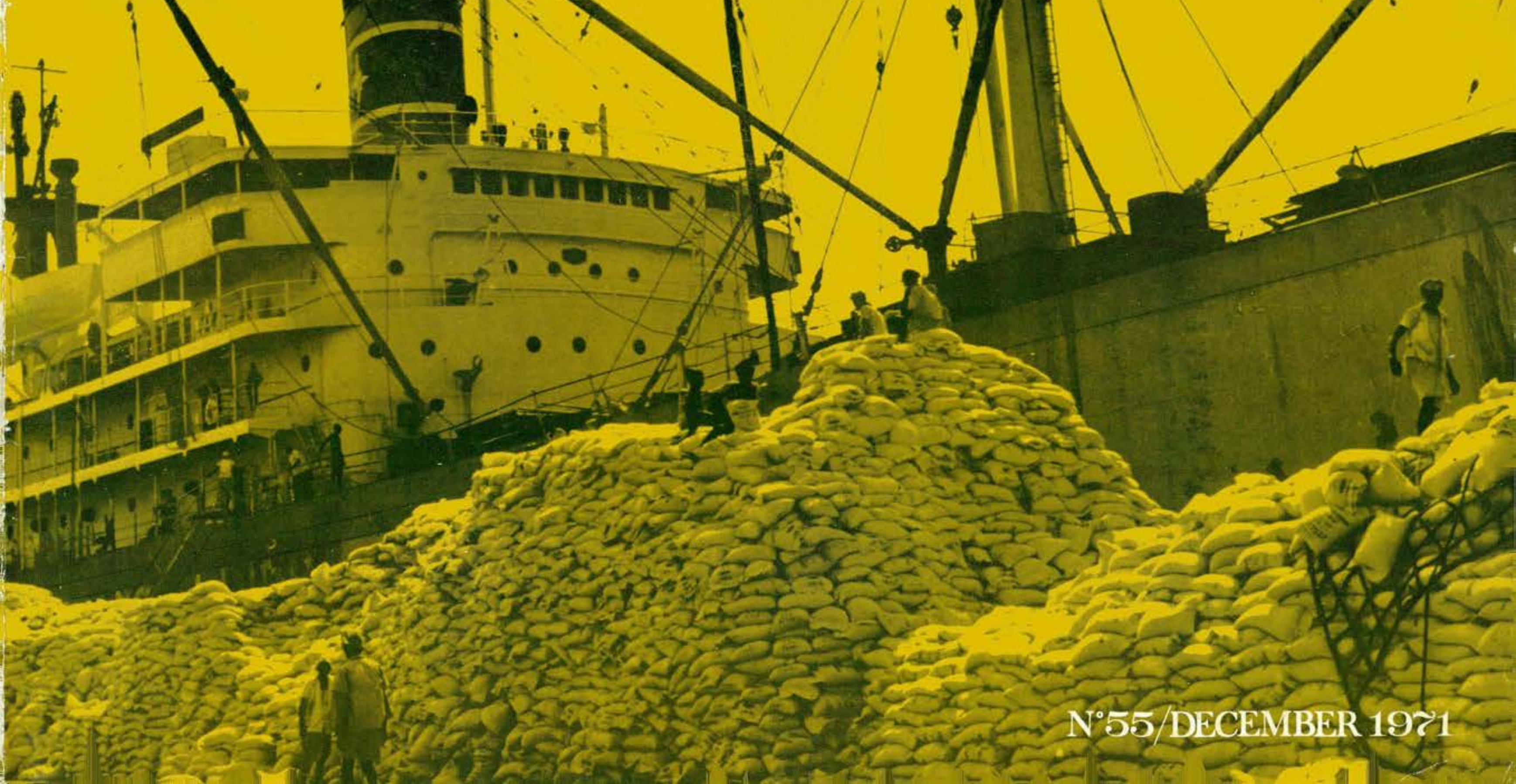
the OECD OBSERVER

THE ECONOMIC OUTLOOK, DECEMBER 1971
OECD's CODE FOR LIBERALISING CAPITAL MOVEMENTS
TRADE MEASURES AND THE ADJUSTMENT OF BALANCES OF PAYMENTS
DEVELOPMENT ASSISTANCE: THE CURRENT PICTURE
HIGH-LEVEL MEETINGS AT OECD



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CONTENTS

3 **DEVELOPMENT ASSISTANCE : THE CURRENT PICTURE**
by Edwin M. Martin, Chairman of OECD's Development Assistance Committee

6 **TRADE MEASURES AND ADJUSTMENT OF THE BALANCE OF PAYMENTS**
by Serge Devos, Head of Division, OECD's Trade Directorate

9 **OECD GROUP ON TRADE AND RELATED PROBLEMS**

10 **TOWARDS RATIONAL FISHERY MANAGEMENT**

13 **HIGHLIGHTS FROM THE OECD ECONOMIC OUTLOOK - December 1971**

19 **TEN YEARS OF ECONOMIC EVOLUTION**

20 **EVALUATION CONFERENCE ON INSTITUTIONAL MANAGEMENT IN HIGHER EDUCATION**

22 **MEETING OF MINISTERS OF SCIENCE OF OECD**

27 **HIGH-LEVEL MEETING OF THE OECD DEVELOPMENT ASSISTANCE COMMITTEE**

28 **INTERGOVERNMENTAL CONFERENCE ON THE UTILISATION OF HIGHLY QUALIFIED PERSONNEL**

30 **WORKING PARTY No 3 OF THE ECONOMIC POLICY COMMITTEE**

37 **INTERNATIONAL INSTITUTE FOR THE MANAGEMENT OF TECHNOLOGY**

38 **OECD'S CODE FOR LIBERALISATION OF CAPITAL MOVEMENTS**

44 **REUNION OF THE "GROUP OF FOUR"**

46 **NEW OECD PUBLICATIONS**

DEVELOPMENT ASSISTANCE: THE CURRENT PICTURE

by Edwin M. Martin, Chairman of OECD's Development Assistance Committee (1)

On the major issues of development assistance—the growth of aid, terms, untying and the granting of preferences to the exports of less developed countries—the record is hardly encouraging, especially in light of the " promises " of the Second Development Decade.

The " promise " highlight was the adoption of a Strategy for Development by the United Nations General Assembly on 25th October, 1970. The Strategy's recognition of the importance of specific social goals, its introduction of a goal for net official development assistance (though not accepted as stipulated by some donors) and its at least indirect implication of a goal for population growth were all pretty much unthinkable at the governmental level ten years ago when the First Development Decade began.

The Record on Volume

As to performance: the key goal for developed countries in the 1960's was to reach a net flow of resources to developing countries of 1 per cent of GNP. In 1961, the year the goal was accepted, the figure actually obtained was 0.95 per cent; in 1970, at the end of the decade, the comparable figure was only 0.74 per cent (2). And this at a time when DAC citizens had on the average $ 1,470 more per capita to spend.

For the key category of official development assistance, volume has also tended to decline—from 0.52 per cent of GNP to 0.34 per cent during the decade as compared with 0.70 per cent proposed as a target in the UNCTAD Strategy (though not unanimously accepted). This decrease took place over a period when government expenditures rose by $ 136 billion; of this sum only $ 1.5 billion could be found for development purposes in yearly budgets though at the same time governments were able to increase their annual military expenditures by $ 39 billion.

The declining trend in both official and overall development assistance is largely the responsibility of a few donors, principally the major ones, and it is only fair to record that not all countries " looked the other way ". As the chart shows, six countries were above the 1 per cent mark in 1970 for the total flow of resources, and as to official development assistance, the decline in the percentage of GNP was due to substantially smaller percentages for Belgium, France, the United Kingdom and the United States (in alphabetical order); on the other hand, Australia, Canada, Denmark, the Netherlands, Norway, Sweden and Switzerland have all increased their official development assistance as a percentage of GNP very substantially during the 'Sixties.

Judging from those estimates we have received in the course of annual reviews this year, it seems unlikely that 1971 will show any significant overall improvement over 1970 although of course some countries will do much better. And the perspective for 1971 as well as 1972 for the contributions of the United States (which in 1970 accounted for some 50 per cent of the total GNP of DAC Member countries, and whose contributions accounted for nearly 40 per cent of the DAC total and for 45 per cent of official development assistance) is clouded by the 10 per cent administrative cut in expenditures and by the delay in Congressional action on the foreign aid authorisation bill.

The Promise of Preferences

Another " promise " within the United Nations framework was that made by the industrialised countries at UNCTAD II in New Delhi, in the spring of 1968, to introduce as soon as possible general, non-reciprocal tariff preferences on imports from developing countries of manufactures and semi-manufactures. Trade policy is not a DAC responsibility, but it is of the greatest importance and has an impact on all aspects of the development partnership. In 1970 a " promise " was made in specific terms: in the fall of that year, OECD did transmit detailed proposals on the matter to the UNCTAD which were accepted.

