands of interest groups and diminishes the sovereignty of democratic government. The issue is complex. Some would argue that democratic institutions are already threatened because the results of free collective bargaining are more important in determining economic developments than are government decisions and that because of the strength and influence of collective bargaining, governments are unable to manage the economy. It has even been suggested that governments have lost control over the stock of money which is increased to meet the requirements of pay settlements and price increases. These may be extreme views, but they draw attention to the complicated relationship between collective bargaining and government, and suggest that partnership, far from diminishing the power of democratic institutions, may in fact enhance it.

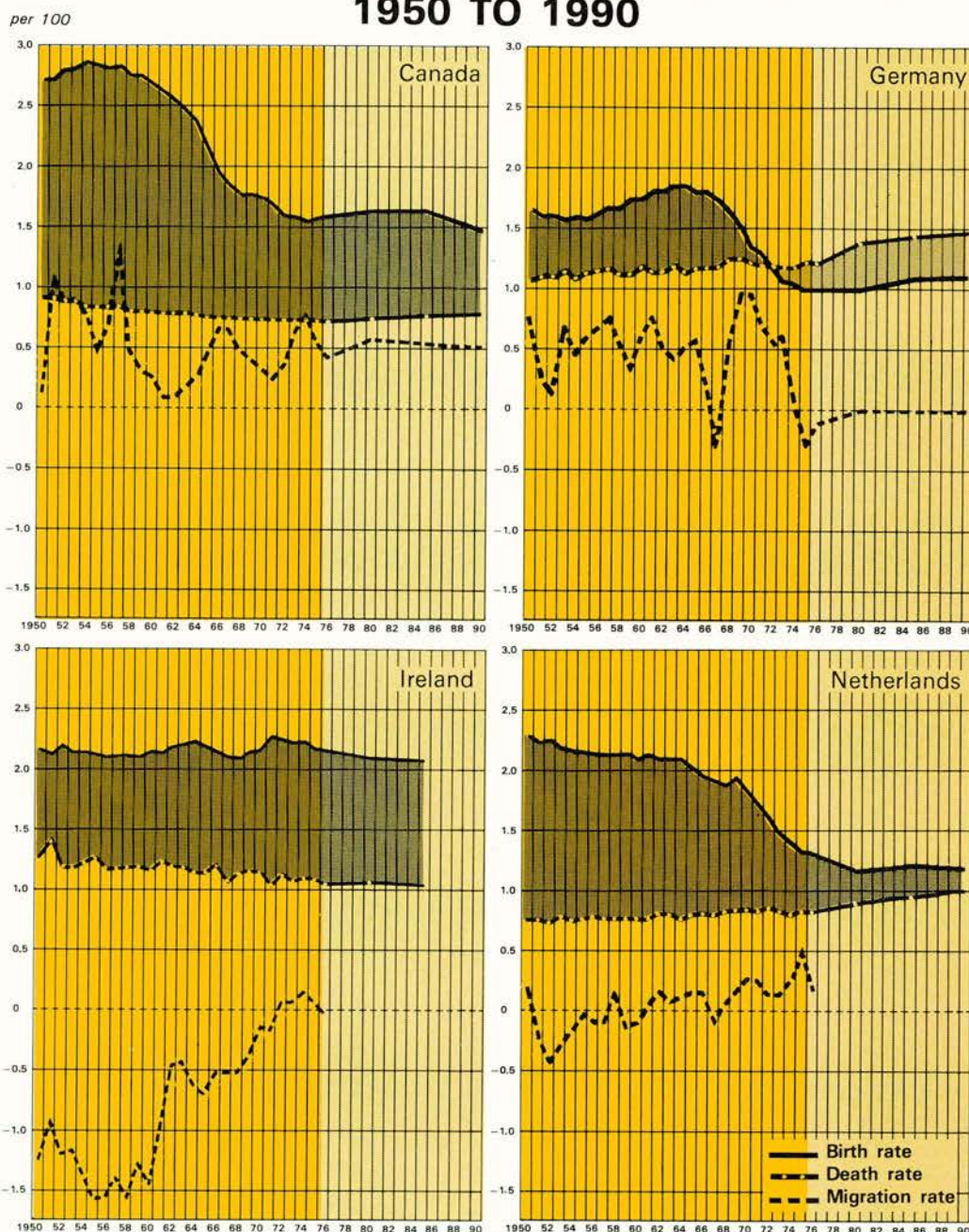
# THE CHANGING LABOUR MARKET 1950-1990

OECD's Manpower and Social Affairs Committee has just completed its most recent survey of demographic and labour force trends in Member countries (1). This year's report contains, for the first time, 25 years of historical information as well as projections to 1990, with detailed breakdowns of the data by age and sex. The main results are summarised in the following pages.

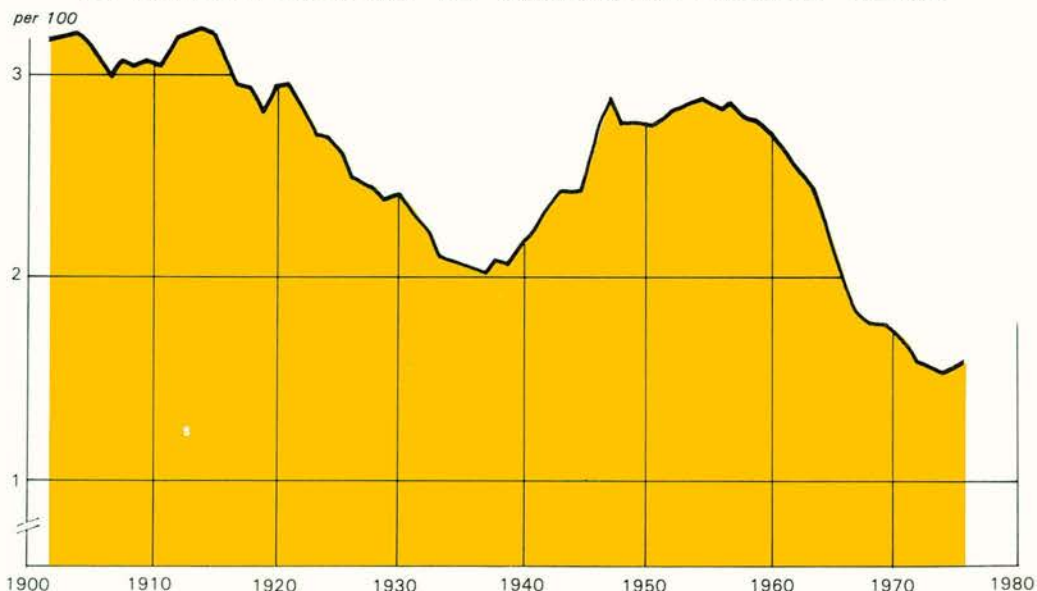
The most striking finding of the study is how much and how universally the birth rate in Member countries has declined. For some countries such as Canada, France, Germany and the United Kingdom it is lower than ever before in peacetime. Largely because of this fall in the birth rate, the rate of population growth in OECD countries as a whole has declined. In some recent years there have even been small falls in the population of some countries including Austria, Germany, Luxembourg and the United Kingdom. Chart A shows the determinants of population for four countries; the fall in the birth rate in Germany has been so sharp that it is now well below the death rate.

The OECD study notes that most Member countries do not expect this fall in birth rates to be reversed in the near future. However, demographers have frequently been caught out by unexpected movements in birth rates in the past, and this is an area in which projections must inevitably be uncertain. Chart B illustrates, using the example of Canada, the volatile way the birth rate series has changed since 1900, for reasons which are still largely unknown. By contrast, death rates have changed slowly over the past 25 years and the projections to 1990 can be used much more confidently. They generally assume continuing, but rather modest, falls in death

## A. DETERMINANTS OF POPULATION CHANGE, 1950 TO 1990



## B. BIRTH RATES IN CANADA SINCE 1900



(1) The report will shortly be published under the title Demographic Trends: Their Labour Market and Social Implications.

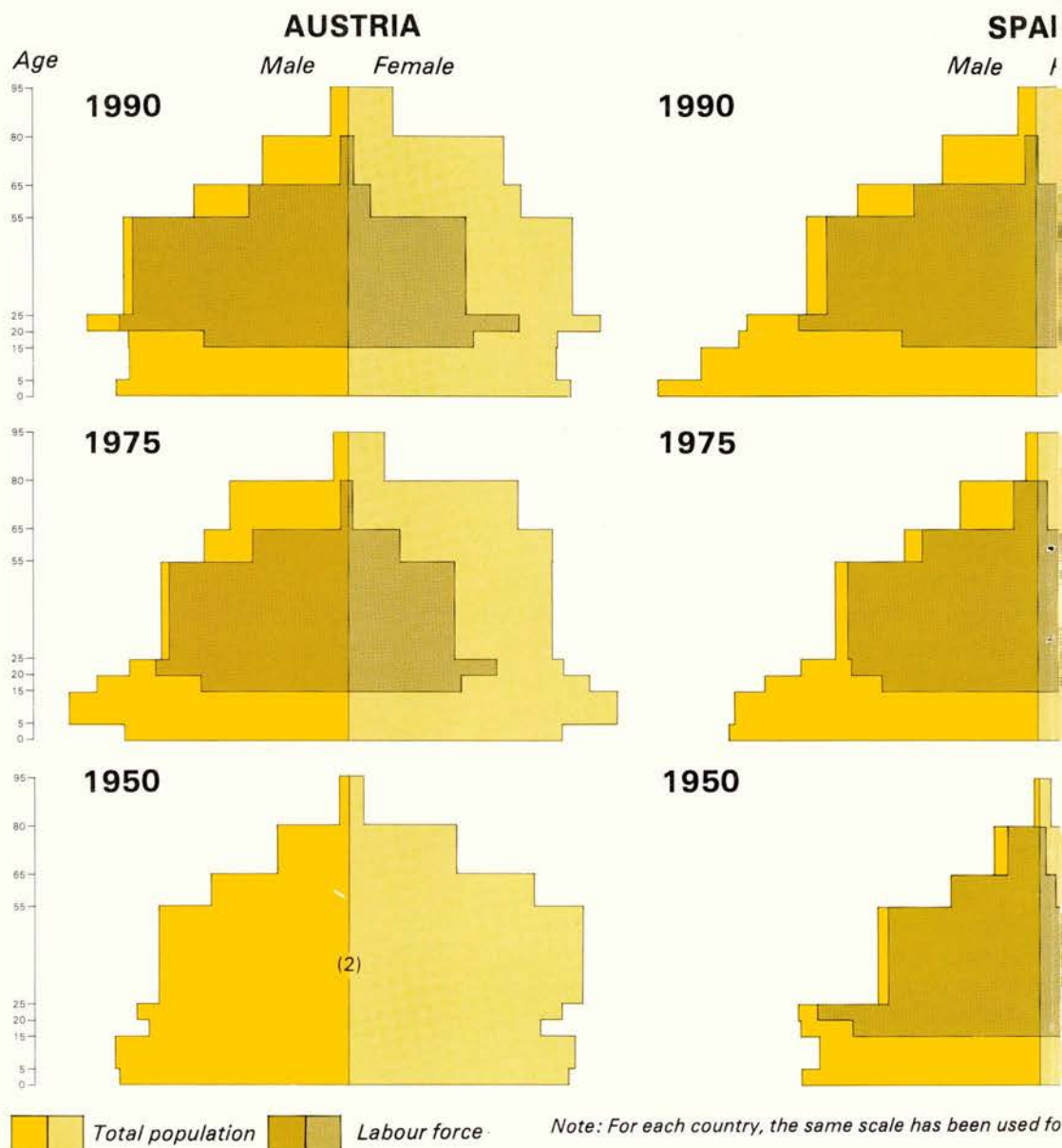
# 1. FEMALE LABOUR FORCE AS A PERCENT OF FEMALE POPULATION AGED 15-64

	1950	1975	1990
Australia	29.6	48.5	(62.5)
Austria	51.1	48.0	49.5
Belgium	32.8	43.9	(50.4)
Canada	26.2	50.0	55.2
Denmark	49.6	63.5	74.9
Finland	59.9	65.6	70.9
France	49.5	50.5	(51.6)
Germany	44.3	48.5	(52.0)
Greece	41.4	30.8	32.2
Iceland	40.9	45.1	43.9
Ireland	36.9	33.5	(32.7)
Italy	32.0	30.7	32.7
Japan	57.6	51.7	(52.8)
Luxembourg	36.7	31.1	30.2
Netherlands	28.5	26.9 <sup>(a)</sup>	26.2 <sup>(a)</sup>
New Zealand	30.0	39.0	42.1
Norway	36.6	53.3	(70.5)
Portugal	26.3	32.0	(42.8)
Spain	17.6	32.5	42.1
Sweden	35.1	67.6	85.8
Switzerland	39.1	54.6	(64.0)
Turkey	86.7	53.2	(60.8)
United Kingdom	40.7	55.3	60.2
United States	37.1	53.1	60.8
<i>Yugoslavia</i>	<i>49.3</i>	<i>46.4</i>	<i>(43.7)</i>
<b>Average</b>	<b>40.6</b>	<b>46.2</b>	<b>51.6</b>

(a) Labour force figures expressed in man years.

( ) Projections are Secretariat estimates.