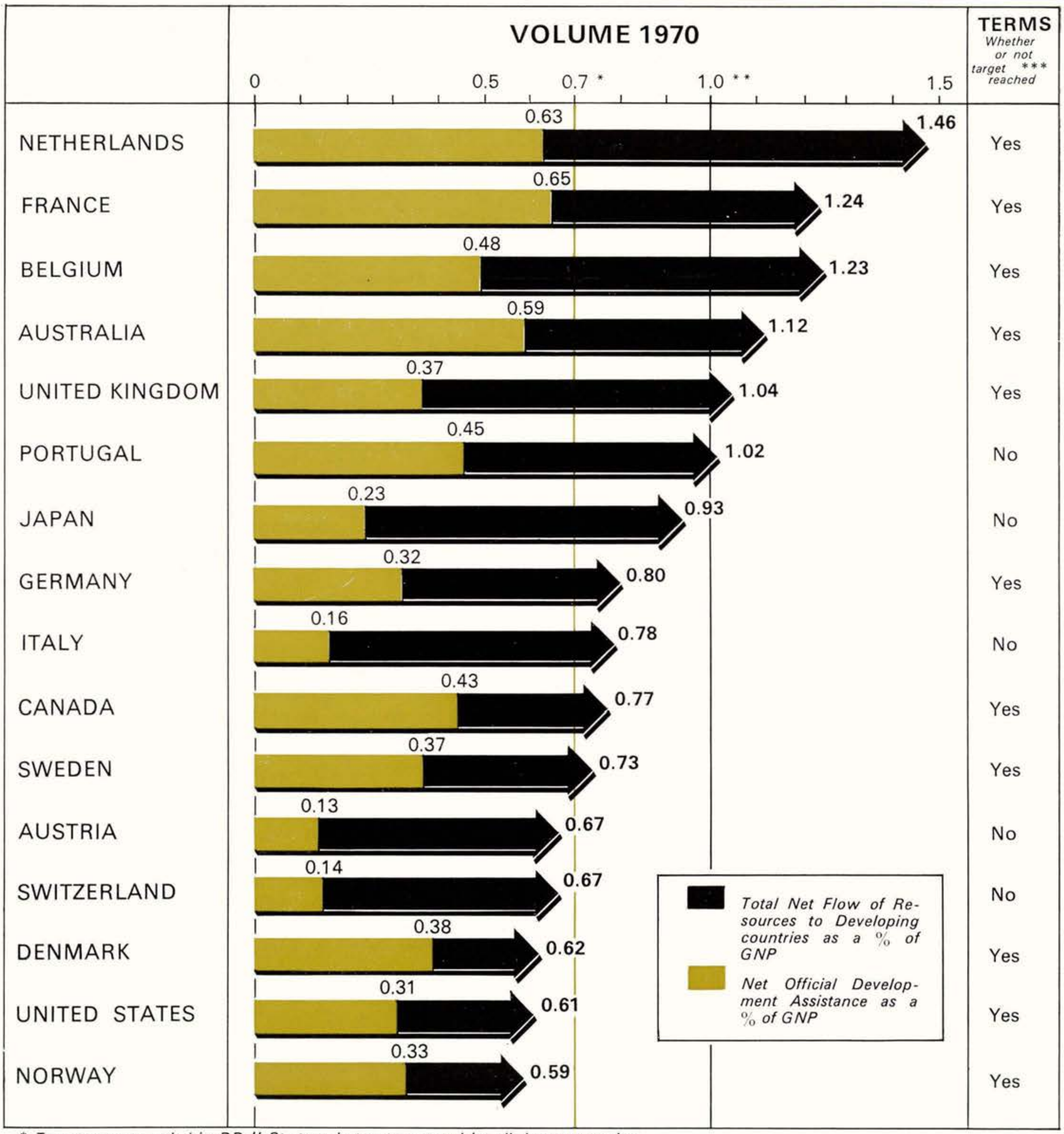
While a number of developed countries put these proposals into effect in the course of 1971, as was generally expected at the time the specific " promise " was made last fall, not all, including the largest, the United States, have yet done so. The status of United States action on this " promise " will greatly affect the atmosphere in which all development matters will be considered by the Third UNCTAD Conference to be held in the spring of 1972 in Santiago, Chile.

In this context it is important that we seek a solution to current trade and monetary differences among the developed countries which will promote rather than limit world trade and which will encourage the export growth potential of the developing countries.

(continued on page 4)

(1) The Chairman's yearly official report " 1971 Review, Development Assistance : Efforts and Policies of the Members of the Development Assistance Committee " has just been published.

(2) Excluding new figures, available for the first time in 1970, on private voluntary organisations such as religious and other charitable groups which amounted to $ 840 million. If this figure is included, the percentage of GNP reached was 0.78 per cent.



* *Target recommended in DD-II Strategy but not accepted by all donor countries.*

** *Target accepted by all DAC Members.*

*** *Target accepted by all DAC Members : 70 % of official development assistance commitments as grants ; or for 85 % of ODA each transaction to have minimum grant element of 61 % ; or 85 % of ODA to have an average grant element of at least 85 %. The volume at qualifying terms must not be significantly below the DAC average.*

Terms and Untying

United Nations' " promises " are not the only ones which have turned out to be hard to translate into action. In 1965, the DAC adopted a " terms target " by unanimity, the purpose of which was to set goals for the softening of the terms of assistance provided by Member governments to developing countries and to increase the grant element in those loans. All DAC countries pledged themselves to work towards these goals, and a new target—intended to be more rigorous—was adopted in 1969. By 1970 five of the sixteen countries that make up the DAC had not yet reached this goal (see chart) although all had accepted it in principle. In actual practice terms have not improved much and the grant element in loans is falling.

This factor, along with the stagnation in volume, particularly of official development assistance, might cause a crisis which could be very serious for all of us: apparently with the limited volume of concessional funds, there is pressure on many countries to expand the volume of their export credits in order to get essential things done. Export credits have been going up at unprecedented rates. Taking official and private export credits together, the increase in 1970 in net amount outstanding was over $ 2.8 billion, a greater increase than in 1969 by $ 270 million. Their hard terms are the sorts of burden that could create a serious crisis in payment capacity with even a modest fall in exports.

In mid-1971 the prospects were good that most donors would agree to untie their bilateral development loans—which cover some $ 2 billion of flows, all in the category of official development assistance—and that all DAC Members would agree not to tie their future contributions to multilateral financial institutions. OECD's Development Assistance Committee had substantially advanced the drafting of the text of an agreement on untying bilateral loans and multilateral contributions, including detailed guidelines which would reasonably ensure that international competitive bidding for such untied funds would be real and not just a formality. But while substantial progress has been made in the negotiations, the agreement on untying has not yet been concluded, due in part to recent developments in the field of trade and monetary policies.

Diversion of Energy

The failure to translate public official positions into donor performance has been so conspicuous so often for so many governments that it is not surprising that a " credibility gap " has emerged. But it would give an incomplete picture of development reality to fail to note that pledges by governments of developing countries to use their resources first and foremost to improve the well-being of their impoverished citizens have also been too often " promises ", followed by less than adequate performance. National pride, desire for personal gain or political power, weak bureaucracies, have all contributed in varying degrees in many countries to waste of scarce resources, more often their own than ours.

Scarce resources have gone too often to expanding purposeless military establishments, although in much smaller volume than for donors. But they are far from negligible, having been estimated at $ 24 billion in 1970, and are rising even more rapidly than those of developed countries, having gone up about one-third in terms of 1968 prices in only four years. In the latest year for which this comparison is available 1968, they had reached around 4 per cent of GNP though still short of the developed countries' 7.2 per cent (3). In that year, despite an exceptionally rapid growth of education budgets (4), developing countries spent 50 per cent more of public funds on their armed forces than on education. African governments, however, spent over 50 per cent more on education, and those of Latin America 15 per cent more. In both the Far East and Middle East, military budgets were a higher percentage of GNP than in developed countries.

Unfortunately, military expenditures are not only a drain on local resources, but purchases of expensive equipment from developed countries may represent a drain of one or two billion dollars a year of scarce foreign exchange. Added to the similar wastage of hard-earned foreign currencies for the repurchase of foreign investments already paid for, and the considerable investments in donor countries by citizens of a few developing countries, we have three outflows that are a proper cause for concern by all those who seek rapid and truly independent progress for each developing country.

In too many cases, existing economic and social structures have meant that economic development only accentuated income gaps and increased rather than reduced the number of poor. Those employed in the modern sector of business and government and landowners in the traditional sector have prospered greatly, while the majority of the population—the urban unemployed or under-employed, the subsistence farmers and farm labourers—have shared little in the rising GNP. While comparisons between developing countries give little support to the popular slogan to the effect that " the rich are getting richer and the poor are getting poorer ", within many individual developing countries this is, unfortunately, too close to what is happening.

Nor, in many cases, have these poorer groups benefited equitably from government social programmes. Even where tax structures may be progressive—and this is usually more so in theory than in fact—expenditure patterns are usually highly regressive, especially as regards the rural population, still over two-thirds of the total. Thus, dual societies are being reinforced, not eliminated.

Partly as a result of this last factor, but also reflecting the impact of rapid change on the values of traditional societies, more and more countries face a political polarisation which is breeding extremist violence by both governments and private groups of a sort hard to control in even the most developed societies. It represents a costly diversion of energies from the central task of improving human conditions.

In many ways the most fundamental problems for development in the 'Seventies are those of which we have only recently become aware—the need for job creation, family planning, relevant education, improved nutrition and enhanced agricultural productivity. There is plenty of room, it seems to me, in all of these areas for research. We are just beginning to awaken to the fact, a fact which most of our corporations learned long ago, that very substantial expenditures on research are profitable. Research, however, will not be of much help unless there is the political will, the administrative skill and the financial resources to apply what we learn. Solutions to these problems do not and will not permit us to avoid the issue of volume of aid. Effective action will take more resources.

(3) Including centrally-planned economies.

(4) In some countries private education, not included here, is of substantial importance.

TRADE MEASURES AND ADJUSTMENT OF THE BALANCE OF PAYMENTS

by Serge Devos,
Head of Division, OECD Trade Directorate

During the last 15 years industrialised countries have only rarely taken far-reaching trade measures to correct deficits in their balance of payments; those countries which have had recourse to such action have, with one or two exceptions, utilised measures other than the quantitative restrictions provided for in Article XII of the GATT—in particular import surcharges or import deposits.

The problem is whether there is now a risk of more frequent recourse to such measures and, if so, whether existing international rules and procedures are well suited to present circumstances.

These questions were being asked well before the imposition of an import surcharge by the United States on 15th August or the similar measure taken by Denmark on 21st October: during the last three years in particular, mechanisms for adjusting the balance of payments have been subjected to re-examination precisely because of the developments which led to the present crisis.

Trade Measures and the Mechanisms for Adjusting Balance of Payments

Trade measures play only a marginal role in the balance-of-payments adjustment mechanisms which were devised as part of the Bretton Woods monetary system. These mechanisms have been examined in a report by Working Party No. 3 of the OECD Economic Policy Committee (1).

In the present system there is little automaticity; on the whole governments have to intervene in order to correct disequilibria. The prevalent view of the adjustment process gives priority to internal measures, monetary and fiscal policy, in restoring external equilibrium. Parity changes are reserved for cases of structural imbalance due to changes in relative competitiveness. Trade measures, while not entirely ruled out, are considered as contingency measures to be used only in serious situations when quick results are absolutely essential.

Under the Bretton Woods system comparatively close co-ordination of economic policies is necessary, and external objectives may impose constraints on economic policies. The economic context or political considerations may lead governments to consider these constraints as too severe in certain cases. Thus when the correction of a deficit calls for deflationary, action, governments may be tempted to combine such action with trade measures in order to avoid too great a degree of unemployment.

Governments are also reluctant, for a variety of reasons, to devalue or revalue their currencies. From the point of view of the trade balance there is an analogy, despite some significant differences, between a devaluation of the currency and trade measures, particularly an import duty combined with an export subsidy. In fact the trade measures may be chosen because they are likely to affect trade more quickly, are more flexible and are not irreversible as is the case with a change in the rate of exchange. It is a fact that trade measures have been taken as an alternative to parity changes, but in most cases the trade measures have in fact heralded a change in exchange rates—though sometimes the change has been long in coming.

On the whole, however, given the various possible means of financing a deficit, it may be said that the Bretton Woods mechanisms for correcting deficits worked comparatively well over a fairly long period; and trade measures have been employed, with various degrees of stringency, on only four or five occasions. This may have been partly due to the fact that the period was a generally favourable one from an economic point of view, characterised by full employment and expanding economies: it is precisely in situations of excess demand that measures directly affecting the trade balance, are particularly inappropriate or even counter-productive.

Some people believe that the country-to-country differences in cost trends observable in recent years are likely to become more pronounced and permanent, and that the priority which will have to be given to human and social aims will make it impossible in future to subordinate internal economic policies to external constraints. If this were to be so, the danger of disequilibrium would be greater and there would be a growing tendency to seek to achieve balance on external account through external measures. Then recourse to controls over the flow of goods—and restrictions on tourism and capital movements as well—might become more prevalent. Such considerations were in fact the basis for suggestions that the monetary system

1) " The Balance of Payments Adjustment Process " August 1966 be modified, and more specifically that exchange rates be made more flexible.

It is not the purpose of this article to discuss the pros and cons of providing such flexibility, or the various possible methods of introducing it, both of which are controversial matters. It is by no means certain that too much flexibility is desirable especially from the trade point of view. On the other hand, flexibility confined within narrow limits would probably not solve the problem. These remarks do not imply any value judgment; the purpose of this article is to define the problem of recourse to trade measures and to set it in the proper context. It must however be noted that excessive manipulation of exchange rates would give rise to the same problems as the adoption of trade measures.

Recourse to Trade Measures: Effects, Guiding Principles and International Co-operation

• *In case of a deficit*

If it is agreed that the trade balance of a given country must be improved by a given amount, this can only be achieved, whatever the means employed, by increasing the imports of the country's trading partners and/or by reducing their exports. The path chosen however is clearly not unimportant whether from the standpoint of its economic effects or its political advisability.

There is no real controversy over the theoretical or qualitative analysis of the effects of trade measures in cases of balance-of-payments deficit. The difficulties arise when quantitative evaluation is attempted; quantitative conclusions drawn from specific cases must be viewed with caution and do not lend themselves to generalisation.

For the country concerned it would seem that the effects, particularly in the case of surcharges, have been comparatively limited in both amount and duration. In fact trade measures seem to have been designed to check the growth of a deficit rather than to make any appreciable reduction in it. In any event it is recognised that trade measures cannot have their full effect, or guarantee a stable equilibrium after they have been withdrawn, unless they are accompanied by internal measures aimed either at reducing excess demand or restoring the competitive position.

For the international community, there are both political and economic reasons for opposing trade measures designed to correct balance-of-payments deficits. Such measures introduce distortions into individual countries' economies and into world trade, and above all they may upset the process of liberalisation—both what has already been achieved and further progress. Clearly, negotiations to lower customs duties, for example, become practically impossible if the results are likely to be nullified or attenuated at any time by the imposition of a surcharge.

Nonetheless, the possibility of having recourse to trade measures must probably be maintained, at least as a safeguard clause.—Such safeguards would survive in a more flexible monetary system, although in such a case the need to resort to this form of action would be further reduced. This being so, there are two types of problem. The first is how to act in such a way that the need for recourse to trade measures is avoided: this is a problem of economic management and international co-operation. The second is how to make such recourse subject to international discipline by requiring the measures taken to conform to certain guiding principles.

The Council of OECD has, on a proposal of the Trade Committee, adopted such a set of principles (see inset). They are still of a very general nature, first because it is difficult, and perhaps not even expedient, to force any future actions into a very rigid pre-determined framework in view of the variety of situations that may arise; and secondly because governments, partly with such considerations in mind, do not wish unduly to limit their freedom of choice. A report by OECD's Secretary General which served as the basis for the work of the Trade Committee (2) gives some indication of the

(2) *This report has just been published under the title " Trade Measures and Adjustment of the Balance of Payments : an Analysis of Measures and their Effects ".*

The Council of OECD has approved the following conclusions of the Trade Committee on trade measures and balance of payments adjustment.

"It is important for a healthy and steady growth of economies and international trade that prononouced balance-of-payments disequilibria be corrected. Measures to reduce barriers to trade are among the various forms of action which can help reduce balance-of-payments surpluses. On the other hand, trade measures can only provide a limited and temporary contribution to the reduction of balance-of-payments deficits. They present serious inconveniences both for the country concerned and for its partners: they introduce distortions into countries' economies and into international trade, adversely affect the development of international trade and endanger the process of liberalisation, from the standpoint both of the results already achieved and of future progress.

In balance-of-payments deficits therefore:

1) Governments must continue to pursue policies of balance-of-payments adjustment based on measures that are likely to restore a durable equilibrium and designed to avoid recourse to trade measures.

2) If a government is nevertheless obliged, in a serious situation requiring rapid action to have recourse to trade measures, such measures:

— should be taken only as an exceptional step in conjunction with internal measures designed to remedy the causes of the deficit;
— should be applied for as short a period as possible;
— should be applied in conformity with the principle of non-discrimination;
— should in no way be employed to provide disguised protection for one or more sectors of activity. The action should be clearly identifiable and its aims stated without any ambiguity;
— should be implemented in such a way as to avoid as far as possible any sudden disturbance of trade flows.

3) To avoid the need for recourse to restrictive trade measures and, should the case arise, to supervise the application of any trade measures introduced, the available facilities and machinery for international consultation should be used:

— as effectively and as early as possible;
— taking account of the need for an overall approach to adjustment of balance-of-payments. "

significance of these principles and the direction in which they could be strengthened if this were felt to be desirable.

For example, if one considers the basic issue of when trade measures might be justified, a question arises as to whether such action should be limited to cases in which there is a trade deficit and in which that deficit is mainly responsible for the overall payments deficit? Or would it be fair to include as well cases in which an unfavourable *trend* in the trade balance, even if the latter is still in surplus, is responsible for the balance of payments deficit? It is evident that these questions are directly linked to balance of payments objectives, and while it is true that progress in international co-operation requires agreement on, or harmonisation of, these objectives, it may be unwise to fix rules which might in actual fact impede such co-operation.

Perhaps more important is the question: what type of measures may be taken in a given case? Under Article XII of the GATT—and other international agreements as well—the only trade measures which countries are entitled to take to correct their balance of payments deficits are quantitative restrictions. Yet in practice, with the exception of France in 1968, no country has utilised quantitative measures in the last 12 years; instead they have had recourse to other types of action and in particular import surcharges and import deposits. Should this *de facto* situation be recognised and the range of approved measures widened? The question is not merely an academic one. By leaving too much freedom in the choice of measures, recourse to trade action may be encouraged and become more common. From this point of view, the difficulties of introducing quantitative restrictions are an argument in favour of this type of measure which also has the advantage, from the point of view of the country concerned, that they are practically certain to achieve intended results. Quantitative restrictions, however, make for such rigidity in trade, such distortion and complexity that the question arises whether it would not be preferable to recognise the surcharge as a measure more suited to present conditions. Another argument in the same vein may be pertinent: if an important principle is bypassed, there may be repercussions on the whole of international discipline which would thereby be rendered less effective.

• *In case of a surplus*

In the case of countries with a surplus, the question of whether or not trade measures should be used to regain equilibrium is only one aspect of the general problem—the role which such countries can play in adjusting international payments. This, too, has been a major subject of debate for some years. Though resolved in theory by recognition of the fact that both deficit and surplus countries have a part to play in restoring equilibrium, the problem is still a very real one, and is in fact at the heart of the present crisis.

From a practical, apolitical point of view the corrective measures taken by a surplus country have an advantage over those taken by deficit countries: since the latter must be applied in non-discriminatory fashion under a multilateral system of trade, they are likely to accentuate the balance-of-payments difficulties of other countries. Measures taken by a surplus country, on the other hand, are by definition an encouragement to the trade of all its partners.

Admittedly the action taken by a surplus country in a given situation does not necessarily permit deficit countries to avoid taking protective measures. Each individual case is different, and it would be dangerous to generalise, though the contribution of the surplus countries should perhaps be seen in a longer-term context.

Although surplus countries have taken measures of trade liberalisation on various occasions in the last twenty years, there are factors which limit the possibility of such action on a continuing basis or on a larger scale. The main consideration is that abolition of trade barriers is achieved through multilateral negotiations; unilateral action, therefore, is felt to deprive the country concerned of a bargaining counter with which to exert pressure on its partners to liberalise their own trade.

In any event, the scope for action in the trade field is increasingly limited because of the very progress already made towards liberalisation. Obviously a system can be conceived—and one was in fact introduced by Germany—whereby a surplus country subsidises imports and taxes exports. So far as the trade balance is concerned such a measure is roughly tantamount to a revaluation of the currency. There is accordingly a danger that it may—like the similar measures in the opposite direction taken by a deficit country—be interpreted as heralding a revaluation and hence give rise to speculative movements which make such a change inevitable.

• *International Co-operation*

On the whole, the problem of trade measures in the balance of payments adjustment mechanism is, as in other fields of international economic relations, one of establishing guiding principles which are both sufficiently precise to impose genuine discipline and sufficiently flexible to take into account complex situations. The difficulties of reaching a satisfactory compromise on this matter, and the absence of sufficiently precise principles to serve as a guide for policy, give added importance to international co-operation.

The first task of international co-operation is to prevent situations in which strong corrective action will be necessary. The second, at the stage of correcting disequilibria, is to permit adoption of the solution which is most suitable from the point of view both of the country concerned and of the international community. Co-operation should make it possible to agree on the role to be played by each deficit and each surplus country. Genuine co-operation should make it possible to forestall a crisis, but the present example shows us how much room for progress there still is in this regard.

A concerted solution to problems of international payments implies at least a minimum of agreement and harmonisation of a whole set of objectives, and this is undeniably a difficult task.

OECD GROUP ON TRADE AND RELATED PROBLEMS

Chairman of the Group
Jean REY, from 1967 to 1970 President of the Commission of the European Communities, and formerly Belgian Minister for Reconstruction and for Economic Affairs:

THE OECD Council meeting at Ministerial level on 7th and 8th June, 1971, examined the perspectives for international trade and agreed that broader opportunities for progress towards the general aim of liberalisation of international trade should be explored within the Organisation.

In order to examine the trade problems defined by the Ministerial meeting, a group of personalities designated by their respective Governments and, in one instance, by the Commission of the European Communities has been formed by the Secretary General. The group will identify the problems, assess their relative urgency, consider how these problems might be dealt with, and set out options for their solution. The Chairman of the Group is Mr. Jean Rey.

It is expected that the Group will submit a report in the spring of 1972 in time for the meeting of the OECD Council at Ministerial level.

MEMBERS OF THE OECD GROUP

Giuseppe CARON (Italy)
Senator; former Vice-President of the Commission of the EEC, former Minister for the Budget and Economic Planning; former Under Secretary of State in several Ministries.

William D. EBERLE (United States)
Ambassador; Special Representative for Trade Negotiations.

Toru HAGUIWARA (Japan)
Former Ambassador; former Commissioner General for the World Exhibition in Osaka, 1970.

Günther HARKORT (Germany)
Former Secretary of State for Foreign Affairs.