## C. POPULATION AND LABOUR FORCE



rates. Migration, the third determinant of population change, played an important role in the past, especially in reducing the pressure of population growth in emigrant countries, but it is expected to be less important in future because of recent restrictions in some of the countries which took immigrants in the past.

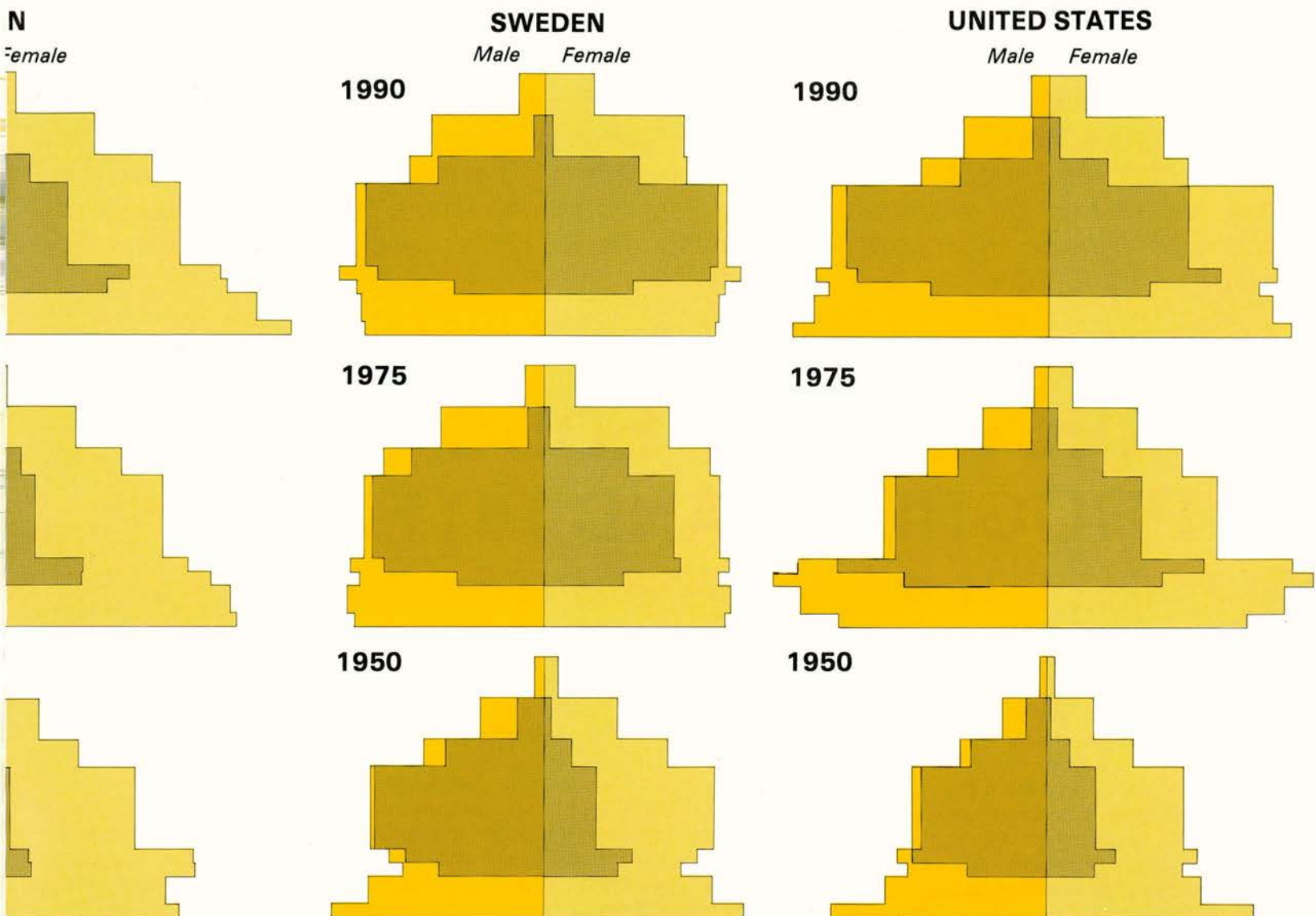
The projections of working age population to 1990 are reasonably reliable. They are unaffected by future birth rates since all the people concerned have already been born. They indicate a continuing rise in the population of working age up to 1990. The number of older people is expected to increase at a faster rate than the working age population and amongst them, the numbers of old people over 80 will rise rather rapidly.

Assuming the birth rate projections to be roughly correct, the population of working age can be expected to rise faster than the population as a whole. This is because the expected rise in the number of older people will be offset by the fall in young people. Thus the outlook shows a higher proportion of the population of working age in 1990 than in 1975.



The number of older people will increase relative to the working population, but the number of dependent children is expected to decrease, at least through 1990.

# E (1) STRUCTURE IN FOUR OECD COUNTRIES, 1950 TO 1990



for all three years and for both sexes. (1) Total labour force, including armed forces, excluding those under 15. (2) Detailed age breakdowns of the labour force are not available.

In order to arrive at the estimates of labour force, projections were made of the participation rate (the proportion of working age population actually participating in the labour force). Most countries expect an overall increase in this rate. The increase in working age population plus the rise in the participation rate indicate that the proportion of the population active in the labour force will also rise. Member governments are faced with the challenge of providing enough employment opportunities to match this expected growth in the labour force.

The report also shows in detail the changes in the structure of the population and labour force. Chart C compares the data for 1950 and 1975 with the expected situation in 1990 for four countries.

The most striking recent change in the labour force is the well-known rise in the proportion of women at work. But what is surprising is the differences between countries, the extremes being Sweden,

with 68 per cent of working age women in the labour force and the Netherlands with only 27 per cent, in 1975. This is illustrated in Table 1 which also shows that the differences are expected to widen still further in future.

In contrast, the participation rate for men is falling off and is expected to continue doing so, because of increased schooling at the lower end of the age scale and decreased labour force participation by both middle-aged men and men over 65. The report notes that young people now tend to combine work and education in Canada and the United States, a development which may spread to other countries and thus reverse the tendency. The fall in the participation rates of middle-aged men, which in 1975 averaged only 77 per cent, (as opposed to 95 per cent for men aged 25-64) is due to many factors, including the rise in real earnings over the past 25 years, increased earnings of wives, more generous disability schemes, higher taxation

and the growth of pension rights exercisable before age 65. While most of these factors are associated with voluntary departure from the labour force, the report notes an American study (2) which attributes over half of the decline in participation by older workers (65 and over) to involuntary factors—mainly compulsory retirement.

The trends noted in the report raise major economic and social questions—for education, for housing, for employment. The report does not attempt to investigate these in detail, but the projections provide an analytical basis for answering them in future work. The report deals only with the period up to 1990 and does not speculate on the undoubtedly major consequences that may occur if the present trends—most notably the low birth rate—continue beyond then.

(2) W.G. Bowen and T.A. Finnegan, *The Economics of Labour Force Participation*, Princeton, 1969.

OECD's Centre for Educational Research and Innovation which is now entering its eleventh year carries out projects designed to help educational policies in Member countries respond in a constructive way to changes in the economic and social environment.

One of the most important concerns is how education can be reorganised to respond to the needs of the individual over his life cycle unconstrained by the traditional compartmentalisation of educational levels and structures. The following article traces the history and newest developments in recurrent education which has been a subject of concern since the CERI's inception. Other aspects of CERI's present work are described on pages 15 and 16.

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# RECURRENT EDUCATION PROGRESS AND PITFALLS

*by Jarl Bengtsson, CERI Counsellor*

For most people, the dominant life pattern is still education, work and retirement. The somewhat utopian vision of breaking up this model of the life cycle, replacing it with a more flexible one in which the three main phases of life would be more intermingled, has remained on the whole a dream—or a threat. The reasons for this are many but the basic ones are certainly a combination of constraints laid down by the productive system and persisting attitudes towards what a life cycle should be. However, it has become increasingly clear during the 1970s that this traditional life-cycle model is in need of change and that one of the possible strategies for changing it is recurrent education.

Recurrent education has as its basic aim the modification of the educational system so that access to it is not confined to the individual's early years but is available at intervals, in alternation with work and other activities, over his or her lifetime.

The basic principles of recurrent education as originally outlined by the CERI are:

- The last years of compulsory education should provide a curriculum that gives each pupil a real choice between further study and work.
- After leaving compulsory school, access to post-compulsory education should be guaranteed to the individual at appropriate times over his total life-cycle.
- Distribution of facilities should be such as to make education available to all individuals, so far as possible, wherever and whenever they need it.
- Work and other social experience should be regarded as a basic element in admission requirements and curricular design.
- It should be possible to pursue any career in an intermittent way, alternating between study and work.
- Curricular design and content and teaching methodology should be designed in co-operation with the different groups involved (students, teachers, administrators, etc.) and adapted to the interests and motivations of different age and social groups.
- Degrees and certificates should not be looked upon as an "end result" of an educational career but rather as steps in a process of lifelong education, a lifelong career and personality development.
- On completion of compulsory school, each individual should be

given a right to periods of educational leave of absence with necessary provisions for maintaining job and social security.

## Progress on the Principles

Today, some ten years after the idea first became prominent, there has been progress in virtually all of the above areas. There has been a marked increase in individual demand for education later on in life as well as an increase in the number of young people searching for and experimenting with new ways of combining work and education. Short courses and modular systems are growing steadily, and although their importance and their relation to conventional course structures may be still a matter for debate, their existence is assured. Similarly, the physical availability of educational facilities has increased considerably, with substantial innovations taking place in the establishment of new institutions and in the development of non-traditional kinds of education, so that geographical and temporal constraints are less severely restrictive than they were. The growth of distance-teaching through the mass media and other technological developments, and pressure from community educators to allow round-the-clock use of facilities, have contributed to the expansion of access to learning opportunities.

Admissions policies are also changing. Here progress has been less spectacular, and there is less consensus on the degree to which liberalisation should be allowed, but there are indications of a trend away from insistence on rigid admission requirements including the recognition of work experience as a qualification in its own right, and efforts to evolve techniques for its accreditation.

Another operational principle in the original strategy of recurrent education is the improvement of teaching methods to cater to those for whom initial schooling was a failure. Here the need for improvement is recognised, but progress is slow, largely because our knowledge of adult learning processes is extremely patchy.

Perhaps one of the most important and interesting developments over this period has been the spread of educational leave schemes which has given much substance to the notion of alternation between education and work. An ILO Convention (140) of 1974 and

several pieces of national legislation have provided impetus to this development. Two interrelated issues are very much at the fore in this area, and, until they are more clearly resolved, the role of educational leave in achieving the objectives of recurrent education will remain uncertain. They are its financing and the extent to which the education undertaken is job-related. The two are interrelated because where the right to educational leave exists, it is generally accompanied by the right to financial support only if such leave is used for narrowly vocational purposes. There is no unanimity on this score, and it is likely to be the subject of fairly intensive debate in the near future.

In most Member countries, however, secondary education, and in particular, upper secondary, continues to be the big sorting mechanism. Many of the pupils who leave the education system at this stage enter the labour market inadequately prepared, and the sort of job they get—if they are lucky enough to get one—is unlikely to fit into a proper career structure, one which would allow them to return later to further study. The tendency of the education system at this stage is to close more options than it opens for many young people, and this is further aggravated by the persistent problem of youth unemployment. It is rather obvious that the credibility and success of a recurrent education strategy implies a change not only in adult education itself but also in secondary, and particularly upper secondary, education.

Finally, if there is at present a certain scepticism about the value of education generally, both on the part of its consumers and of those who finance it, this is in some measure due to hopes placed in education as a means of achieving greater equity, and indeed this has been a persistent theme in the arguments for recurrent education. There seems, however, to have been little progress, in that the distribution of educational opportunity is changing only gradually, and its impact on other factors such as income and occupational status has been limited. The conclusion to be drawn is that giving people adequate skills is a necessary condition for them to be able to improve their occupational and social position, but it is not a sufficient one if the occupational and social structure is not simultaneously evolving to allow those skills to be exercised. If the contribution of education to equity is to be maximised, its relation to other social and economic measures must form part of any policy deliberations.

## How do the Pieces Fit Together?

Thus, innovation in each of the discrete areas is not lacking. But as to fitting the pieces together—one must say that there has been a relative lack of progress.

Reflecting on this lack of progress made in developing a co-ordinated approach to the implementation of recurrent education, one may conclude that there is a certain gap between verbal adherence to the concept as a basic planning strategy and actual policy practice. The existence of such a gap can of course be seen as a consequence of the long-term character of a recurrent education strategy, but it raises the question whether recurrent education is in some cases being used as an excuse for not making any profound changes in the present educational system.

It is not unduly cynical to posit that any proposal which receives universal approval is either peripheral or too general to be truly significant. The extension of individual choice and the improvement of adult learning opportunities are wholly unobjectionable aims, but once they are given concrete policy form, they will begin to encounter opponents who discern in them practical consequences inimical to their own interests. Recurrent education is not a neutral social instrument, but the direction in which it works will depend on the aims of those who implement it.