Théo C. HIJZEN (Commission of the European Communities)
Head of the Directorate-General for External Trade.

Robert MARJOLIN (France)
Professor of Political Economy; former Secretary-General of OEEC; former Vice-President of the Commission of the European Economic Community.

Bertil Gotthard OHLIN (Sweden)
University Professor; former Minister of Commerce.

Arthur F.W. PLUMPTRE (Canada)
Professor of Political Economy; former Assistant Deputy Minister, Department of Finance.

Sir Richard POWELL (United Kingdom)
Company Chairman; former Permanent Secretary, Board of Trade and Ministry of Defence.

Hans SCHAFFNER (Switzerland)
Former President of the Swiss Confederation.

Hendrikus Johannes WITTEVEEN (Netherlands)
Senator; former Finance Minister.

TOWARDS RATIONAL FISHERY MANAGEMENT

International exploitation of sea fisheries is nearing the danger level.

For some species of fish there are still possibilities of heavier catches, but for the most valuable commercial species the peak has been reached (even the Indian Ocean tuna fisheries are probably already being exploited at nearly the maximum sustainable yield). Fleet mobility is so great that any grounds abandoned because of overfishing are again exploited intensively as soon as stocks show signs of recovery. As this development is the result of technical progress, the industrialised countries are in a strong position, for their highly mechanised fleets can operate far from their home bases and may even exhaust distant fishing-grounds. All these efforts are too costly and for some natural resources cause a substantial loss of potential. That is why, in the midst of steadily expanding economies, the fishing industries lag behind. Many sectors are in difficulty and there are few fisheries which do not receive substantial financial aid.

OECD seldom deals with the conditions of raw material supply where abundance is governed by natural laws. The fact that fisheries are receiving special attention reflects a socio-economic fact: the dependence of the fishing communities in all maritime Member countries on the maintenance of fish stocks.

In seeking to preserve the natural resources of the sea, the effect of regulatory measures on everyone-not just the fishermen-for whom they provide a livelihood must be taken into account. Economic and not only technical or biological factors are thus of great importance and the OECD Fisheries Committee is seeking to stress this aspect of the problems. The following article, which gives a picture of the current situation and the action taken to improve it, has been prepared by Mr. Paul Adam, Head of the OECD Fisheries Division.

When the economist considers fishery problems he must break his habit of reasoning on the basis of aggregates and averages. Fish populations are in equilibrium in relation to the environment in which they live and find their food. But it is a dynamic equilibrium, like a pendulum always swinging back to the vertical but never staying there. In fisheries, averages have very little chance of being the real figures at a given moment.

If a fish population is left in its natural state, its numbers and total weight will vary from year to year according to ecological conditions and the supply of food. Natural mortality varying with current conditions and population size provides the regulatory mechanism.

Once fishing begins, the natural equilibrium is disturbed. Losses due to fishing are added to natural mortality; but the latter is also reduced through a natural and automatic substitution: fishing reduces the size of stock and food requirements (i.e. consumption of fish by fish) decrease proportionately. Even casual fishing thus introduces an effective, if involuntary, element of management. There is no real opposition between stockbreeding and fishing; there is merely a progressive transition from an unexploited population whose level is controlled by high natural mortality to a modern properly managed "herd" with a minimum of natural deaths, the fish being tended as carefully as possible and "slaughtered" as soon

as they reach the size required for the market.

There is therefore a continual action and reaction, involving the following basic elements:

• variations in total stock size governed by natural mortality, annual recruitment and the mortality which results from fishing;
• annual variations in environment and food supply.

The interaction of all these factors results in a state of equilibrium, or rather a continual fluctuation around that equilibrium.

As a result, the fishermen too are faced with a situation of continual short-term fluctuations, for they have to adjust to the biological imbalances. Moreover, on being introduced into the system, fishing itself brings with it economic diseqilibria if only because of the technical progress and growth involved.

Although very little is known about the mechanisms of long-term climatic variations, their impact is clear: in the early Twenties there was no cod west of Greenland, but since then several hundred thousand tons have been caught there; now it seems that these waters are becoming colder and less hospitable and the cod are leaving them. In 1970-71 the Icelandic stock might even have been augmented by a larger than usual migration from the west of Greenland. But whether the cod will disappear completely from these waters and, if they do, whether they will return, as they did on several occasions in the 19th century, we do not know.

To take another example, variations in the stock and migration patterns of herring—so important to the North Sea countries—are frequently mentioned by historians as a reason for the rise and fall of the Hansa towns, the Netherlands, etc., but the rhythm of these variations and the causes of these very long-term cycles are not known; the cycles are simply noted after the event.

As to the fishermen, their situation is known and the present long-term prospect is one of great instability. Steadily increasing demand due to rising population and higher standards of living puts pressure on the fishermen to step up production. They are helped to do so by technical progress, especially since 1960—the date of a real revolution in fishery technology—when stern trawling, on-board freezing and intensive use of electronic equipment came into widespread use. The intensification of fishing, which of course first affects the most profitable commercial species, results in overfishing; and overfishing is tending to spread to all waters. Many

North Atlantic species (herring, cod, plaice, sole, haddock, redfish, etc.) are already being exploited at least somewhat beyond the maximum sustainable yield. Only a few, e.g. saithe, seem to be still below the optimum level.

In such a situation the risk that a species will become totally extinct is rare: when an operation becomes unprofitable, fishing slows down or is interrupted and the stock can then be reconstituted —at least until intensive fishing becomes possible once more. However, overfishing entails adverse economic factors—increasing instability of usable resources and loss of potential ones, excessive international competition on fishing grounds, a variety of aids and subsidies in almost all countries (each claiming to give more than the next), and a continual race for technical progress entailing more and more capital investment: five or six years ago a large freezer-trawler was estimated at around 10 million French francs, whereas the most recent German distant-water trawlers are now being ordered at around 25 million French francs. According to the *1970 Review of Fisheries in OECD Countries* (OECD, Paris 1971), construction costs for fishing vessels have probably doubled in a decade.

INTERNATIONAL SEA FISHERY MANAGEMENT

Although the problem of rational management of international fisheries is becoming more acute and more urgent than before, it is not new. It has been topical for several decades and various bodies have already been established in order to try to solve it.

There are specialised international agencies, with which OECD maintains close contact especially on statistical matters, of which the best known are the North East and North West Atlantic Fisheries Commissions, but there are others in the Pacific for individual species (salmon, halibut, tuna); a new one has just been set up for Atlantic tuna and another is about to be established for the South East Atlantic. It is probable that in a short time nearly all the oceans will be covered by a network of specialised agencies for the conservation of fish stocks and the control of sea fisheries. In addition, there are bilateral or multilateral agreements for the same purpose but without independent institutional support.

This system is a pragmatic one which is justified by the fact that each area is characterised by a well-defined ecological and biological complex and by a basic simularity of fishing fleets and techniques within the region.

Unfortunately the progress achieved in these various contexts is very slow. All too often the measures adopted might have been effective if they had been taken earlier, but can no longer yield adequate results when applied to a situation which has deteriorated since. This is the other side of the coin to the pragmatism that has prevailed until now. Three difficulties are to blame for this slowness:

- first, national negotiators wish to minimise the immediate losses which control would impose on the fisheries for which they are responsible;
- secondly, the sense of equality between partners means that only regulations which have the same consequences for all partners are accepted. This is extremely difficult to achieve for a given area and even more difficult with regard to neighbouring areas; some fleets remain stationed in a given area whereas others move; regulations might then have disastrous consequences for one fleet and no effect at all on another which, once its quota had been exhausted, would immediately move on to unregulated areas;
- thirdly, negotiations on fishery questions are highly specialised, for if the rules adopted are to be applicable and beneficial, they must be attuned to a set of very complex phenomena, involving fish biology, vessel and gear technology, the economics of trade in sea products and the sociology of fishing communities.

It is therefore recognised as essential to examine the problem of overfishing not only from the point of view of biological resources but also from that of economics. Since today markets are more and more closely integrated, economic factors link fish stocks which have nothing in common biologically. A better knowledge of these economic interrelationships would not only be useful to those negotiating regulatory measures but would also throw light on the dynamics of fish populations, which with intensive fishing are highly dependent on fishing mortality rates.

This problem therefore involves an unusual mixture of elements and no pure economics or pure science. The biologist bases his research into the dynamics of fish population on commercial catches; and the administrator discussing details of future regulations often has to take into account the social situation in regions where fishing is the sole activity or one of the few possible activities. Scientific evidence is not enough; a good deal of practical evidence must be brought to bear as well.

The international machinery, which is still far from providing the legal and statutory framework needed for the rational management of world fisheries, may soon feel the influence of oil or mineral vested interests, which are far more powerful than fisheries. It is high time to give world fisheries a little more attention than they have had recently.

As a contribution to this end the Fisheries Committee organised an International Symposium on Fish Production, in Paris at the end of November. The discussions covered many fish production problems which are obviously international by nature, but above all the economic factors which are essential for more rational resource management.

ONE SOLUTION : CO-OPERATION

The economic problem of fisheries can only be solved by international co-operation in the broadest sense of the term. As such it demands an active contribution by OECD to better knowledge and understanding of the economic phenomena governing international fishery trends. This may seem a modest role, confined to a narrow economic field, but it ranges over all the oceans of the world. The maintenance of prosperous commercial fisheries must be regarded as a guarantee of clean seas. After all, fish and the food on which they live cannot prosper in polluted waters.

Highlights from

OECD ECONOMIC OUTLOOK

DECEMBER 1971

10

ECONOMIC PROSPECTS — DOMESTIC AND INTERNATIONAL ASPECTS

In many OECD countries the pressure of demand is now at a relatively low level, and, in spite of the fact that evidence of lower rates of wage and price inflation remains sparse, most countries are aiming to move gradually towards higher employment levels. In considering the problems of achieving this, account has also to be taken of the need to strengthen the United States balance of payments. This will have some deflationary impact on other countries; but this is unlikely to be important in the period ahead.

An improvement in the US balance of payments will, in itself, add to demand pressures inside the United States — where the extra demand can well be accommodated. By the same token, a faster growth of US exports, and a slower growth of the exports of other countries than would otherwise have occurred, will have a deflationary impact elsewhere. Since demand pressures in many other countries are now relatively low, a further reduction, however inevitable, would not in itself be something to be welcomed. In practice, however, the effect will be spread over a period of years, as trade patterns respond gradually to new conditions. Moreover, it will not be the only influence emanating from the United States. For demand is in any case likely to be expanding appreciably faster in the United States than in other countries over the year ahead; and this will in turn tend to support demand in other countries. It seems clear therefore, that the net effect of US action on demand in other countries will not create unmanageable problems for them with respect to domestic policies.

(Continued on page 14.)