## What of the Future?

When the Centre for Educational Research and Innovation (CERI) and OECD Member countries themselves, started work on recurrent education in the late Sixties, the general economic and educational situation was very different from that of today. Continued economic growth was taken for granted even if several critics made their doubts known. The educational system was expanding at all levels, and in some countries the interest in recurrent education could actually be seen as a way of taking the pressure off the traditional system. In nearly all countries the belief in education as a powerful instrument to redress inequalities was strong, and the arguments for recurrent education tended to reinforce this assumption.

When looking at education today in an overall perspective, one sees something of a paradox. On the one hand, confidence in education is wavering in a number of countries, and pessimism vis-à-vis future expansion is being expressed in many quarters. Yet—and this is the paradox—there is, in a growing number of countries, an optimistic, new and fresh way of looking at the future of education in the context of recurrent and lifelong learning. How then will this paradox be resolved for recurrent education in this changing economic and political climate? Without being exhaustive, it is possible to identify several new social forces which are likely to have an impact on future developments:

*Demographic factors* are becoming increasingly important for educational policy-makers. Demographic projections have often proven to be notoriously unreliable, but at the moment they point clearly towards a declining proportion of young people in the total population over the next 10 years. (See page 9.) This means first of all that the capacity of the educational system, which was dramatically expanded to cope with the post-war baby and demand boom, will nowhere near be taken up by the education of young people. It also means that the population bulge which caused the initial expansion is, as it moves from children to adults, demanding much greater access to educational facilities of all kinds. This creates the opportunity to expand recurrent education facilities.

*Demand trends* therefore constitute a second factor. First, there is the growth of demand on the part of older people for formal and non-formal facilities, a corollary of their higher initial level of education. But the other way in which demand trends favour a shift to recurrent education is in a sense a negative one: the growth of post-secondary enrolment rates has slackened off very sharply in this decade in most major OECD countries except for Germany and Austria. Although a decline in absolute numbers is as yet rare, the institutions which historically relied upon a steady flow of students directly from secondary school are now beginning to feel obliged actively to recruit other students.

*Employment trends* have probably been the most important single factor in broadening support for recurrent education. In the first place, the traumatic changes which have taken place in the world economy have given fresh impetus to the arguments for retraining all occupational groups at various points in their lives, and for conceiving of this not as a luxury but as a necessity. Secondly, and somewhat ironically, high unemployment has meant that governments have been forced to devote large sums of money to manpower schemes. Thus the opportunity cost of expanding education has rarely been lower. It has also prompted unions and employers to bring pressure to bear on governments to develop further training capacity. In several countries the flow of funds has switched from education to the manpower authorities, provoking the former into rethinking their priorities.

Longer-term and more speculative changes in the economic and



social system may well be crucial for the development of recurrent education. Two of the most important are:

● *The future of employment and work which may bring about a rethinking of the traditional life-cycle model.*

It appears more and more clearly that even an optimistic growth prospect will not lead to the resumption of full employment as traditionally conceived. It is being argued that, given the expected increase in the labour force (see page 10) and other factors, the amount of work necessary to maintain the economic process cannot employ all the people who are eligible and willing—at least not to the present extent—unless a large number of new jobs is created either in the public or private sector. This has stimulated discussion of job-sharing, part-time work and the further reduction of individual working hours. Some favour early retirement; others argue for compulsory schooling which is more relevant to working life. Such suggestions would mean a curtailment of working life either at the entry or at the exit stage of the working process. But, while overall working time would merely be reduced by one or several years, the traditional cycle—education/work/retirement—would not be affected.

However, other proposals would break up the traditional three-block pattern by providing for a more flexible work phase. Instead of—or in addition to—curtailment of the working period at its beginning or end, there could be provision for one or several leaves within that phase which would considerably exceed the time of educational leave of absence as it is at present granted to employees and workers in a number of Member countries. Thus, the concept of a "sabbatical year", which is commonly granted to those working as teachers or researchers in the university system, would be extended to a wide range of people in the labour force.

These more far-reaching proposals call for a more flexible and changing mixture of work and non-work time. For university teachers, the term "sabbatical leave" means a period of leave granted for study which may or may not be related to the profes-

sional field. Were this universally available, such paid leave need not necessarily mean recurrent education but could encompass other leisure activities chosen by the individual. But the basic idea is that part or all of additional leisure time should be used for educational purposes, at least for workers who have not had the chance to enjoy a satisfactory education, or who did not use it at the time. Some kind of financial incentive could help motivate them to use part or all of this non-work time for education. Such an approach would give a new dimension and a different thrust to the development of educational leave; whereas previously it has been seen mainly as a vehicle for job-related training or general, civic or trade union education, it now has the potential of becoming an important instrument of a new full employment policy which would result in a more equal sharing of a limited number of jobs. For instance, the present problem of finding jobs for young people may be partially solved if sabbatical leave is granted to a large number of older workers. Of course, in order to use a sabbatical system in this way, a number of requirements have to be met, like the guarantee of re-entry for employees into their old (or comparable) positions, as well as the retention of social security and pension rights.

Even if such a scheme does not materialise in the near future, it is probable that there will soon be pressures for a more equal distribution of labour and leisure for all adults, and that consequently there will have to be education which is suited to needs of people who are alternating it with periods of work. The basic argument here is for a redefinition of the relation between work and leisure. This poses a challenge to education which will be even more important if economic growth continues to be slow and is intimately related to positive policies for structural adjustment.

● *The second long-term issue is the relation of recurrent education to changes in the production process itself and the recent concern for industrial democracy.*

This can be viewed as the third stage in a process of democratic evolution—the first being political democracy and the second, more democratic access to goods and services. If industrial democracy gains momentum in the years to come, the educational system, both youth and adult, would have an important contribution to make. The democratisation of education, for example, would influence the ability of people to participate when they enter the world of work.

More important, the working of industrial democracy depends on the capacity of those involved to understand the processes of production and, for this, access to education will be a pre-requisite. Opening the company's books, for example, constitutes only a limited step towards participation if the figures exposed have no significance to anyone but a trained accountant. Similarly, effectively discussing and deciding upon a firm's future investment policies depends on those involved having some basic economic notions in common—hence, the potential role which can be envisaged for the educational system.

However, judging from recent developments in educational leave of absence—where the formal educational system has scarcely been involved—it is possible that any new demand for education arising from progress towards industrial democracy will be met by agencies outside the formal education system. In those OECD Member countries where there is a trend towards industrial democracy, it is very often the unions themselves, through their educational branches, which cater to this new need for general education. In some cases, this is due to the unions' mistrust of the formal education system, but more often it is a consequence of the education system's reluctance to develop a policy for meeting this new challenge.

But over a longer time it is difficult to envisage that the educa-

tional system, particularly those parts of it concerned with recurrent education, could ignore moves towards industrial democracy. As the old authoritarian structures at work in the community and in the home are changing, there is a pressing challenge to the educational system to become actively involved in replacing them with a

deeper rooted democratic system. It may not be an exaggeration to suggest, as some have done, that the role of recurrent education in the birth of social and industrial democracy may be as important as that of compulsory elementary education in the creation of political democracy in the last century.

# EDUCATION OF HANDICAPPED ADOLESCENTS

**A**t a time when the efficiency of special educational institutions is very much on the firing line and youth unemployment a matter of vital concern, several countries are making a concerted effort to improve their policies for the handicapped. Some examples: a recent United States law guaranteeing all handicapped children a free public education which is in line with their needs; recent recommendations of the Warnock Committee set up by the British Government for a change in policy in this field; new legislation in France and reforms in a number of Scandinavian countries. To supplement and reinforce this national activity CERI has launched a study on the education of the handicapped adolescent.

One reason for focussing on adolescents is that research and development is lacking most in this age range. But there is

also the fact that, when it comes to finding effective ways and means of integrating the handicapped, this age is a crucial one: it is a bridge between childhood and the adult world, between school and work. Because adolescence is such a critical turning point, the circumstances that prevail and the decisions made during these years determine the basic conditions of a person's entire adult life—whether he or she becomes a functioning member of society or is excluded as part of a marginal group. For handicapped young people, this stage of personal development is above all one of preparation and socialisation.

The central question is what educational strategies can best integrate handicapped young people into the mainstream of society and prepare them for the greatest possible independence in working life. The CERI attempt to answer this question high-

lights two main areas:

- schooling for physically and mentally handicapped adolescents
- the transition from school to working life.

Each of these areas is in itself a complex of issues having both social and political dimensions and both are at the heart of the integration question.

## A Question of Definition

Who are the handicapped? They are those who, in one way or another, do not come up to what a given society defines as "normal"—physically, mentally or behaviourally. But the standard is not an absolute one. It varies from one culture to another. Even if the physiological disabilities are the same, being handicapped in India is not the same as it is France. As to the industrial societies, they are moving more and more to the standardization of criteria for the handicapped leaving less room for individual differences: in a society where maximum productivity is a prime value, those members who cannot compete on these grounds are considered as severely handicapped.

Handicaps are a political problem. Government policies are necessarily influenced by the values and ideologies of society at large and have a direct impact on the lives of the handicapped through legislation and the social services. But the political aspects cannot be separated from the economics of the problem—the portion of available resources that can should be allocated to the handicapped and their special needs. Handicaps are also a social problem since it is the social structure of a society which largely determines attitudes towards the education, social services and employment of the handicapped and, more specifically, the organisation of the education system and its criteria of selection, the division of labour and its production criteria and the organisation of the social services.



## Integration

If the handicapped are integrated into existing social structures, the consequences for social and institutional organisation will be very different than if a parallel and radically different world is created for them.

How countries look at the question of integration varies considerably with the social reality. A distinction can be made between various types of educational integration. *Individual integration* is the inclusion of individual handicapped children in regular classes, while *group integration* is the inclusion of a handicapped class in an ordinary school where certain facilities, such as the cafeteria, gymnasium etc. are used in common and where all the children take part in social activities. Sweden has gone far in the latter direction. At the present time 95 per cent of all mentally handicapped children in Sweden are in the group integ-

ration system; specialised institutions are rare.

In other countries, individual integration is increasingly the rule. In Italy a 1971 law specifies that in state schools "compulsory education must be in ordinary classes unless an individual suffers from a physical or mental handicap of such gravity as to make integration in an ordinary class very difficult. Only in such a case can the child be placed in a special class in a state school."

The integration of handicapped young people into the working world also raises problems, and several countries are studying this question. In the United Kingdom, the Employment Ministry is trying to arrange for them to benefit from job-creation programmes for young people. In Sweden, a commission has been set up by the Employment Ministry to study the problem of employment for the handicapped.

Almost inevitably, an integration policy implies institutional change and new values. Having the handicapped in regular schools, may, for example, call for a reduction in the number of pupils per class, obstacle-free architecture, supplementary teacher training etc. It also implies that as much attention be paid to socialisation as to the acquisition of knowledge. In the working world, the fact that a handicapped young person may not be as "productive" as another worker must be accepted.

The purpose of the CERI project is to analyse new practices in OECD Member countries and to uncover the wealth and variety of existing or planned strategies to cope with the problem of social integration of the handicapped adolescent. The plan is to put at the disposal of those decision-makers at all levels who are concerned with this question concrete information that is directly applicable.

# NEW TRENDS IN TEACHER TRAINING

*In-service education and training of teachers has increasingly emerged as a necessary condition for the success of educational systems in adapting to the needs both of students and of society. For the implementation of reform depends not only on newly trained teachers, but on those who already have several years of experience. Yet the earlier training and work habits of these teachers have not usually prepared them for change. In-service training is also an answer to the teachers' own need for personal and professional fulfilment.*

*Although it has never been entirely omitted from educational legislation, this form of education has often lacked coherence and a number of countries have therefore decided to focus on it. CERI action in this field is designed to meet the rapidly emerging need for analysis and comparison of country experience by compiling case studies of relevant innovations.*

## A New Context

Certain recent social and economic changes which seem to favour the development of in-service training may in fact complicate the task.

### • Demography

One example of this paradox is the demographic factor. The spectacular reduction in demand for new teachers should help to increase the resources—both human and financial—available for education and training of experienced teachers. At the same time, the economic recession, by reducing employment opportunities elsewhere, has made teaching staff much more stable. This has evident advantages after a period of intense mobility and turnover. But, in the long run, this stability can very easily turn to stagnation. Moreover, new functions for teachers are developing only very

slowly and the rather hierarchical division of education tends to restrict internal mobility. Thus with the number of teachers falling or stagnating, an increased population of ageing teachers, and few career opportunities, it has required imagination to keep the profession healthy and dynamic.

### • Public expenditure

A second restrictive factor: the level of public expenditure allocated. The optimism created by the reversal of demographic trends has been rapidly tempered by the stagnation of public resources devoted to education and by competition from other social sectors so that the anticipated reshuffling of resources has proved difficult. In some Member countries new in-service training measures have been delayed, and certain programmes have even been dropped. The cutback means that new functions in the educational system—and the corollary improvement in teaching status—are not imminent. Thus the possibilities of internal horizontal or vertical

mobility, which in turn justified certain in-service education and training activities will be diminished.

There has also been a diversion of some resources from in-service education to improve an initial training system for teachers which is manifestly inadequate with its rigidity and narrow specialisation. In-service training will function better—and better encourage internal mobility—if it forms part of a training continuum which begins with a renovated system of initial training and moves through the transition into a first job.