The analysis contained in the OECD's Economic Outlook, *from which extracts are presented here, was completed before the agreement reached in Washington on 18th December on the realignment of exchange rates and the suppression of the United States' import surcharge. Prior to this agreement, a major difficulty in assessing the prospects was the possibility that the prevailing uncertainties might have a serious depressive impact on economic activity. However, the decision taken in Washington should not only make an important contribution to correcting the fundamental disequilibrium in the balance of payments position of the United States, but should also go a long way to dispelling the cloud of uncertainty and pessimism apparent in business circles in recent months.*

This makes the forecast, contained in the Economic Outlook, *of a faster rate of expansion in the OECD area over the next six months, more rather than less probable, with some further acceleration likely in the second half of the year.*

Demand management and the problem of inflation

The slow rates of growth experienced in the last year or two by many OECD countries, though not in themselves advantageous, have in general resulted from government policies aiming to reduce demand pressures, as a means of bringing under control the excessive rise of costs and prices. While different countries are at different stages in this process, in many OECD countries the time has come for a new inflexion of policy, aiming again at faster growth.

As yet, however, success in dealing with inflation is still limited. While there is thus a continuing problem, there are new opportunities for dealing with it. Now that demand pressures have been brought down to a much lower level, there is a good chance of combining renewed expansion with continued progress in slowing down the rate of price increase. It is important that this opportunity should not be missed, and that expansion should be kept within due limits, so as not again to provoke inflationary tensions, and so that expansion may follow a course that is sustainable.

The room for manoeuvre is indicated by the degree of slack that now exists in different economies. Output in the United States is about 6 per cent below the level compatible with an unemployment rate of 4.5 per cent. In the remainder of the OECD area the corresponding figure is probably around 3½ per cent (1), with substantial margins of unused resources in the United Kingdom and Canada, and more recently in Japan and Italy, but not in Germany or France, nor in most of the smaller industrialised countries in Europe. The reduction of demand pressures means that labour markets in various countries are now slack.

There has been a significant shift in demand management policies in the last twelve months; policies have become more expansionary or less restrictive, not only in the United States, but also in the United Kingdom, Japan and Italy. In France there has been no marked change, however, and in Germany there has, as yet, been only minor relaxation, in view of the continuing rate of increase of costs and prices. In many smaller countries, also, policy remains restrictive.

As a result, present trends and policies point to an acceleration of the growth of output in the first half of 1972. In the seven major OECD countries output might expand at an annual rate of between 5 and 5½ per cent—a rate roughly in line with the longer-term average. The pace of recovery will be more marked in some countries than in others. Output growth in Japan, Germany and Italy may show some acceleration, but it is likely to remain well below potential. In France output could rise at an annual rate of more than 5 per cent—a figure somewhat short of the growth of potential. In the United Kingdom activity may expand roughly in line with the growth of capacity. In the United States and Canada, growth may be faster than potential, with a reduction of the present under-utilisation of human and physical resources; but by mid-1972 unemployment will probably still be significantly above permanently acceptable levels.

The first half of 1971 saw no significant slowdown in the rate of price increase in the OECD area. In the seven major countries taken together, the GNP deflator appears to have continued to rise by 5½ per cent (annual rate). The same is true of consumer prices on a comparison of the first half of this year with the first half of 1970. It seems likely, however, that there will be an improved performance in the second half of 1971. The rise in the GNP deflator for the second half of 1971 and the first half of 1972 is forecast to be (at an annual rate) some 4 to 4½ per cent for the area as a whole.

The task of bringing inflation under control has led to intensified activity in the area of price and incomes policies in most OECD countries. Of those European countries which maintain standing machinery for price and/or incomes policies (for example the Nordic countries and France), many have accentuated their use.

(1) This is an estimate of the amount by which GNP is below levels compatible with normal capacity utilisation ratios and levels of unemployment corresponding to the average of the last decade.

And several other countries, whose prior stabilisation policies had not included direct action on prices and incomes (for example Ireland and the United States), have now adopted important new measures.

External adjustment and its implications for demand management

The deflationary impact of the United States' balance-of-payments adjustment can already be gauged fairly roughly, even though the precise size of the swing to be aimed at may not yet be generally agreed. If the adjustment were to be within the range indicated in Table 4, the total deflationary impact on other OECD countries combined would be equivalent to rather less than one per cent of one year's GNP. This might be spread over two years or more, i.e. the primary deflationary impact might amount to one-third or one-half per cent of GNP per year. (This estimate assumes that the greater part of the swing would be achieved through parity changes, involving a deterioration in the U.S. terms of trade and, therefore, a swing which would be larger in volume than in value.)

Though these figures may seem relatively small when compared with the *existing* margin of unused capacity outside the United States, equivalent to some $3\frac{1}{2}$ per cent of GNP, the need for external adjustment will create problems for certain countries in the field of demand management. In support of optimism it can be argued that the present situation is to a considerable extent *cyclical*, in the sense that there are a number of semi-autonomous forces which, with the passage of time, will be making for recovery. Once governments' expansionary policies begin to show results, for example, both re-stocking and a decline in consumers' savings ratios should provide a substantial additional stimulus. Against this it needs to be borne in mind that the deflationary impact emanating from the United States is likely to have multiplier effects. Particularly in the more export-oriented economies, sharper competition and reduced profit margins in foreign markets may have an adverse impact on investment plans. In the past, countries in a cyclically weak position have often been able to count on strong export demand as an exogenous factor helping to spark off a cyclical upswing and reduce the need for domestic expansionary action. With an adjustment of the magnitude now needed to restore the United States' balance of payments to equilibrium, this element of buoyancy will clearly be attenuated.

Those countries whose trade is likely to be appreciably affected by the swing in the United States balance of payments could be inhibited themselves from taking expansionary action, lest it further damage their balance of payments. It is therefore important that when countries are planning expansionary action to offset the effects of exchange-rate or other adjustment measures, they should have some assurance of similar action by other countries. Under conditions of rather general weakness of demand, there is always a danger that countries will hang back from taking sufficient expansionary action because of concern about their balances of payments. This danger could clearly be increased under present circumstances—although the present very high level of reserves in many countries should act as a counterweight.

Less favourable foreign trade conditions are not the only factor behind the present and prospective weakness of private investment. The persistence of price inflation at fairly low levels of activity may have thrown some doubt on the willingness of governments to take sufficient expansionary action. Social unrest, squeezed profits and large excess capacity are factors which, separately or combined, are affecting investment decisions in a number of Member countries. And although some of them are typical of the present stage of the cycle, they may tend to amplify the reaction of private investors in other countries to any deflationary impulse originating from the United States.

For each country the deflationary impulse coming from the adjustment of the United States external position will at least in part be offset by expansionary policies in the United States and other countries to restore full employment. Here it is important to note that the United States is further ahead in the present cycle than most other countries. The OECD forecasts (see section on conjunctural prospects and Table 7) suggest that GNP will be rising at an annual rate of 6 per cent in North America in the first half of next year compared with around 4 per cent elsewhere. This dichotomy could well continue into the second half of next year. If so, the more rapid rate of expansion in the United States will, in itself, have a significant adverse impact on its trade balance (2). Thus, relative cyclical conditions may well delay the swing in the United States current account. This will tend to cushion the deflationary impact on other countries, pushing it forward into 1973. By that time, with appropriate policies, recovery should have picked up momentum in countries where there is at present an uncomfortably large margin of slack.

The general conclusion is that the demand management problems involved in an orderly adjustment should be manageable. A different question is how far the uncertainties of the present situation might have a depressive impact on output and employment. It is suggested below that, if the balance-of-payments uncertainties were to continue for any length of time, the deflationary impact by the middle of next year could be quite marked—larger, indeed, than that involved in an orderly and fairly distributed external adjustment spread over a two-year period. Early agreement on the immediate issues raised by the crisis would seem of great importance from the viewpoint of output and employment.

The balance of payments aspects

• The United States Payments Situation

The United States' payments position, though by no means the only major factor, is one important element in the present situation. The following paragraphs

(2) This could be estimated at some \$ 2½ billion (annual rate) for the change between the second half of 1971 and the second half of 1972.

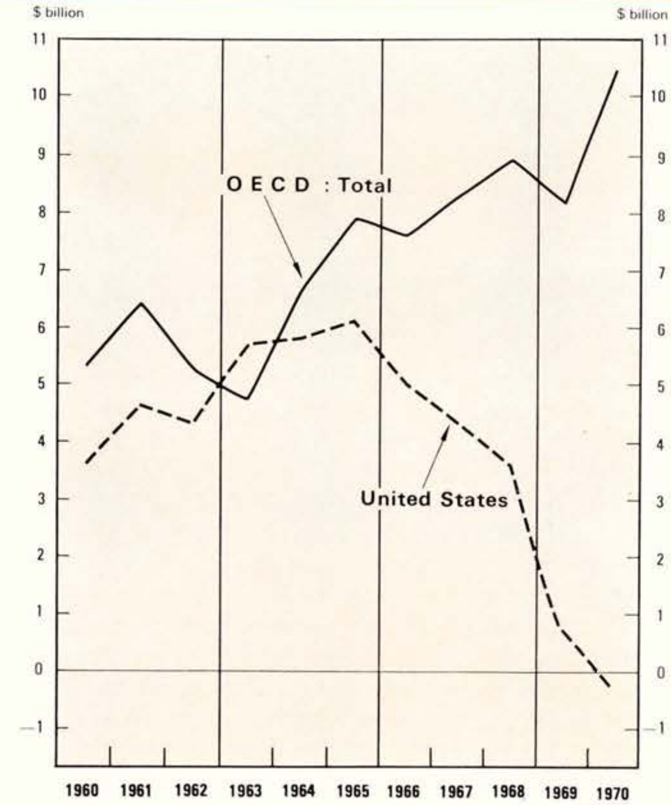
therefore discuss the present imbalance in the United States' payments situation as a background to assessment of problems facing the OECD area as a whole.

The major cause of the United States balance of payments crisis has been a steady deterioration in its current account position since 1965 (Chart A) (3). This trend was to some extent disguised by temporary cyclical factors—notably in 1970, when the current account actually improved but by much less than might have been expected given the developing slack in the United States and continuing boom in many other countries. Abstracting from these cyclical influences, the position deteriorated continuously by an amount averaging \$ $1\frac{1}{4}$ billion a year. The whole of the counterpart may be found in a radical improvement in the current account position of other OECD countries, who also benefited from a substantial increase in the combined current surplus of the OECD area as a whole (Chart A).