### ● *School and Community*

The last factor—the need for the school to adjust to the new needs of both students and the community—is the most fundamental. Schools must cope with the extension of compulsory schooling and the re-evaluation of basic education (especially for those who do not pursue their studies), cater for the needs of children from immigrant families and socially or culturally disadvantaged groups, deal with changes in curricula (mathematics, for example) and the introduction of new subjects (technology, social sciences), as well as the transition from education to working life. This means that the role of the teacher is changing. What are the new challenges?

- greater teamwork with colleagues
- more individual counselling for pupils
- more contact with parents and the local community
- action-research (1)
- greater participation in planning and management of the school; formulation of one's own views on the overall educational system.

Thus, the context in which the new in-service education and training policies must develop is a complex one full of contradictions.

## Clarification of Aims

More and more a distinction is being made between adaptation to a first job and subsequent training. The latter may include:

- retraining due to inadequate initial training, general or vocational, and to changes in educational aims, structures, content and teaching methods
- further training in the same post
- training periods of varying length in the community's economic, social or cultural institutions
- preparation for a change of post
  - within the teaching profession or elsewhere (the latter is particularly important in view of present unemployment of teachers)
  - with or without promotion; promotion may mean a move from one level of education to another or a change of function (headship, inspection, teacher training, etc.); it is necessary to distinguish between individual promotion and the upgrading of an entire teaching category.

Thus training activities may be seen as a response to different needs and may involve the educational system, the individual teacher or both. Thus, for example, in helping the young teacher adapt to his or her first job, the main objective is to facilitate the transition to working life. The method used is to relieve the young teacher of certain obligations so that he can supplement his training with practical experience and receive counselling from colleagues or specialists outside the school. In pilot actions now underway in England and Wales a young teacher's duties are reduced by a quarter, and he is assigned to a special tutor, selected from the school staff, who spends a quarter of his own day in this activity. A

(1) *Research carried out jointly by practitioners and specialised research workers with a view to testing the practical value of certain innovations.*





number of countries have always had such initiation programmes but never as part of a systematic and coordinated policy.

England and Wales have also given all teachers the right to in-service training periods of one term every seven years while France gives a year of training in a teaching career to all primary school teachers. But while England and Wales extend this right to virtually all training activities, French law, with few exceptions, excludes training specifically related to the individual's own career. Such individual training does not rule out compulsory training sessions linked to school needs: in Sweden a five-day compulsory seminar is held during the school year in addition to the individual training provided.

### **Local Implementation: School-Focussed Training**

In-service training, whether given by universities, teacher-training colleges, pedagogical centres or school inspectors, has given scant attention to the day-to-day needs of schools and their teachers. These institutions are now coming back to the view that much in-service education should be geared to the concrete needs of the school itself (school-focussed) and that the school is in the best position to evaluate the training needs of its staff. Some in-service training can be given within the school using its own human resources. This will create new roles and duties—trainers, tutors and even experts on special teaching problems recruited from the school itself or borrowed from nearby institutions. The head teacher or departmental head will have the task of managing or coordinating the training of his staff or in larger establishments will delegate this task to a specially appointed teacher.

The school itself cannot hope to meet all its staff training needs and so institutions to which it can turn have been created nearby. For example certain countries (the United Kingdom, Australia, Canada, the United States) are setting up centres run mainly by local teachers and the local community, while others (France, Japan, the Netherlands) are organising pedagogical centres that depend mainly on the education authorities. The main objectives of both are not only to help inform and train teachers but to associate work on curricula and methods, thus stimulating training with research-action projects.

One advantage of school-focussed training is that it is conducive to teacher participation in decisions about the in-service training itself, either directly or through representatives. Moreover, it is conceivable that more initiative on the part of schools—and the greater competence thus acquired—will lead to more local autonomy and initiative in other aspects of day-to-day school management. Thus, while school-focussed training is not a panacea, it may provide a quick and practical response to a number of teacher training needs.

### **New Contents and Methods**

More and more courses are now being offered for special groups: head teachers, beginning teachers, teachers in towns, training college teachers, etc. Some rely on direct participation by trainees in the preparation of their own curriculum and its integration into research-action programmes. Training methods systematically used in other sectors—lectures, group discussions, simulation, problem solving, programmed teaching, pre-prepared curricula, etc.—are now being more widely used in in-service training, while counselling methods and correspondence courses are being profoundly changed in order to satisfy the new training needs (e.g. the Open University in England).

CERI studies seem to show that not much progress has been made in fitting practical training courses into a relevant theoretical framework, but a number of training courses—especially those connected with the renewal of curricula (mathematics, for example)—have a solid research base.

This adaptation to a variety of needs also means a change in the length of courses. The gradual acquisition of diplomas, especially university degrees, is encouraged by a modular course structure and by the development of a continuous monitoring system.

### **Coordination of Institutions and Resources**

The need to mobilise very considerable resources for in-service education and training means that the initial teacher training institutions in a growing number of countries are obliged to earmark an increasing proportion of their own resources for this type of training. In England and Wales, for example, it is expected that 20 per cent of the working hours of teacher training college staff will be devoted to in-service training. In Sweden, France and Switzerland, the independent teacher training colleges are now fully involved in this type of training, which to some extent makes up for the decline in the number of teacher trainees.

Thus a variety of institutions play a role in in-service education and training. For reasons of finance and efficient use of other resources, it has become necessary to set up coordinating and planning mechanisms. Sweden's centralised programming is quite different from the network of staff development cooperatives emerging in the United States, sometimes at the instigation of the universities, or the pragmatic experimentation with various models of regional coordination taking place in England and Wales. But the diverse efforts are all moving in the same direction.

# INVOLVEMENT OF USSR SHIPPING LINES IN INTERNATIONAL LINER TRADES

*Since 1976 government officials meeting in OECD's Maritime Transport Committee have expressed serious and growing concern about the threat to OECD liner shipping services arising from increasing competition from state trading countries. In its most recent Annual Report, the Committee analyses this competition. The following article is based on this report.*

One of the principal elements, apart from those of a general economic nature, which significantly affected the demand for OECD liner shipping services during 1977, was the increasing competition from state trading countries, particularly the USSR. This competition was most prominent in the cross-trading activities (1) of Soviet shipping lines and in railway transport of goods from Far Eastern countries to Europe and vice versa via the Trans-Siberian Landbridge which by 1977 had gained about 20 per cent of all east and west-bound containerised trade.

During the Sixties, USSR vessels played only a limited part in international liner trades and, to the extent that they did so, they operated, generally speaking, within the overall shipping conference structure. However, since about 1972 there has been a very considerable increase in the role of USSR shipping lines, not only in the bilateral trades but also as cross-traders, in a few cases as members of shipping conferences, but usually as 'outsider' lines indulging in vigorous competitive practices which have been characterised by Western shipowners as 'non-commercial'.

Soviet activity became most apparent in late 1976 when a large number of new cross-trading services were opened. During the first nine months of 1977, Soviet shipping lines opened further new services or extended their existing outsider activity (through an increased number of sailings and/or larger and more efficient vessels) in 14 world seaborne trade routes out of a total of 33 in which USSR shipping lines had previously participated and for which coherent information is available. At the end of 1977, Soviet vessels were operating outside conferences in some 43 direct international liner services, and Soviet lines offered, in addition, extensive minibridge rail services between the United States' East and West coasts as well as trans-shipment arrangements.

These incursions into the Western main seaborne trade routes as cross-traders were achieved mainly by offering general or selective rate cuts on the commodities transported as well as the trade concerned, supported by a world-wide network of largely Soviet-controlled shipping and forwarding agencies. On the whole, when Soviet lines operate as outsiders, they do so in a very similar manner to other outsider lines, competing with conferences, with similar cuts—some 10 to 20 per cent, with occasional cuts of up to 40 per cent or more. However, the essential difference, as per-

ceived by Western shipowners was that for the first time their shipping lines were faced with 'competition' from outsider lines which were state-owned and government controlled, having the financial backing and reserves of a complete economic system. This enabled them to remain competitive for much longer periods independent of the mechanism of market profitability which constrains the independent outsider line. Thus it was not only the competition itself during 1977 but the nature and source of the competition which was felt as a threat to OECD liner services: no amount of commercial expertise could by itself counter reductions in rates on the scale and of the duration that the Soviet lines practised and continue to practice.

## Main Difficulties in Cross Trades

Although Soviet cross-trading activity on all international seaborne trade routes causes grave concern to OECD shipowners, areas of particular attention and worry in 1977 were: the North Atlantic trades, the Trans-Pacific trades, the Europe-East Africa trades and the trades between Europe and the Far East.

### • The North Atlantic Trades

The North Atlantic trade route was one of the first where Soviet outsider activity hit Western shipowners to any great extent. The development of Soviet penetration into the United States North Atlantic trades started after 1971, rising from only 0.3 per cent of the total United States liner trades to 1.8 per cent in 1975 and 3.1 per cent during the first six months of 1977; their share of the eight principal North Atlantic trades increased from zero in 1971 to 2.5 per cent in 1975 and 4.4 per cent in 1977 (January-June). In particular, Soviet penetration has been felt in trade between the United States' East Coast and Germany where the Soviet flag share has risen to some 13 per cent.

### • The Trans-Pacific Trades

The Soviet Far Eastern Shipping Company (FESCO) started in 1957 by operating a liner service between the Eastern terminus of the Trans-Siberian Landbridge, at Nakhodka, and Japan. During the middle of the Sixties, FESCO introduced various small new services centered on Japan and covering Australia, Asian countries and the West Coast of the United States. On all these trades, FESCO operated as an outsider with rates averaging between 10 and 25 per cent below those offered by Conferences and penetrated steadily into the trades. The most important intrusion took place in the United States trans-Pacific trades where the share

(1) A cross-trade is one in which the goods are carried in a ship of a nationality other than that of the countries at either end of the trading voyage.



increased from 2.9 per cent in 1971 to 4.8 per cent in 1975 and 7 per cent in 1977 (January-June). Although this rate of growth does not seem excessive in percentage terms, it is significant in terms of tonnage carried, amounting to an increase of 130 per cent between 1975 and 1977.

In May 1977 additional pressure was put on the Conferences servicing the trans-Pacific trades, which are among the world's most important trade routes, when FESCO established a new triangular service between the United States, Australia and Japan to reduce the imbalance in load factors it was encountering between the east- and westbound Japan/United States trade. This service attracted considerable new demand during the second half of 1977, and it is estimated that total FESCO carryings between May and September 1977 amounted to 5 per cent of the West Coast/Australia liner trade, although the Soviet share of the container traffic may have been slightly higher. This rapid incursion was due to lower rates, varying, for the major commodities, between 22 and 26 per cent below Conference rates and to the fact that FESCO's agents in the United States were alleged to transfer containers at little extra cost from the east coast to the west coast for loading onto a FESCO vessel by quoting combined inland/ocean freight rates in which the inland transport element seemed to be insufficient to cover the actual cost of carriage. However, taking into account container allowances offered by the Conference lines for "house-to-house" movements, the rate differential would vary between 10 and 20 per cent for most items. Based on Australian estimates of cargo movements in 1976-77, it appears that FESCO's share of the containerised cargo loaded for Australia at United States West Coast ports will be 11 per cent of the total North America container cargo on that trade in 1978. At full capacity FESCO's share will be around 15 per cent based on an annual carriage of 8,096 twenty-foot equivalent units (TEUs). FESCO has not yet attempted to enter the trade to the United States from Australia because the cargo mix is unattractive at present (about 20 per cent of it consists of frozen meat, and the Soviets do not yet have enough containers with refrigeration capacity) and also be-

cause the triangular service eliminates the need for a return journey on this route.

#### ● *The European-East Africa Trade*

The Soviet Besta Line entered the East African trade in September 1975 with a fortnightly service, followed by three sailings a month in January 1976 and rising to four sailings in January 1977. Estimates of the trade for 1977 indicate that Besta Line liftings in the Europe-East Africa trade were about 16 per cent southbound and 8 per cent northbound of the total liner trade, as compared to about 6 per cent northbound and approximately 15 per cent southbound in 1976 (using freight tonnes as a basis for comparison). Besta operations cut across the East Africa Conference service in the range of ports in Kenya and Tanzania which is considered to be the most profitable area and the only sector which comes within the revenue pools of the Conference. This area accounted for approximately 65 per cent of Besta's overall trade. Compared with the Conference rates at the end of the year, Besta's rate discounts amounted to about 14 per cent southbound and 27 per cent northbound, but as the northbound trade was largely based on commodity contracts, it is not known to what extent Besta was really undercutting in the area. Certain estimates indicate freight rates of more than 30 per cent below Conference commodity rates. Due to the revenue lost as a result of a decline in traffic and the Conference's counter opposition policy of matching Soviet rate cutting as far as possible, the total loss of Conference revenue is estimated to have been between US \$35 and 40 million in 1977.

#### ● *The Europe-Far East Trade and difficulties related to the Trans-Siberian Landbridge*

The Europe-Far East trade is confronted with a double impact from Soviet competition:

- vigorous expansion of containerised cargo moving via the Trans-Siberian Landbridge which competes for the higher paying cargo and



- the Soviet Odessa Ocean Lines, which compete for the lower paying cargo.

Intensive new developments (i.e. the building of new container ports, the electrification of certain railway tracks, the completion of double tracking in certain loading and unloading ports, as well as the introduction of special trains carrying through-loads at a high speed to a single destination) as well as comparatively lower freight rates have resulted in an ever increasing amount of cargo carried by the Trans-Siberian Landbridge. By the end of 1977, the Soviet transport authorities expected an annual figure of 150,000 TEUs and envisaged a 1980 target of some 300,000 TEUs. Of the 120,000 TEUs transported in 1976, the loaded element is thought to have contributed around 75 per cent to the total, rising to about 80 per cent in 1977. The latter (equivalent to more than 1.5 million tons) is estimated to be approximately 8½ per cent of the overall amount of cargo carried by the Far Eastern Freight Conference (FEFC). During this period of overall growth, FEFC container movements remained approximately constant.

In addition to the Japanese leg of the trans-Siberian landbridge, the Soviets spread the activity of this railway via feeder services by picking up cargo to and from Hong Kong, Manila, Bangladesh and Singapore and at the end of 1977 negotiated with commercial circles in Australia with a view to establishing a service between Australia and Europe via Nakhodka and the landbridge. Currently the Soviets operate three container quays, one each at the ports of Vladivostok, Nakhodka and the new port Vostochny. Although the Far Eastern Freight Conference and the Trans-Siberian Landbridge freight tariffs are not directly comparable, westbound rates for high value cargo of the latter are estimated to be on average about 15 per cent below those of the Conference, but the difference is generally smaller on lower value cargo. Little is known about eastbound rates on the landbridge, but there are reports of substantial differences in this direction also.

Together with the still relatively low 2 per cent share shipped by the Odessa Ocean Lines, Soviet competition in this trade area

already amounts to more than 10 per cent of the total, with both landbridge and shipping line under steady development.

## Difficulties in Bilateral Trade between OECD Members and the USSR

Statistical investigations into the flag shares of bilateral trades between OECD Member countries and the Soviet Union have confirmed that for 1976, as in previous years, there was an imbalance in favour of Soviet flag carriers: in certain cases Soviet flag vessels carried around 80 per cent of the bilateral trade. A number of factors have contributed to Soviet dominance in these trades. For one thing, Soviet trading is carried out through government agencies whose preferred terms are cif sales and fob (2) purchases (leaving the choice of carrier in Soviet hands) which foreign suppliers and importers usually agree to accept in order to settle the contracts. In addition, foreign shipping companies are not permitted to set up agencies in the USSR and are therefore dependent on the Soviet authorities who decide whether any cargo shall be allocated to them. Even in cases where foreign participation in the trade is agreed, or where choice of carrier is not determined by the Soviets, the allowance for transport costs in the price of the goods is often too low to interest Western shipowners.

## The Need for Cooperation and Accommodation

The difficulties caused by competition from the USSR led to a somewhat critical situation in certain trades during 1977 and seriously affected the commercial results of a large number of shipping companies although it has not as yet constituted a general threat to the overall commercial viability of OECD liner operators (3). However, future projected growth in overall USSR cargo capacity can be considered as a real threat, particularly the rapid introduction of part and full container ships and roll-on/roll-off vessels of high flexibility which could, under certain circumstances, cause a reduced participation of OECD transport services in bilateral and international seaborne trade so that USSR shipping could well attain a most influential position in many world trades.

As it has become apparent that discussions on a commercial level are unable to cope satisfactorily with the issues involved, governments of a large number of OECD countries have initiated bilateral discussions with the Soviet Union on this matter with the aim of establishing a system of cooperation. However, up to the present time, these discussions have not produced significant changes in Soviet shipping activities. The result of this lack of success has been that more and more OECD governments have acquired, or are in the process of acquiring, the necessary legal powers to enable them to introduce supervisory controls and countermeasures which could be used to regulate the activities of Soviet vessels calling at their ports.

Despite the lack of progress in gaining Soviet agreement to limit expansion, there have been various indications that the USSR authorities might still be receptive to continued discussions of a more commercially and politically oriented long-term solution, and vigorous efforts to reach a satisfactory accommodation are still being made.

(2) Cif: cost insurance freight — Fob: free on board.

(3) It is not possible to evaluate in monetary terms on an OECD-wide basis the benefits to the Soviets; however, Soviet participation in the United States liner seaborne foreign trade might be used as an illustration. In 1971, the USSR vessels carried 0.4 per cent of the total United States liner trade (160,000 tons valued at US \$38 million) while in 1976 the figure was about 2.9 per cent (1.4 million tons valued at US \$1.7 billion).

The first official figures for tourism for the entire year 1977 have just been published by OECD. They show a substantially faster growth than in last year.

Two years after topping US \$30 billion, international tourism payments in the OECD area passed the mark of US \$40 billion in 1977, totalling \$41.3 billion for receipts and \$42.5 billion for expenditure, an increase of respectively 22 per cent and 17 per cent over 1976. Expansion was much more marked than in 1976, when receipts and expenditure rose by only 7 per cent over the previous year. Such progress may largely be attributed to substantially heavier tourist payments in most of the European Member countries and in Japan.

In most OECD countries, the increase in international receipts expressed in national currencies has been much greater than the rate of inflation as measured by the consumer price index, which seems to point to a net increase in the volume of foreign tourist consumption. In this connection, the 28 per cent increase in international tourist receipts for the European Member countries as a whole compares with an average rate of inflation of 10 per cent, while for the entire OECD area, the 22 per cent increase in such receipts compares with an average rate of inflation of 8 per cent.

This overall expansion of international tourist payments in 1977 corresponds to increases over 1976 in the number of foreign tourist arrivals averaging some 5 per cent for all European Member countries and Yugoslavia, 3 per cent for North American Member countries and 7 per cent for the Australasia-Japan group, i.e. a total gain of 6 per cent for the OECD area as a whole. The thirteen European Member countries and Yugoslavia, with statistics available regarding nights spent in all registered accommodation, showed an increase of 7 per cent in nights spent by foreign tourists, whereas the situation in 1976 had little changed compared with the previous year.

The salient features of tourist flows in receiving countries were a considerably greater number of arrivals of foreign tourists in Portugal, a marked upturn in the flows towards Spain and Ireland, and a certain slippage in the rate for Greece, bringing it into line with the more moderate but relatively sustained growth rate from year to year noted in such countries as Italy, Japan and the United Kingdom. Slower growth was also recorded in Norway and the United States, while the downtrend in Canada and Finland was curbed and Turkey and Yugoslavia lost ground. As regards the four main tourist-generating countries, there was an appreciable increase in tourist flows from Germany and France and a more moderate increase in those from the United States.

The further expansion of international tourism in 1977 was achieved in a general economic context that, as is well known, was not particularly favourable.

# TOURISM - FASTER GROWTH



## Prelude to 1978

In those Member countries for which data are available and in Yugoslavia, the number of arrivals of foreign tourists and nights spent by them continued to increase together with international tourist receipts and expenditure during the early months of 1978 compared with the corresponding period in the previous year. This favourable trend may not, however, be indicative of the results for the whole year which will be largely determined by those of the summer tourist season.

*Arrivals of foreign tourists at frontiers* have risen by 19.6 per cent in Norway (4 months), 18.4 per cent in Spain (4 months), 17.4 per cent in Finland (5 months), 17.0 per cent in Greece (5 months), 12.6 per cent in Portugal (6 months), 11.8 per cent in Italy (3 months), 9.7 per cent in Yugoslavia (4 months), 9.2 per cent in Iceland (5 months), 8 per cent in the United States (4 months), 5.6 per cent in Japan (2 months), 5.2 per cent in Turkey (3 months), 2.5 per cent in Austria (4 months), 1.2 per cent in New Zealand (3 months); and have decreased by 0.4 per cent in Germany (4 months), 1 per cent in Switzerland (6 months), 2.2 per cent in Canada (4 months) and 2.7 per cent in the United Kingdom (4 months).

The number of nights spent by foreign tourists in all forms of registered accommodation has increased by 14 per cent in Yugoslavia (6 months), 11.4 per cent in Austria (5 months), 11.1 per cent in Germany (3 months), 8.2 per cent in Italy (4 months), 7 per cent in Portugal (4 months, hotels), 2.9 per cent in Finland (3 months, hotels), 2.6 per cent in Switzerland (6 months, hotels) and 1.1 per cent in Denmark (5 months, hotels).

According to United States Passport Office estimates, the number of tourists bound for Europe increased by 7 per cent during the first seven months of 1978 compared with the corresponding period in the previous year. The total number of passengers carried in both directions across the North Atlantic by airlines affiliated to the International Air Transport Association increased by 10 per cent during the first quarter of 1978 compared with the same period in 1977. Moreover, the United States Department of Transportation recorded a 13 per cent rise in the number of passengers on all incoming and outgoing flights between the United States and the European Member countries during the first four months of 1978 compared with the corresponding months of 1977. The number of passengers rose by 15 per cent on scheduled flights and by 1 per cent on non-scheduled flights. Intra-European passenger traffic carried by European airlines also increased by 10 per cent during the first five months of 1978 compared with the corresponding period in the previous year.



## INTERNATIONAL TOURIST RECEIPTS AND EXPENDITURE

*Rounded figures in millions of US\$*

OECD Member Countries	Receipts			Expenditure		
	1976	1977	%	1976	1977	%
Austria .....	3,146	3,708	+ 17.9	1,518	2,062	+ 35.8
BLEU .....	842	993	+ 17.9	1,424	1,635	+ 14.8
Denmark .....	803	940	+ 17.1	748	942	+ 25.9
Finland .....	323	352	+ 9.0	317	355	+ 12.0
France .....	3,639	4,377	+ 20.3	3,434	3,920	+ 14.2
Germany .....	3,205	3,804	+ 18.7	8,851	10,805	+ 22.1
Greece .....	824	981	+ 19.1	90	89	- 1.1
Iceland .....	12	15	+ 25.0	17	27	+ 58.8
Ireland .....	259	323	+ 24.7	188	237	+ 26.1
Italy .....	2,525	4,762	+ 88.6	707	894	+ 26.4
Netherlands .....	1,061	1,110	+ 4.6	1,977	2,454	+ 24.1
Norway .....	406	476	+ 17.2	644	861	+ 33.7
Portugal .....	317	404	+ 27.4	140	135	- 3.6
Spain .....	3,083	4,003	+ 29.8	404	533	+ 31.9
Sweden .....	353	446	+ 26.3	1,079	1,245	+ 15.4
Switzerland .....	1,679	1,943	+ 15.7	936	1,114	+ 19.0
Turkey .....	181	205	+ 13.3	208	269	+ 29.3
United Kingdom .....	2,899	3,805	+ 31.3	1,795	1,921	+ 7.0
<b>Total Europe .....</b>	<b>25,557</b>	<b>32,647</b>	<b>+ 27.7</b>	<b>24,477</b>	<b>29,498</b>	<b>+ 20.5</b>
Canada .....	1,641	1,616	- 1.5	2,589	2,829	+ 9.3
United States .....	5,806	6,164	+ 6.2	6,856	7,451	+ 8.7
<b>Total North America .....</b>	<b>7,477</b>	<b>7,780</b>	<b>+ 4.1</b>	<b>9,445</b>	<b>10,280</b>	<b>+ 8.8</b>
Australia .....	295	343	+ 16.3	628	580	- 7.6
New Zealand .....	154	155	+ 0.6	231	281	+ 21.6
Japan .....	312	424	+ 35.9	1,664	2,151	+ 29.3
<b>Total Australasia-Japan .....</b>	<b>761</b>	<b>922</b>	<b>+ 21.0</b>	<b>2,523</b>	<b>3,012</b>	<b>+ 19.4</b>
<b>Total OECD Countries .....</b>	<b>33,765</b>	<b>41,349</b>	<b>+ 22.5</b>	<b>36,445</b>	<b>42,790</b>	<b>+ 17.4</b>
Yugoslavia .....	802	841	+ 4.9	n.a.	n.a.	

# Highlights from OECD ECONOMIC OUTLOOK

## THE ECONOMIC OUTLOOK TO MID-1979

The economic situation that OECD Ministers discussed in mid-June, and which confronted the Bonn Summit a month later, showed many of the less favourable imprints of recent years: slow growth of output and trade; high unemployment; continuing inflation; a very lop-sided pattern of payments imbalances and recurrent bouts of monetary instability; weak investment; and a generally low level of confidence. In addition it was clear that, in the face of these problems, governments were increasingly resorting to special intervention policies to support employment and output in particular sectors and to protect home industry against foreign competition. Recognising the disappointing record, and the costs and dangers if it continues, the OECD Ministerial meeting agreed that, for the area as a whole, there was a clear need to create the conditions in which economic growth can be stepped up and unemployment reduced. The programme of concerted action adopted to this end specified simultaneous action in a number of fields, including policies to reduce inflation, to secure better payments balance, to maintain an open market-oriented system, and to reduce the danger of new energy crisis, as well as to raise the level of demand. At the subsequent Summit in Bonn more detailed intentions were described in respect of certain strategic elements in this programme.