Many factors lie behind the deterioration in the United States' current account over this period: for example, the impact of trade policies, military expenditure (4), and structural changes in the economies of the United States and its main competitors. Domestic inflation in the latter part of the 1960's also played an important role. Despite this inflation, the domestic price level in the United States rose less than in any other major country over the period 1963—mid 1971, with the exception of Canada (Chart B, first column). The United States, however, belongs to a group of countries where —probably mainly for structural reasons—export prices have tended to rise much more, relative to domestic prices than on average in the OECD area (Chart B, second column). On the basis of the relationships observed during this period, for example, the United States' domestic price level would have had to have risen by $1\frac{1}{2}$ percentage points less than on average in other OECD countries, merely to prevent a deterioration in the relative export price position. The only major countries whose export prices (in domestic currencies) rose more than those of the United States were the United Kingdom and France, but this was more than offset by the devaluations of sterling and the French franc in 1967 and 1969 (Chart B, third column (5).)

The deterioration in the United States current balance since 1965 has been offset to some extent by developments on capital account. Net long-term capital outflows to developed countries were much lower in the last three years of the decade than in the preceding seven years—with the United States in fact becoming a net importer of long-term capital from Western Europe

A. THE CURRENT SURPLUS
of the O E C D area and of the United States, 1960-70
Cyclically adjusted (1)



1. Adjusted also for certain other temporary influences. The series for the O E C D area is based on the sum of O E C D countries' reported balances with all countries. Official transfers are not included.

TABLE 1
United States current account, 1965-1970
\$ billion

	Current balance on normal definition (1)	Goods, services and private transfers[a] (2)	(2) after cyclical adjustment[b] (3)
1965	4.3	6.1	6.1
1966	2.4	4.3	5.0
1967	2.1	3.9	4.3
1968	–0.4	1.3	3.6
1969	–0.9	0.7	0.8
1970	0.4	2.2	–0.2

a) Including Government pensions.

b) Adjusted also for strikes and certain other temporary influences, for example, the effects on U.S. investment income of the high interest levels in 1970.

(3) The term "current account" is used here to cover the balance on goods, services, and private *transfers. In Conjunctural Prospects the normal definition is used, i.e. including official transfers. The figures shown in Chart A and in the third column of Table 1 have been "cyclically adjusted". They are estimates of what the situation would have been if demand and output in the United States had been at a level compatible with 4.5 per cent unemployment, and if all other countries had been experiencing demand pressures equivalent to the average prevailing over the period 1955-70.*

(4) Net military foreign exchange costs included in the current account rose from \$ 2.1 billion in 1964 to \$ 3.4 billion in 1970. In the first half of 1971 they were running at an annual rate of \$ 2.7 billion.

(5) The behaviour of export prices in domestic currency is not entirely independent of exchange-rate changes. In this case, some part of the increase shown for the United Kingdom and French export prices in domestic currency was made possible by the devaluation, and would not have occurred without it.

Table 2

United States Summary balance of payments

$ billion

	Annual averages 1960-64	1965-67	1968-69	1970
Balance on goods, services and private transfers [a]	5.19	4.81	1.07	2.18
Official grants	−1.85	−1.84	−1.68	−1.74
Long-term capital	−4.36	−4.99	−1.53	−3.72
Developed countries [b]	−1.89	−1.80	1.48	−0.20
Of which: Canada	−0.70	−1.20	−1.18	−1.06
Other	−1.19	−0.60	2.66	0.86
Other countries	−2.47	−3.19	−3.01	−3.52
Basic balance	−1.02	−2.02	−2.14	−3.28
Short-term capital (including errors and omissions)	−1.50	0.71	4.29	−7.65
Balance on official settlements	−2.52	−1.31	2.15	−10.93
Memorandum items				
Official transfers and long-term capital to LDC's (DAC data)	4.4	5.3	5.2	5.4

a) Including Government pensions.
b) Western Europe, Canada and Japan.

in 1968-70 (Table 2). Official grants to less-developed countries have tended to decline and long-term capital outflows to those countries have increased only slowly. As a result, the United States' basic balance has deteriorated significantly less than the current balance before the present speculative crisis. And although swings in short-term capital resulting from changes in relative monetary conditions had been very sharp, no underlying deterioration seemed perceptible on this account.

It is widely agreed that parity changes are not a desirable or appropriate substitute for counter-cyclical demand management action and that they should only be made in response to situations of fundamental disequilibrium. It is for this reason that estimates have been made of what the payments situation of the United States, and of other countries, would have been if these cyclical influences were eliminated—i.e., if all countries had been at normal levels of output and employment. Secretariat estimates of such " cyclically adjusted " current balances for 1970 are set out in Table 3. These estimates are necessarily imprecise and the methods of estimation are in course of development. But the figures shown in Table 3 are likely to indicate the rough orders of magnitude involved.

These figures show that the actual current balances in 1970 gave a significantly distorted picture of the underlying positions in that year. They suggest that the current account position of the United States was one of underlying deficit (as compared with an actual surplus of over $ 2 billion), when allowance is made for the " favourable " effects on the balance of both the large margins of slack in the United States and high demand pressures in foreign countries. They suggest, conversely, that Japan, the EEC countries as a whole, and the group " Other OECD " were in a significantly stronger underlying position than the actual figures would suggest: here, fairly high demand pressure at home was combined with some degree of slack in partner countries (more significant in the case of Japan because of its large trade links with the United States). The evaluation of the 1970 payments positions of different countries on the basis of cyclically adjusted data tends, in general, to support the view that the counterpart to the weakness of the United States' current account last year was widely spread throughout the OECD area.

B. THE RISE IN DOMESTIC AND EXPORT PRICES, 1963-mid-1971

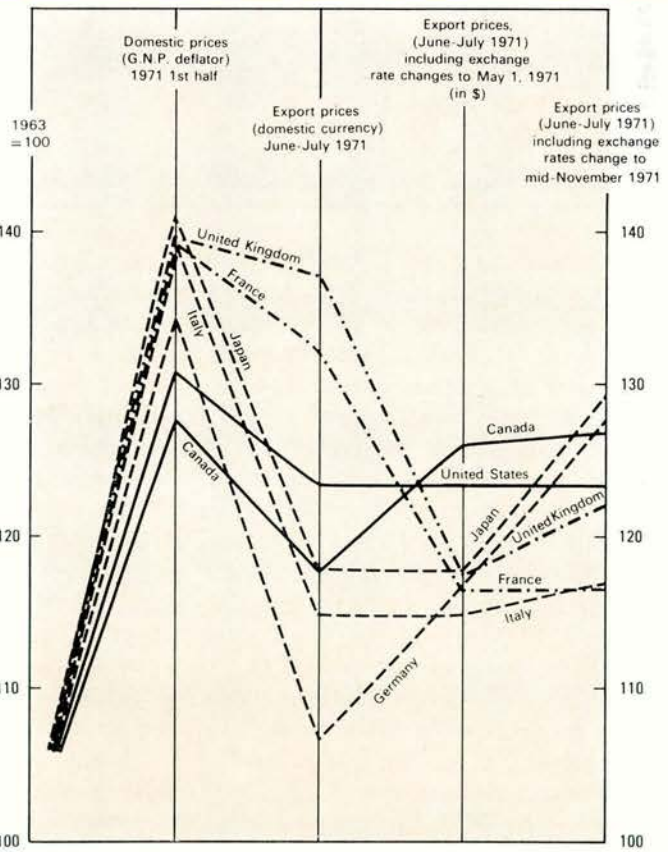


TABLE 3

Actual and cyclically adjusted current balances in 1970[a]

$ billion

	Actual balance (1)	Cyclical adjustment[b] (2)	Cyclically adjusted balance (1—2)
United States	2.2	2.4	-0.2
United Kingdom	1.8	0.9	1.0
EEC	3.3	-2.1	5.4
Canada	1.3	0.5	0.8
Japan	2.1	-1.2	3.4
Other OECD	-1.4	-1.5	0
Total OECD	9.4	-1.0	10.4

Note: Detail may not add due to rounding.

a) Goods, services and private transfers.

b) Adjustment for cyclical factors and also for certain other temporary influences, notably the effects on U.S. interest payments of the very high short-term interest rates prevailing during 1970. Also, the total OECD area's balance of payments on investment income was abnormally low in 1970, partly reflecting high interest rates throughout the area, and this factor largely explains the negative adjustment shown for total OECD.

TABLE 4

Amount of adjustment action needed

$ billion

U.S. current account surplus after adjustment	Adjustment action needed assuming U.S. underlying deficit in 1972 of: $ 2 billion	$ 4 billion
6	8	10
7	9	11
9	11	13

An assessment of the adjustment required in the United States balance of payments must be based on two judgments. First, it is important to look not only at recent figures but also at the position that would be reached if action were not taken. By 1972 it is to be expected that the trade deficit of the United States would have grown appreciably. As noted earlier, the United States current balance, on a cyclically adjusted basis, deteriorated on average by $ 1¼ billion a year from 1965 to 1970. If this is projected forward, with some allowance for the lagged effect of relative cost and price trends and exchange rate changes (up to but not after 1st May, 1971), an underlying deficit of about $ 2 billion is obtained for 1972. The United States authorities themselves feel that developments in the trade balance so far this year indicate that a larger deterioration is taking place, and that on the same assumptions the current deficit could have grown to $ 4 billion by 1972. Second, it must depend on a judgement about the desirable size of the current surplus at the end of the adjustment period. To achieve equilibrium on basic balance, the current account surplus should equal the level of official grants and total net long-term capital outflows. The United States assumes that *there will be no increase in its aid effort* and that its *net flows of long-term capital to other developed countries will be nil or negligible*, despite a lifting of existing restraints on such outflows. On these assumptions, a current surplus of $ 6 billion would be required to achieve basic balance(6). The United States believes it should aim to have, for a while, a surplus on basic account—implying a current account surplus, of the order of $ 9 billion. Together with the United States' own estimate of where the current account will be in a year's time, this would imply a " swing " of $ 13 billion. The implications of these scales of adjustment are shown in Table 4.

• Implications for Other OECD Countries

To assess the implications of a major improvement in the United States' current balance for other OECD countries, it is necessary to form a view about the size of the " cake " available to be cut up—in other words, the size of the combined surplus of the OECD area as a whole(7). Excluding cyclical influences, this has tended to increase since 1963 (Chart A). The upward trend may have been temporarily interrupted by the rise in oil prices. But other factors (such as the historically high level of non-OECD countries' reserves and increasing aid efforts on the part of some countries) are likely to work in the opposite direction next year. On balance, it may be reasonable to take $ 11 billion as the potential cyclically-adjusted surplus of OECD as a whole in 1972.

To indicate how an improvement in the United States' position might affect other OECD countries, three illustrative patterns are shown in Table 5.

a) A United States' current surplus of $ 6 billion, which would be just sufficient to cover official aid and private long-term capital outflows to less-developed countries equal to 0.5 per cent of GNP in 1973-74.

b) A United States' surplus of $ 7 billion, sufficient to cover the aid and long-term private outflow assumed by the United States' authorities, and the envisaged persistent negative element in errors and omissions.

c) A current surplus of $ 9 billion, sufficient to yield some overall surplus, as a safety margin.

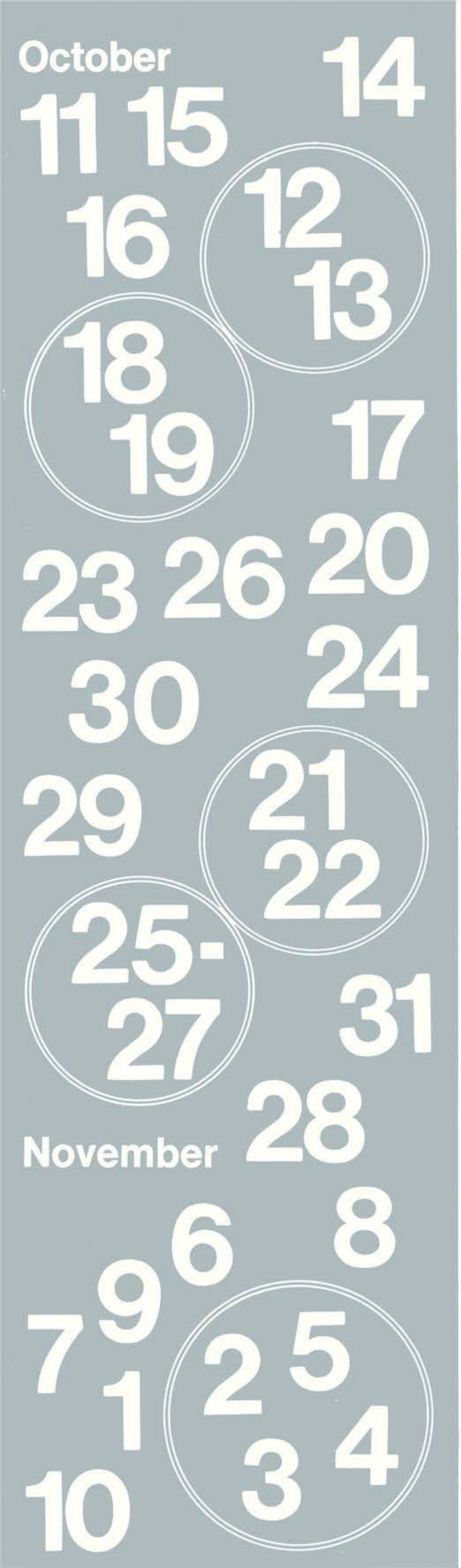
Given the total size of the " cake " suggested above, these three alternatives would leave combined current surpluses of $ 5, $ 4 or $ 2 billion to be shared by other OECD countries.

The full effects of exchange rate action normally take

(6) i.e. on current account plus long-term capital account. U.S. aid to developing countries (including long-term private capital outflows) has recently amounted to some $ 5½ billion, or 0.5 per cent of GNP.

(7) The discussion here assumes that the whole of the counterpart of the swing in the United States' current account is to be found within the OECD.

Continued on page 31



TEN YEARS OF ECONOMIC EVOLUTION

International co-operation by means of TOP-LEVEL CONSULTATIONS

12th-13th October	SCIENCE MINISTERS
18th-19th October	GOVERNMENT ECONOMIC ADVISERS
21st-22nd October	DEVELOPMENT ASSISTANCE COMMITTEE
25th-27th October	CONFERENCE ON THE UTILISATION OF HIGHLY QUALIFIED MANPOWER
2nd-5th November	CONFERENCE ON INSTITUTIONAL MANAGEMENT IN HIGHER EDUCATION

30th September, 1971, marked the tenth anniversary of the date on which OECD officially came into existence as the successor of the Organisation for European Economic Co-operation. During the following weeks, in addition to the normal schedule of meetings of the Council, Committees and other bodies of the Organisation, a number of high-level meetings took place under OECD auspices which pointed up the wide and varied nature of its current activities. Certain of these proceedings are reviewed in the following pages.

EVALUATION CONFERENCE ON INSTITUTIONAL MANAGEMENT IN HIGHER EDUCATION

Paris, 2nd - 5th November, 1971

From November 2nd through November 5th rectors, vice-chancellors, presidents, other executives and planners from 83 universities met with government officials from OECD countries to review the results of a series of experimental projects on managerial innovation in universities, carried out under the auspices of OECD's Centre for Educational Research and Innovation (CERI); the objective of the exercise was to find better methods of allocating resources in this very delicate and important field of management. For this purpose eight universities had been brought together by the CERI and teams set up in each institution to work on specific problems common to virtually all universities. The main projects presented to the meeting were:

- A multidisciplinary team including an engineer, an economist, a sociologist and an operations research specialist worked towards development of a planning and control system at the University of Copenhagen where expansion in enrolments has been particularly rapid and the teaching load increased because of smaller class sizes. The team made an inventory of the key elements in the decision making process, (for example student-teacher ratios over the years, and the number of tenure as against non-tenure staff) and quantified these elements insofar as possible so as to provide a comprehensive view of the university system as a whole. A simulation model was also developed to forecast the effects on total costs and manpower requirements of various innovations such as introduction of new curricula, reduction of class size, change in faculty promotion schemes etc. At the same time a planning model was developed in which central decision making was restricted to a concern with aggregate costs and achievements while, within a wide range, choices of how to allocate resources were left to decentralised units.
- At the University of Nijmegen in the Netherlands a detailed study was made of how staff members spend their time in activities such as teaching which take up a more or less fixed number of hours as against other activities which make varying demands on staff time such as research supervision. On the basis of these calculations and student flow data, a model was used to derive man-hour requirements for staff and total current expenditures.
- Eight interrelated econometric studies at the University of Lancaster in the United Kingdom were merged into a university-wide development plan intended to be part of a 5-year planning process. Among the subjects studied were the effect on teaching loads of different course structures and student numbers, how increased student populations could, in the aggregate, be accommodated given the existing financial restraints, the implications of growth for library funds and other ancillary services.
- At Nanterre in France (Université de Paris Ouest)

The Netherlands : *J. Westenberg, Amsterdam University, Roeland J. in T Veld, Leiden Univ., H.J. Hopman, Amsterdam Univ., J.A. Acherman Utrecht Univ., Jean Scheiss, Leiden Univ.* Ireland : *Vice Chancellor McCarthy, Timothy Morgan Carey, University College, Cork.*

Denmark : *Bo Munch-Andersen, Prof. Arne Jensen, Technical University of Denmark ; Niels Hammer-Jespersen, Ministry of Education*

Hans Lowbeer (Sweden, *Chairman of the Conference*), *Benson E. Lane Timmons* (Deputy Secretary General, OECD).

the feasibility of setting up a new post-graduate degree in economics was studied, the intent being to get a programme agreed upon by students, by academic staff and by representatives of industry. The decision making process involved in setting up the new programme would be analysed and resource requirements estimated.

- At Chalmers University of Technology in Gothenburg, Sweden, the team is setting up a planning-programme-budgeting system (PPBS) for undergraduate education which will be extended to graduate education and research.
- The University of Novi Sad in Yugoslavia has been designing an information system to be used in forecasting student flows and choice of subject within the university. Entrance criteria for students of various socio-economic and regional background are also under study as is the relation between the type of graduates to be produced and regional and national needs.
- At the Free University of Berlin a team has been working on an information system designed to help in planning personnel and physical facilities. One requisite of the system is that it be available to staff and students alike.
- The University of Bradford in the United Kingdom investigated likely increases in costs with expanding student numbers, taking into account economies of scale due to such factors as underuse of facilities. The results showed that enrolment could be doubled while funds were increased by only seventy per cent without a need to alter current course structures or to sacrifice the quality of education.

In addition to these eight projects, the conference discussed work carried out within the CERI, in particular three comparative studies of university costs and resource utilisation based on CERI's survey of 100 universities in Member countries.

Presentation and evaluation of this work developed into a general discussion of the common problems involved in managing universities at a time when they are moving from the stage of elitism to one of mass education. The participants were able to conclude that there is " a need for more systematic effort to organise and disseminate available information on university management methods " and that OECD should continue to promote research in this field. Following the expressed desire at the Conference the Organisation will be developing arrangements for a more widespread and intensive effort of co-operation based on the current work of the small group of universities.

AT THE CONFERENCE

Austria	Dr. Ludwig Otruba, Director, Federal Ministry for Science and Research. Dr. Raul Kneucker, General Secretary of the Rectors' Standing Committee.
Belgium	Jean Baugniet, Honorary Rector, Free University of Brussels.
Canada	Dr. M. Richer, Secretary General of the Council of Ministers of Education, Ministry of Education. Gaston Denis, Director of Development Service, Ministry of Education, Quebec Province. H. H. Walker, Deputy Minister, Dept. of Colleges and Universities, Government of Ontario.
Denmark	Mogens Fog, Rector, University of Copenhagen. Erling Olsen, Rector, Roskilde University Centre.
Finland	Nils Westermarck, Professor, Chairman of the Council for Higher Education. Jaakko Uotila, President, Finnish Council of University Rectors, University of Tampere.
France	M. Salomon, Department Head and Permanent Counsellor, Ministry of Education. M. Groshens Director in charge of Planning, Ministry of Education. Henri Gastaut, President, University of Aix-Marseille. Henri Bricaud, President, University of Bordeaux II. Pascal Arrighi, President, University Centre of Toulon and of the Var. Françoise Moret-Bailly, President, University of Dijon. René Rémond, President, University of Paris X, Nanterre. Jean Roche, General Delegate, International University Relations. Michel Alliot, President, University of Paris VII.
Germany	D. L. Freytag, Hochschul-Informations System GmbH.
Greece	M. Filippides, Director General of the Ministry of Education.
Ireland	Michael Donald McCarthy, Vice Chancellor, National University of Ireland, President, University College, Cork.
Netherlands	Ir. P. Buringh, President, Agricultural University, Wageningen. G. Brenninkmeyer, Rector, Catholic University of Nijmegen. C. F. Scheffer, Rector, Katholieke Hogeschool, Tilburg. A. Wattel, Rector, State University at Groningen.
Norway	A. Halvorsen, Director, University of Bergen.
Portugal	Fernando Carvalho Barreira, Rector, University of Lisbon.
Spain	Mariano G. Ibar, Director of Educational Sciences Institute, University of Deusto, Bilbao.
Sweden	Hans Lowbeer, Chancellor of the Swedish Universities, Chairman of the Conference. Nils Gralen, Rector, Chalmers University of Technology, Gothenburg. Sune Bergstrom, Rector, Karolinska Institutet, Stockholm.
Turkey	Insan Dogramaci, Rector, Hacattepe University, Ankara. Arif Payaslioglu, Dean, Faculty of Arts and Sciences, Middle East Technical University, Ankara.
United Kingdom	E. G. Edwards, Vice Chancellor of the University of Bradford. Sir Derek Lang, Chief Administrative Officer, University of Stirling. Clifford Whitworth, Vice-Chancellor, University of Salford.
United States	Dorothy Gilford, US Office of Education.
Yugoslavia	Prof. Petar Drezgic, Rector, University of Novi Sad.