OECD's Current Economic Outlook starts by presenting, briefly, the Secretariat's views on the prospects up to this time next year if no policy changes were made. They bear witness, clearly enough, to the need to implement the programme which the Ministers laid down. To illustrate in more detail the problems that governments had in mind when the discussions took place, it goes on to describe some of the dangers attending continued slow growth but also to summarise some of the reasons why governments have often felt constrained in the choice of their policies. It ends with some reflections on how concerted action can lift the economies of Member countries out of their recent grooves by boosting confidence in growth prospects and allaying expectations of inflation. The intentions announced by the countries participating in the Bonn Summit will help to produce these effects, and make the prospects brighter than the present forecasts, if parliamentary and public support enables them to be translated quickly into action.

### SHORT-TERM PROSPECTS

The tendencies observable when the bulk of the Survey was written (late-June), and the policies then in place, gave small prospect of better economic performance, overall, during the rest of this year and into 1979. With certain exceptions, this is as true for recovery as it is for price performance and external payments positions.

In the absence of policy changes, GNP growth for 1978 for the area as a whole seems likely to stay around 3½ per cent (see Table 1)—about the same as last year—with the gaps between potential and actual output varying greatly among countries. The slowdown observed early this year seems likely to give way to some temporary strengthening in demand, reflecting the rebound from the influences of strikes and unfavourable weather in early 1978 in the United States and Germany, the impact of

fiscal stimuli in Japan and Germany, and a less restrictive policy stance in the smaller countries as a group. But it is unlikely that, after these effects have been exhausted, they will be followed by an autonomous rise in private-sector demand. The deceleration at present forecast in the first half of 1979 may be considered appropriate for the United States but not in most other cases. The volume of OECD trade this year and into 1979 may continue to grow by no more than the modest 5 per cent recorded in 1977 (compared with a long-term average expansion of 8 per cent per annum).

### 1. SUMMARY OF OUTPUT AND DEMAND FORECASTS

*Per cent changes, annual rates*

Real GNP								
	From previous year				From previous half-year			
	1975	1976	1977	1978	1977 II	1978 I II		1979 I
Total OECD	¾	5 ¼	3 ½	3 ½	3	3 ¼	4	3 ¼
of which:								
United States	- 1 ¼	6	5	3 ¾	5	2 ½	4 ½	3
Japan	2 ½	6	5	5 ½	3 ½	6 ½	5 ½	4 ½
Germany	- 2 ½	5 ¾	2 ½	2 ½	1 ¼	2 ¼	3 ½	2 ¾
Total OECD	- 1 ½	4 ¼	2	2 ½	1	2 ¾	3	3
Europe								
Final domestic demand								
Major 7	¼	4 ¼	3 ½	3 ¾	3 ½	3 ½	4	3 ¼
of which:								
United States	- 1 ½	5	5 ¼	3 ¾	5 ¼	3 ¼	3 ½	2 ¾
Japan	3	4	3 ¾	5 ¾	4	6 ¼	6 ¼	5 ¼
Germany	1 ¼	3 ¾	2 ½	2 ¾	2 ¾	2 ¼	4 ¼	3 ½

### 2. SUMMARY OF PRICE FORECASTS

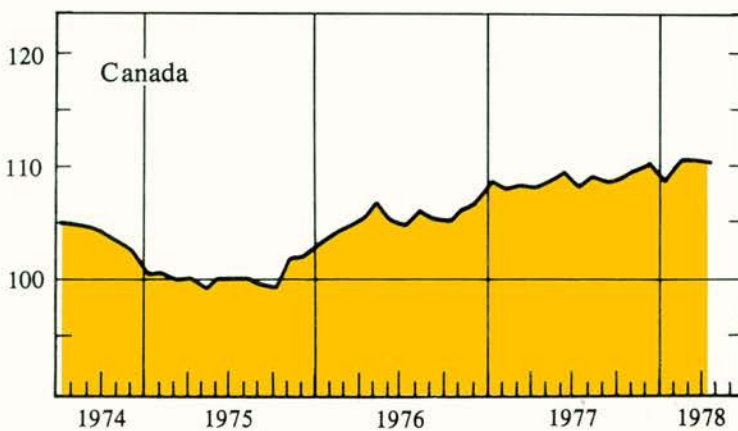
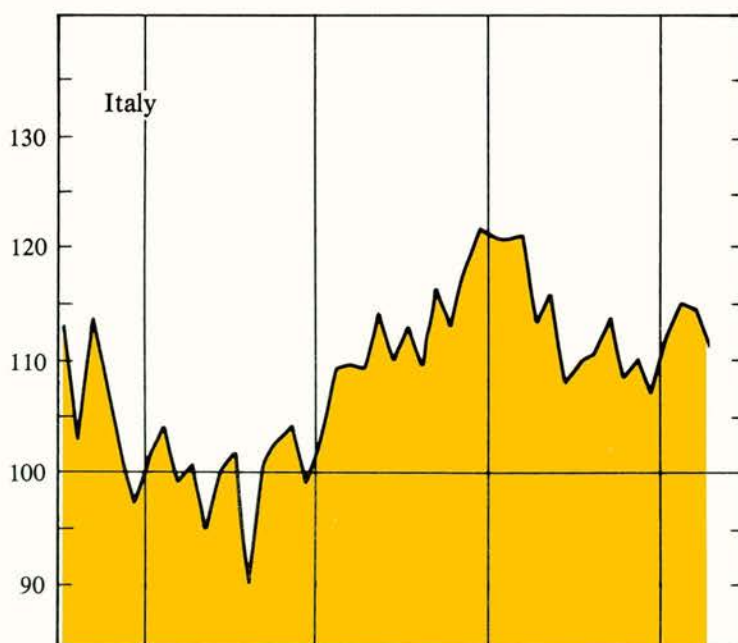
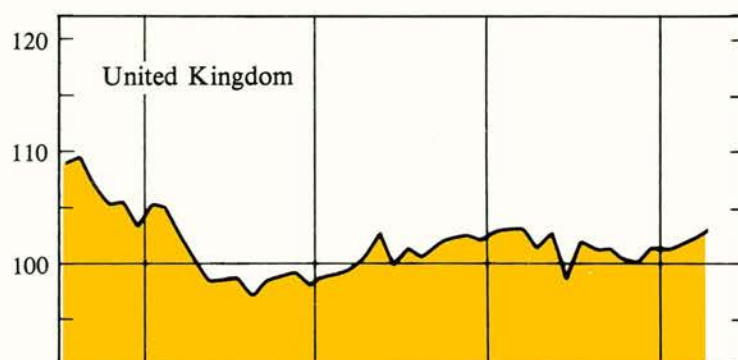
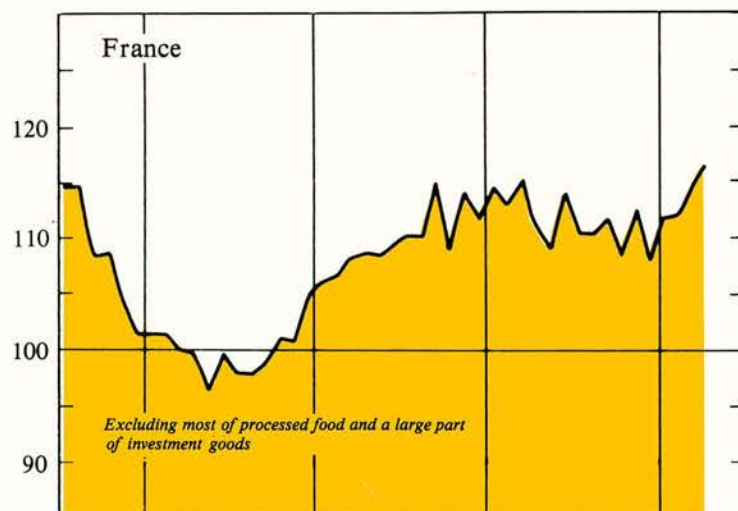
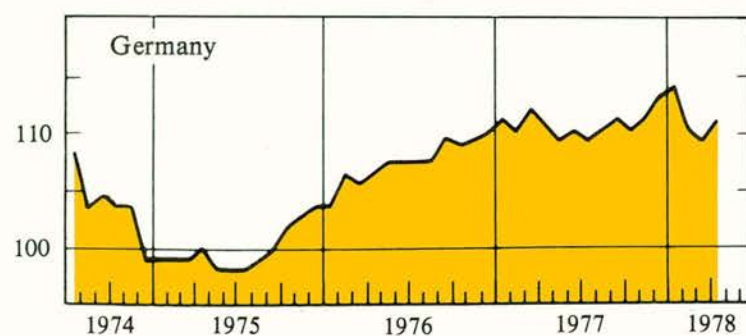
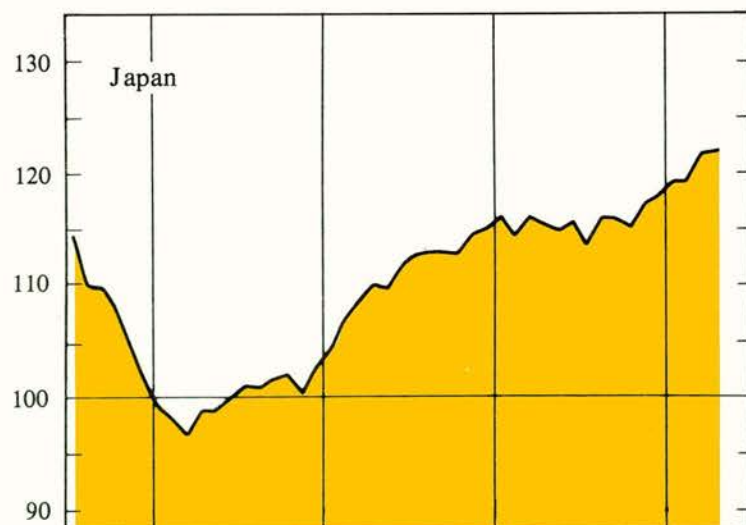
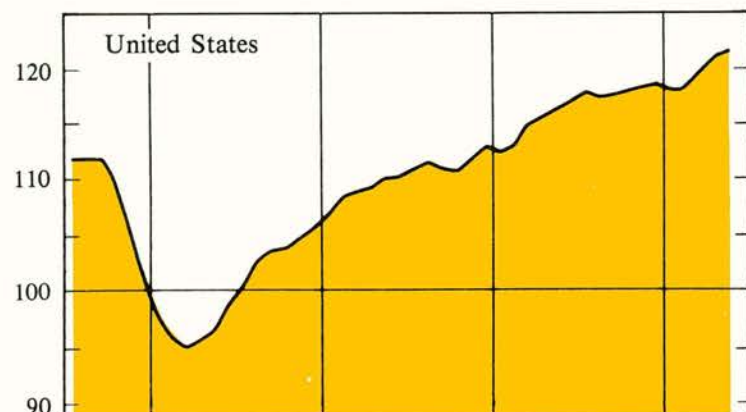
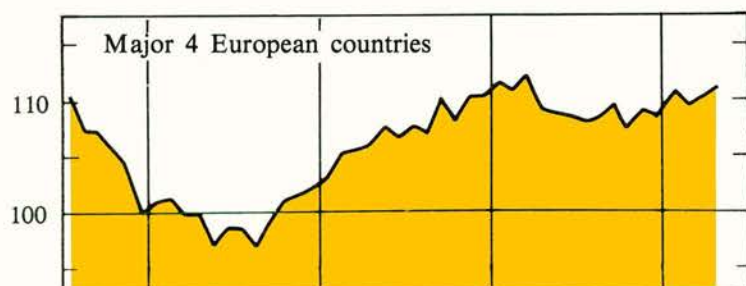
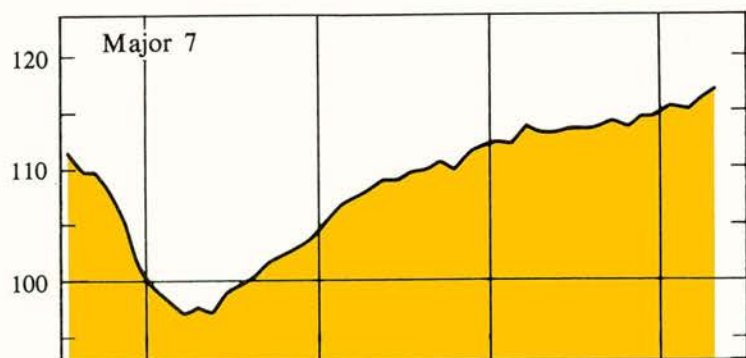
*Per cent changes, annual rates*

Consumer prices <sup>a</sup>								
	From previous year				From previous half-year			
	1975	1976	1977	1978	1977 II	1978 I    II		1979 I
Total OECD	10 ½	8	8	7	6 ¾	7 ¼	7 ¼	7
of which:								
United States	8	5 ¼	5 ½	7	5 ¼	7 ¾	7	7 ½
Japan	11	8 ½	7 ½	5	5 ¼	5	5 ¼	5 ½
Germany	6	4 ½	4	3	3 ½	2 ¾	3 ½	3
Total OECD								
Europe	12 ½	10	10	8	9	7 ½	8 ½	7 ½

*a. Or private consumption deflators.*

# A. INDUSTRIAL PRODUCTION IN SEVEN MAJOR COUNTRIES

Monthly index s.a. 1975 = 100



### 3. CURRENT BALANCES

\$ billion: including official transfers

	1974	1975	1976	1977	1978	1979 I
Total OECD	-33	-6 ½	-24 ½	-32	-17	-17
of which:						
United States	-2.3	11.6	-1.4	-20.2	-25	-18
Japan	-4.7	-0.7	3.7	11.0	17 ½	13
Germany	9.8	4.0	3.8	3.8	5	3
Other major						
European countries	-22.4	-4.5	-10.4	-0.6	4	5 ½
Benelux-Switzerland	3.0	4.9	6.2	3.4	6	5 ½
OPEC	61	29	39	34	19	16
Non-oil developing countries	-24	-39 ½	-26 ½	-26 ½	-38	-39 ½

*Inflation* prospects are still, with few exceptions, high by historical standards. Even though the rate has been coming down in the countries where recently it has been worst, for the area as a whole inflation is still running at about 7 per cent a year (see Table 2). The danger that, in the United States, it may be increasing without ever having been brought down to the rates achieved by the more successful countries is particularly disturbing. The price rises forecast for most countries reflect, in large part, the growth of wage rates and, in some cases, lagged effects of past currency depreciations; commodity price movements are expected to remain weak throughout the rest of the year and into 1979.

Helped by some further gains from the terms of trade, OECD's *external current account* deficit seems likely to be reduced from around \$32 last year to about \$15 to \$20 billion in 1978, and to continue at much the same rate in the first half of next year (see Table 3). But within this lower total, not much improvement is foreseen in the very uneven distribution of the imbalance between individual OECD countries. During the year to mid-1979, a current account deficit of around \$20 billion seems likely both for the United States and for a group of smaller countries. On the other hand, surpluses around \$30 billion seem likely to be shared, very unequally, between the now almost traditional handful of strong-currency countries (Japan, Germany, Switzerland, Belgium and the Netherlands), reinforced by Italy and the United Kingdom. Such imbalances can probably be financed by capital flows without serious further disturbances in foreign exchange markets if clear prospects of their progressive reduction emerge; but this will depend on developments in many fields, ranging from comparative demand trends, monetary conditions and cost movements on the one hand to policies affecting imports and energy consumption and supply on the other.

*Unemployment* trends (see Table 4) are particularly hard to forecast given the recent unusual behaviour of both employment and the labour force: despite the sluggishness of demand, both grew last year at one of the highest rates recorded over the past two decades. Although in absolute terms it has shown little change, unemployment as a percentage of the labour force has fallen in most of the larger countries since the middle of last year. This has reflected employment-supporting measures in Europe, relatively rapid GNP growth in the United States, and a general slowdown of productivity growth. The course of unemployment over the next twelve months may depend crucially upon productivity growth. On the essentially technical assumption that productivity grows somewhat faster than in 1977, but below the longer-term trend rate, and on the assumption of little change in average hours worked, employment may increase only slowly in the period to mid-1979. Taken together with little change in participation rates, this would imply an increase of more than half a million in the number of unemployed in the OECD area as a whole.

This assessment applies only to the outcome likely if policies remain broadly unchanged. Within the limits of this approach there are a number of *uncertainties*, of which the biggest is probably how private demand will behave in the first half of 1979 when the effects of this year's fiscal

stimuli in a number of countries begin to wear off. In the course of the present calendar year, public expenditure seems likely to accelerate, contributing about  $\frac{3}{4}$  of a percentage point to GNP growth compared with a  $\frac{1}{2}$  percentage point in 1977, with particularly strong increases in Japan and Germany and a relaxation of the tight expenditure stance in the United Kingdom. The outlook for the first half of 1979 is more uncertain. A number of countries have not yet announced their budgets. But the slower growth of public expenditure proposed in the United States Federal budget for 1978/79, together with similar developments in Japan and Germany, suggest a substantially smaller contribution by the public sector to demand in the area as a whole in the first half of 1979. In the private sector, some rise in the savings ratio and a fall in the stock/output ratio towards trend values are already incorporated in the forecasts. But in the United States, in particular, the growth of private consumption could turn out lower than forecast because of inflation. And major uncertainties lie in business fixed investment. A recovery in some countries in orders for plant and equipment in the latter part of 1977, improved liquidity positions and better investment survey results point to some pick-up in the course of 1978. But the recovery may taper off in the first half of 1979, proving even weaker than expected and concentrated on rationalisation and replacement rather than on expansion of capacity. On balance, given the policies in place at the end of June, growth is more likely to fall short of the present forecasts than to exceed them.

### THE NEED AND SCOPE FOR POLICY ACTION

It was agreed, when the OECD Council met at Ministerial level in June, that given the disappointing economic record of recent years and the costs and dangers inherent in the continuation of present trends, *more sustained economic growth* was needed. It was recognised that, to create the conditions for this, internationally concerted action had to include many elements: energy policies, open international trading policies, and domestic policies designed to facilitate rather than resist adaptation to structural change, as well as appropriate domestic demand management and stabilisation policies. The following paragraphs discuss how policies directly affecting domestic demand and inflation might be applied over the next 18 months, forming an international pattern which, while raising the growth rate for the OECD area as a whole, would not run counter to stabilisation aims. But failure to move in the other key areas identified above would probably serve to frustrate such policies.

A growth rate which stays within the limits of moderate recovery as laid down by OECD's medium-term strategy but which is very much better than that currently being experienced by the area as a whole can be achieved by dint of *moderate national injections of purchasing power* if action is concerted on a broad international basis. This is possible because, while most individual OECD economies are very open, the area as a whole is relatively self-contained, with imports from outside the area only amounting to about 5 per cent of total expenditure. A stimulus to demand somewhere in the area therefore has a substantial effect on the area's demand and output, the multiplier for the area as a whole being estimated by the Secretariat at a little over  $2\frac{1}{2}$ . Although, for a single stimulating country, much of the stimulus typically leaks out into imports, it is imparted through international trade to other OECD countries. A country which acts alone to raise demand and output therefore needs a relatively large domestic stimulus to achieve a given demand and employment effect—and this is accompanied by a fairly substantial deterioration in its current external balance. This phenomenon has long been experienced in the smaller OECD economies with proportionately large foreign trade sectors. But with the rising share of international trade, upon which much of the general growth in prosperity over the last twenty years or more has been based, it appears that there may now be no economy which can indulge in a wholly "go-it-alone" policy. Only if the expansion is broadly-based can the area grow satisfactorily and without internal or external strains.

Given this general principle, however, it is clear that for various reasons—including differential rates of expansion and inflation in the

#### 4. UNEMPLOYMENT RATES, ESTIMATES AND FORECASTS

*Per cent of civilian labour force, seasonally adjusted*

	1977	1978	1977 II	1978 I	1978 II	1979 I
Total OECD <sup>a</sup>	5 ¼	5 ¼	5 ¼	5	5 ¼	5 ¼
of which:						
United States	7	6	6 ¾	6	6 ¼	6 ¼
Japan	2	2	2	2	2	2
Germany	4 ½	4 ½	4 ½	4 ½	4 ¾	5
Total OECD Europe <sup>b</sup>	5	5 ½	5 ¼	5 ¼	5 ½	5 ¾

a. Representing over 90 per cent of the OECD labour force. A rate of 5 per cent represents approximately 15 million unemployed excluding Portugal and Turkey; including these countries the number unemployed is about 17 million.

b. Excluding Portugal and Turkey.

recent past, and the present pattern of current balances—it would be inappropriate for all countries today to play an *equiproportionate part* in a general expansion. Where inflation is an overriding constraint, countries should avoid action to stimulate domestic demand, and in a few cases might be well advised to reduce it. Where an overriding constraint is the current balance position, countries should avoid taking *unilateral* stimulatory action. But in some countries, the constraints have already been mastered fairly well. The strong-currency countries, notably Germany, Japan, Belgium, Switzerland and the Netherlands, have low inflation rates and, in most cases, important margins of spare capacity. They could therefore afford to see demand rising sufficiently to reduce unemployment—or in the case of Switzerland to keep unemployment low—even though they have to avoid an acceleration that risks causing bottleneck problems. Countries such as Canada, France, Italy and the United Kingdom which, despite low demand pressures, still have an “intermediate” or “convalescent” status are not in a position to expand much in isolation, but can allow some expansion if their partners, and hence their exports, are growing and if their price performance permits. Thus, under the concerted action suggested, impetus would come from expansion not only by the stronger-currency countries but also from the intermediate countries taking advantage of their increased “elbow room”.

The nine strong-currency and convalescent countries mentioned in the preceding paragraph were, by agreement, noted by the Ministerial Council as countries where, by and large, domestic demand should rise significantly faster over the next 18 months than it did in 1977 (1). Looking ahead to the prospects for the first half of next year, Table 5 shows that, on the basis of the Secretariat's existing forecasts, domestic demand would seem likely to be growing in most of these countries somewhat above the—usually weak—rates prevailing last year without any change in demand management policy at all. For this group of countries as a whole, last year's 2 ¼ per cent rise of domestic demand might be followed by an annual rate of about 3 ¾ per cent.

But Table 5 also indicates that, with no policy changes, the GNP growth rate for the OECD area as a whole would still be down in the 3-3 ½ per cent range in the first half of next year, particularly since—appropriately enough in the face of existing stabilisation problems—domestic demand growth in the United States is expected to slow down substantially. To raise GNP growth for the area as a whole to some 4 ½ per cent—about the rate probably needed, normally, to start unemployment falling—would require an acceleration of domestic demand substantially faster than at present forecast for the strong-currency and convalescent group of countries, which account for about half the GNP for the total area. After taking account of the international transmission effects, domestic demand in these countries as a group would need to be rising by about 5 ¾ per cent to produce such a result. However, given the domestic and international multipliers as estimated by the Secretariat (2), they could achieve this in the framework of concerted action by policies which imparted only a small initial stimulus to demand, with no country taking action damaging to its own stability. Secretariat analysis suggests

that an injection of additional purchasing power of no more than half a percentage point of the area's GNP would, within a year of taking action, produce a good 1 percentage point acceleration of growth for OECD as a whole.

It would seem unlikely that such action would prove, after the event, to have been excessive in total, as is generally agreed to have been the case in the demand boom of 1972-73 when insufficient attention was paid to the international linkages and multipliers of national stimuli. Indeed, one of the beneficial effects of internationally concerted action would be the help afforded to governments of the currently less-stable countries in persevering in the strict domestic demand policies which many of them have now adopted.

The effects of such a concerted expansion of demand in inflation could be kept small. Their size may depend importantly on the way in which any stimulus to demand is engineered. While recent fiscal stimuli have often relied importantly on increases in government expenditure, greater weight could with advantage often now be placed on measures which simultaneously increase demand and reduce pressure on costs and prices. Measures which increase costs as well as real disposable incomes should be avoided. Transfer payment increases may be found useful in some countries, but where these are thought unlikely to be regarded as part of the pay packet, reductions in taxes may be more effective. Indirect tax cuts would have the sharper direct effect on prices, but to achieve an underlying improvement in price performance they would need to be accompanied by moderation of wage demands. Measures to reduce firms' social security costs could have the same result if accompanied by a deceleration in price increases. But where fiscal drag has been particularly severe and wage bargaining takes place on the basis of after-tax incomes, reductions in direct taxes might have the best impact on wage claims, particularly if at the same time governments seek actively to influence the bargaining process and are in a position to ensure a reasonably swift subsequent deceleration in price increases. In countries where profit shares need to be raised more than would be likely to occur simply from a cyclical upturn, reductions in corporation tax rates, and the

(1) For the Netherlands, domestic demand growth roughly similar to the rate already achieved in 1977 was suggested. For Switzerland, demand should rise in line with productive capacity, given the present fairly high capacity utilisation rate.

(2) One version of these estimates was published in the OECD Observer, March 1978.

#### 5. TOTAL DOMESTIC DEMAND AND GNP

*Percentage changes, seasonally adjusted annual rates*

	1977 Outcome		1979 I <sup>a</sup> Forecast	
	Total domestic demand	GNP	Total domestic demand	GNP
Japan	3 ¾	5	5 ¼	4 ½
Germany	2 ¼	2 ½	3 ¼	2 ¾
France	2	3	3 ¾	3 ¾
United Kingdom	0	¾	1 ¾	1 ¾
Canada	1	2 ½	3 ¾	4
Italy	0	1 ¾	3 ¾	3
Belgium	2	1 ¾	2 ¾	3
Netherlands	5	2 ¼	2 ¾	2 ¾
Switzerland	3 ½	4 ¼	1	1 ¾
Total of above <sup>b</sup>	2 ¼	3	3 ¾	3 ½
United States	5 ½	5	2 ½	3
Remaining OECD	½	3	2 ½	3
Total of above <sup>b</sup>	4 ½	4 ¼	2 ½	3
Total OECD <sup>b</sup>	3 ½	3 ½	3	3 ¼

a. For some smaller countries, half-yearly figures are obtained by extrapolation.

b. Using 1976 GNP weights.

granting of subsidies to investment or accelerated depreciation allowances, would also deserve serious consideration in any expansionary policy. Over the longer run, cuts in profit taxes may be preferable to investment subsidies since the latter may encourage an undue bias towards capital-intensive investment.

Within a year, the beneficial effects of concerted but differentiated demand management policies on the international payments position could begin to be important, because although the faster growth would raise the total current account deficit for the OECD area somewhat, its pattern as between countries would serve to reduce most of the more worrying individual imbalances. In particular it would help to shrink the deficit of the United States and the Japanese surplus, and could push Germany's current account close to equilibrium. The article contained in an Occasional Study published with the present *Economic Outlook* (3)

suggests that in a number of cases recent "real" exchange rate changes (tradeweighted changes adjusted for differential inflation rates) have been in an equilibrating direction, helping to improve competitiveness in the weaker-currency countries. If these changes are followed by an internationally differentiated pattern of domestic demand growth such as envisaged above, there would be good prospects for a substantial improvement in the international payments situation, and for avoiding recurrence of the recent turbulent episodes in foreign exchange markets which themselves have probably weakened confidence in the ability of OECD countries to sustain a desirable rate of growth.

19th July 1978.

(3) OECD, "The International Competitiveness of Selected OECD Countries", Occasional Studies, July 1978.

## SOME OBSERVATIONS ON INDIVIDUAL COUNTRIES

### Canada

The level of activity has continued to be hesitant with the growth rate remaining clearly below potential. Partial indicators of demand so far in 1978 are encouraging in certain respects... Both retail sales and housing starts increased strongly during the first quarter, but these developments may not prove self-sustaining. A quickening in the rise in employment in the second half of last year was insufficient to absorb what continues to be the fastest growing labour force in the OECD area. Thus the unemployment rate has remained at a new post-war high of 8.6 per cent since March. After a sharp acceleration in prices to a seasonally adjusted annual rate of over 10 per cent in the last quarter of 1977 reflecting the weakening of the Canadian dollar and higher food prices, inflation has slowed and wage increases have continued to moderate. Fiscal policy is primarily oriented towards the reduction of inflation and the stance remains cautious despite modest stimulatory measures in October and April. GNP growth may accelerate to around 4 1/2 per cent in the first half of the year but the rate is expected to be clearly lower than capacity growth during the rest of the forecast period. Although output is likely to increase less fast than capacity, a rapid growth of employment is expected and the unemployment rate may stabilise around its present level during the balance of the forecast period. The outlook is for a deceleration of the rise in consumer prices to a within-year rate of around 6 3/4 per cent but for an increase to 7 per cent in the first half of next year. Despite slower growth in export markets than last year, the improved competitiveness following the dollar devaluation should ensure that exports rise by the same rate as last year and by early next year could still be growing around the 5 per cent mark, somewhat faster than imports. Despite a deterioration in the terms of trade and a widening in the deficit on services, the current account deficit is expected to be reduced to around US \$3 1/2 billion in 1978.

### France

The slightly firmer trend in production since the beginning of the year is likely to continue

during the next few months, although the pattern will differ amongst sectors. An upturn in private non-residential investment seems probable. However, there is still considerable spare capacity in certain sectors and the general demand outlook is far from buoyant. In all, aggregate domestic demand might grow at an annual rate of about 3 3/4 per cent throughout the forecast period. On the present assumptions for world trade, the external balance is unlikely to contribute significantly to growth. For the whole of 1978, real GDP may increase by just over 3 per cent. The rate of growth is expected to accelerate to 3 3/4 per cent in the second half of the year but in the absence of new stimuli, is likely to level off in the first half of 1979. With this rate of expansion, there is little chance of any increase in employment and the unemployment rate might go on rising to reach about 5 1/2 per cent in the first half of 1979. On the assumption that there will not be a marked increase in inflationary expectations, the rate of consumer price increases (at annual rates over the preceding period) could rise from 8 3/4 per cent in the first half of 1978 to 12 1/2 per cent in the second. However in the absence of a change in the stance of economic policy, some deceleration should occur in the first half of 1979. Finally, the current deficit might go on narrowing slowly. For the year as a whole, it might be reduced to less than a billion dollars, compared with 3.2 billion in 1977, and it should remain modest in the first half of 1979.

### Germany

The expected GNP growth of around 3 per cent during the forecast period is likely to fall short of labour productivity growth, probably entailing a further contraction in overall employment. The impact on registered unemployment may, at least to some extent be offset by a further decline in participation rates. But some increase in the unemployment rate over the forecast period cannot be excluded. As the Secretariat notes, the present forecast may be jeopardised if there is a recurrence of excess tax revenues and public underspending in 1978, a slower growth in exports following the revaluation of the Deutschmark. A weaker improvement in profits could lead to lower business fixed investment than forecast. The rise in

the private consumption deflator should decelerate further in 1978, but if the technical assumption of unchanged exchange rates holds, the price dampening effects of falling import prices will disappear so that some temporary reacceleration of inflation could occur in the second half of the year despite reduced wage cost pressure. For 1978, export prices may not rise much in local currency and import prices are likely to show a significant decline due both to falling dollar prices of many raw materials and the appreciation of the Deutschmark. The implied terms of trade gain may well exceed the forecast small deterioration of the real foreign balance, possibly raising the current external surplus to DM 11 1/2 billion in 1978 against DM 8.7 billion last year. But the current balance surplus should decline in the first half of 1979.

### Italy

Assuming a mildly expansionary economic policy and a moderate increase in real wages, GDP—after a marked recovery in the first half of this year—might expand at an annual rate of around 3 per cent during the forecasting period. This would imply an increase of about 2 per cent between 1977 and 1978. Stockbuilding could make a significant contribution to growth in the first half of 1978, after which the stimulus would come increasingly from an upturn in final demand. As in 1977, exports will probably constitute the most buoyant component of demand, but their rate of growth is likely to ease. Such a GDP growth rate would be insufficient to prevent a further deterioration in the labour market. With, at best, a very small increase in total employment, the rise in unemployment could only be contained by a downturn in participation rates. Given that demand is still relatively weak, the upward movement of prices is unlikely to accelerate much during the period, unless the wage increases negotiated in the collective agreements turn out larger than expected. However, the inflation rate will probably remain distinctly higher than the OECD average. Merchandise trade, which was virtually in balance in 1977, might for the first time since the beginning of the 1970s show a substantial surplus in 1978, of the order of \$1 billion. Finally, if Italy

maintains its tourism market shares, the surplus on invisibles should continue to widen and the current account might show a surplus of more than \$3 billion in 1978, increasing further in the first half of 1979.

## Japan

The large current account surplus and the weakness of the US dollar was reflected in a further appreciation of the yen. Following the introduction of two supplementary budgets in FY 1977, the central government budget for the new fiscal year was given a further expansionary stance. The fiscal measures are front-loaded with the major impact in the early part of the year and under the assumption of unchanged policies, the expansionary effects may tend to disappear in the first half of 1979. Monetary policy has retained a very accommodating stance. On these assumptions domestic demand is forecast to strengthen substantially during the course of 1978 but, net external demand is likely to exert a depressive impact on activity in the twelve months to mid-1979. Real GNP growth, which may have exceeded 6 per cent at an annual rate in the first half of the year is thus projected to decelerate somewhat in the second half. Activity may lose further momentum in the first half of 1979. The rise in consumer prices should slow down substantially from 1977 to 1978 due to the decline in wholesale prices and lower wage increases. The consumer price index is forecast to rise by around 5 1/2 per cent in 1978 compared to 8 per cent in 1977. However a slight reacceleration may take place in late 1978 and into 1979. With respect to the foreign balance, export volume is projected to expand a modest 3.5 per cent in 1978 with a decelerating trend throughout the forecast period. The trend in import volumes is expected to strengthen somewhat, but given the negative carry-over from 1977, the year-on-year rise in 1978 may only be of the order of 4 per cent. However, assuming continued improvement in the terms of trade, price effects are expected to exceed volume effects and the current balance may show a surplus (in 1978) of \$15-20 billion. A progressive reduction is forecast in the course of the coming twelve months but, by the first half of 1979, the surplus could still be rather large. Finally, total employment is expected to increase by around 1 per cent in 1978. Assuming a small increase in the participation rate, overall unemployment may fall slightly.

## United Kingdom

The recovery in activity, which began at a moderate pace in the second half of 1977, gathered strength in the first quarter of 1978, mainly reflecting stronger private consumption and investment, accompanied by a strong positive contribution from the foreign balance. Since the introduction of Phase III last August, the annual rate of growth of average earnings has roughly doubled to about 14 per cent. The impact of this acceleration on prices has been broadly offset by a sharp reversal in import prices and the rise in consumer prices slowed down appreciably to 6 1/2 per cent (annual rate)

in the six months to March 1978 compared with 11 1/2 per cent during the previous six months. After two years of severe restriction the fiscal policy stance has been relaxed markedly since the beginning of 1978. The present forecast incorporates the *technical* assumption that pay settlements will be halved in the next pay round beginning in August 1978. Largely reflecting the substantial pay increases in the twelve months up to July 1978, the rate of price increase may (annual rate) reaccelerate to around 10 per cent in the second half of 1978, but then fall back to 7 1/2 per cent (annual rate) in the first half of 1979. A sharp increase in the growth of real disposable incomes and a forecast decline in the savings ratio suggests that the rise in consumer expenditure could thus be substantial in 1978. The upturn in domestic demand, the substantial improvement in companies' cash flow and government financial aid suggest continuing growth in manufacturing investment, especially in the private sector. The rate of growth of final domestic demand is forecast to remain above its longer-run average during 1978 but to fall significantly below it in the first half of 1979. Reflecting relatively buoyant domestic demand merchandise imports will probably rise faster than exports with the result that the contribution of the real non-oil foreign balance may be negative throughout the forecast period. In total, GNP will increase by nearly 3 per cent between the second halves of 1977 and 1978. But with the demand effect of the recent fiscal measures petering out, the expansion of activity is likely to slow down to an annual rate of around 1 3/4 per cent in the first half of 1979. Unemployment after the fall in recent months may rise slightly or at best remain broadly stable during the rest of 1978 but may begin to increase in the first half of 1979. With the increase in North Sea Oil production the current balance of payments surplus is forecast at about \$1 1/4 billion in 1978 and a little less than \$1 1/2 billion, in the first half of 1979.

## United States

Final domestic demand remained strong during the second half of 1977. Temporary factors led to a small decline in real GNP in the first quarter of 1978 but by the end of the quarter sales and production had recovered. A striking feature of the expansion has been the rapid recovery of employment. But, 'the poor export performance, an unusual surge in import volumes and the terms of trade effects of the decline of the dollar brought another sharp increase in the external deficit' and in the first quarter of 1978 the current account showed a deficit (at annual rates) of \$35 billion compared with less than \$23 billion in the second half of 1977. Further, inflation accelerated in the first 4 months of the year with retail prices rising at an annual rate of 9 1/2 per cent compared with a 6 per cent increase through 1977. The recovery of demand and output suggests a relatively strong growth rate (of GNP) in the second half of 1978 of 4 1/2 per cent. But the underlying trend appears to be weakening and the Secretariat forecast suggests a 3 per cent growth rate for the first half of 1979. With the deceleration of Federal expenditure over the

forecast period, an end to the boom in residential construction and only modest growth in private fixed investment, the annual rate of growth of total domestic demand may fall to about 2 1/2 per cent by the first half of 1979 with the foreign balance expected to add about half a percentage point to the GNP growth rate. The unemployment rate could edge up during the forecast period. The heavy bargaining year in 1979, the recent acceleration of inflation and an assumed increase in social insurance taxes leads the Secretariat to forecast the consumer deflator to rise by 7-7 1/2 over the year to mid-1979. A rapid growth in exports is forecast over the 12 months to 1979. After the sharp deterioration in the first half of 1978, some improvement in the terms of trade is thought likely over the next year. Assuming some increase in the surplus on invisibles, the deficit on current account could rise to about \$25 billion in 1978 but it should fall in the first half of 1979, perhaps to an annual rate of around \$18 billion.

## Other Member Countries

Last year, GDP grew by just under 2 per cent—compared with 4 per cent in the major seven countries—and only in Ireland, Switzerland, Norway, Greece and Austria did growth exceed 3 per cent. But for 1978, there is likely to be some acceleration throughout the year. It is expected that the contribution from the foreign balance will lead the pick-up of output in the first half of this year. As the year unfolds, some generalised strengthening of domestic demand is foreseen. However, the recovery in private sector demand is not expected to be especially strong and may only represent a return to positive from negative growth rates in several countries. And assuming that policies are unchanged over the forecast period, the contribution from public expenditure to GDP growth in most countries is expected to diminish. All in all, total domestic demand is forecast to grow about 3 per cent over the year to mid-1979, compared with very little growth over the previous twelve months. The total current account deficit for all of the smaller countries, annualised, is estimated to have fallen by some \$7 billion between the second half of 1977 and the first half of 1978—to around \$15 billion. Almost half this change is likely to have accrued to three countries, Belgium, the Netherlands and Switzerland, which have a large post-oil crisis cumulated surplus. However, during 1978 and into 1979, the total deficit is unlikely to be reduced further. The most favourable aspect of the forecasts for the smaller countries is the expected deceleration in inflation. For the 13 countries for which forecasts are prepared, the rise in the GDP deflator may fall to 8 1/2 per cent in 1978. Finally, for 1978 as a whole, employment growth may be even lower than last year's, so that it is unlikely that unemployment will decline in many countries. Indeed, in total, by mid-1979, there may be almost 2 3/4 million persons unemployed, or towards 5 3/4 per cent of the labour force of the thirteen countries considered. This compares with 5 1/2 per cent currently.

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