POLICIES FOR ECONOMIC PROGRESS IN THE SEVENTIES

by Emile van Lennep,
Secretary General of OECD

The layout and extent of the present Committee structure of OECD is shown opposite. It is framed to deal with all major aspects of economic policy. Our tasks, and the machinery employed by the international OECD Secretariat to deal with them, are explained in greater detail in these pages.

The Organisation and the policies it sets itself to carry out must straightaway be put into proper perspective. Its plans are essentially forward-looking — but they are rooted in the experience gained since, in the Forties, the Marshall Plan convincingly demonstrated for the first time the practicability and value of international economic co-operation. The concept of interdependence has since become generally accepted by the twenty-two Member countries, belonging to three continents, which today constitute OECD.

OECD has certain characteristics peculiar to itself. Neither a regional organisation (such as, for example, the European Economic Community) nor a worldwide grouping of the United Nations type, its twenty-two Member countries share the market type of economy. An expression of the collective will of its Members, the Organisation is designed for inter-governmental co-operation; it has no ambition to submit national economic policy decisions to supra-national decision-making. As an organisation, it seeks to influence the economic policies of Member states in such a way that basic growth and welfare objectives can be met not only within the single country but within the whole OECD area and in the world economy as a whole.

In a rapidly changing world, economic policies are subject to constant transition. They call for the shedding of economic approaches that have outgrown their usefulness, the substitution of new thinking and new methods. This belief underlies the work programmes of OECD.

The broad lines of present policy were laid down at a meeting of the Council at Ministerial level held in May 1970. These included the objective of an increase in real national product for the OECD area of the order of 65 per cent as a collective growth target for the 'Seventies.

This ambitious objective is essential if full employment is to be achieved and claims on real resources met. But the question must be faced squarely : What is the point of " more " unless more means " better " ? In pursuing its activities on the qualitative aspects of growth the Organisation will seek to incorporate in its work on the overall allocation of resources the results attained in specific fields : science policy, education policy, manpower and social affairs, environment. This is new ground for economists; it is encouraging to note that in most Member countries the first steps are being taken to establish indicators that go beyond measuring economic achievement in the traditional quantitative terms.

To take problems of the environment as an example of the present OECD approach, among new bodies recently set up is an Environment Committee. The Organisation already has considerable experience in scientific research into environmental problems. But we now have to bring fully into our analysis the consequences for economic policy.

In assessing the costs of various possible counteractions to problems caused by pollution, for instance, it must be possible to form some estimate of the benefits which are likely to accrue from their being put into effect. But who is going to pay for a better environment — the taxpayer, the consumer, the enterprises causing the pollution ? What will be the effects on the existing socio-economic structures of countermeasures, and how will any necessary structural changes be implemented ? Many of these problems, too, have international implications; and decisions involving the allocation of resources and shifts in industrial production and activity are ultimately political and not to be solved on national or piecemeal lines.

Another instance of a field in which OECD has much experience, but which it is now necessary to integrate into the overall approach to the qualitative aspects of growth, is that of education. Here again a new Committee of the Organisation has been set up.

These are the kinds of problems facing the OECD group of Member countries with respect to policies affecting their own economy. The other major preoccupation is the discharge of their responsibilities toward the developing countries. OECD countries form by far the largest suppliers of aid both financial and technical — some 95 per cent of the global total of such aid from official and private sources together.

At the May 1970 Ministerial Council meeting it was agreed that the OECD should play its full part in the Second Development Decade of the United Nations. This means an effort to increase the financial flows to developing countries, especially with regard to official development assistance, and to increase contributions to multilateral agencies.

But this is not the whole story : efforts must also be made to improve the *quality* of aid. Improved geographical distribution of aid; a fairer adjustment of the financial terms of assistance to the economic and financial situation of the recipient countries; the " untying " of aid ; generalised, non-reciprocal and non-discriminatory tariff preferences in favour of developing countries — these are some of the measures designed to ensure that OECD countries and developing countries alike become partners in development.

The development of international economic co-operation on a multilateral basis over the last twenty-five years is a great achievement. The various organisations all have their role to play as bearers of the hope for a still better organised international community. The importance of a balanced progress of the world economy is recognised as a prerequisite for avoiding serious conflict in the remaining years of this century. This is the challenge facing the Member countries of OECD. This is the challenge facing OECD on its tenth anniversary.

Continued from page 22

nomic consequences of scientific and technological trends. The effort of making such studies should be shared and the results exchanged through the Organisation, in order to develop more effective methods and evaluate national case studies.

Promoting Research Co-operation between Member Countries

Intensified scientific and technical co-operation among the OECD countries will be required in the 1970's to achieve common economic, social and environmental objectives and ensure more effective utilisation of resources for research and development. It is of growing importance to harmonise national efforts, as distinct from the creation of centralised international institutions.

Continuing efforts are needed to strengthen the scientific and technological capactiy of, and to study the transfer of technology to, developing Member countries.

The Organisation should assemble information on the performance of international and bilateral programmes and projects, propose means for establishing better relationships between national and international efforts, and suggest to governments the alternative solutions for dealing with new problems of international co-operation.

The continuing efforts to promote co-operation in fundamental research through the creation of centres of excellence were noted.

Ministers welcomed the co-operative programmes developed by the Organisation in response to the recommendations of their 1968 Conference, notably in the fields of educational research and innovation, environmental technologies, road research and transportation, computer utilisation, scientific and technical information and the management of technology.

Future co-operation would be strengthened by intensified mobility of research workers, and the Organisation should study means for facilitating the exchange of research workers among government laboratories in Member countries.

The importance of international consultation among science policy officials in Member countries leading to interrelated national research programmes was recognised. OECD provides a convenient and flexible framework for promoting international co-operation in this direction and the Organisation should study the possibility of:

- co-ordination in planning the construction and international utilisation of national "big-science" facilities, for example in the fields of astronomy and high-energy physics;
- collaboration between interested Member countries in research on the biological effects of toxic chemicals introduced into society including co-operation on related epidemiological studies, having regard for the work of other international organisations.

Science and Technology for Developing Countries

The importance of the work of the Organisation bearing on the role of science and technology in achieving the broad objectives of the International Development Strategy for the Second Development Decade was stressed. These efforts will necessitate more research sponsored by Member countries specifically directed to the problems of the developing countries, and co-operation between Member countries in such research should also be strengthened through OECD in harmony with the activities of other international organisations.

The special experience of the developing Member countries in utilising technology for the expansion of their economies should be used to assist less developed areas.

MEMBER COUNTRIES' DELEGATES AND OBSERVERS AT THE MEETING OF MINISTERS OF SCIENCE

Australia	Sir Hugh Ennor, C.B.E., Secretary, Department of Education and Science.
Austria	Madame Herta Firnberg, Federal Minister for Science and Research.
Belgium	Mr. R. Ockrent, Ambassador, Permanent Representative at OECD.
Canada	The Hon. Alastair Gillespie, Minister of State for Science and Technology.
Denmark	Mr. B. Brynskov, Permanent Deputy Secretary of State, Ministry of Education.
Finland	Mr. Jaakko Itala, Minister of Education.
France	Mr. François Ortoli, Minister of Industrial and Scientific Development.
Germany	Dr. von Dohnanyi, Secretary of State, Ministry of Education and Science.
Greece	Mr. C.A. Panaghiotakis, Minister of Culture and Science.
Iceland	Mr. Henrik Sv. Bjornsson, Ambassador, Head of the Permanent Delegation to OECD.
Ireland	Mr. Eamonn L. Kennedy, Ambassador, Head of the Permanent Delegation to OECD.
Italy	Hon. Camillo Ripamonti, Minister for the Co-ordination of Scientific and Technological Research.
Japan	Mr. Wataru Hiraizumi, Minister of State for Science and Technology and Chairman of the meeting.
Luxembourg	Mrs. Frieden, Minister for Cultural Affairs.
Netherlands	Mr. M. L. de Brauw, Minister without portfolio in charge of science and education.
Norway	Mr. Bjartmar Gjerde, Minister of Ecclesiastical Affairs and Education.
Portugal	Mr. Rogerio Martins, Secretary of State for Industry. Mr. Abreu Faro, Under Secretary of State for Education.
Spain	Mr. José Luis Villar Palasi, Minister of Education and Science.
Sweden	Mr. S. Moberg, Minister without portfolio, in charge of education and cultural affairs.
Switzerland	Mr. H. P. Tschudi, Federal Counsellor, Head of the Federal Department of the Interior.
Turkey	M. Sinasi Orel, Minister of National Education.
United Kingdom	Mr. J. F. Embling, C.B., Deputy Under Secretary of State, Department of Education and Science.
United States	The Honourable Edward E. David, Jr., Science Adviser to the President of the United States, Director, Office of Science and Technology, Executive Office of the President.
Yugoslavia	Mr. Trpe Jakovlevski, Member of the Federal Executive Council and Head of the Federal Committee for Science and Technology.

Mr. Harvey Brooks, Dean, Division of Engineering and Applied Physics, Harvard University, Chairman of the Secretary General's *ad hoc* Group on New Concepts of Science Policy.

Commission of the European Communities

Mr. A. Spinelli, Member of the Commission of the European Communities.

OBSERVERS

Council of Europe

Mr. Lujo Toncic-Sorinj, Secretary General.

UNESCO

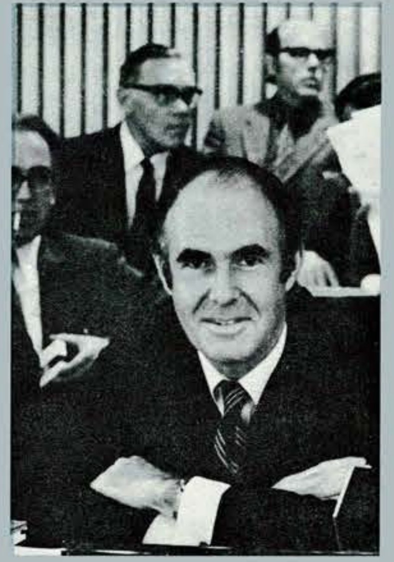
Mr. René Maheu, Director General.

Mr. Wataru Hiraizumi (Japan, Chairman), *Dr. von Dohnanyi* (Germany), *Alexander King* (OECD Director General for Scientific Affairs).

Emile van Lennep (Secretary General OECD), *Harvey Brooks* (Chairman of Secretary General's ad hoc Group). *Alexander King* (OECD Director General for Scientific Affairs).

Sir Hugh Ennor (Australia)

Mrs. Herta Firnberg (Austria)



The Hon. Alastair Gillespie (Canada)

Mr. Jaakko Itala (Finland)

Mr. François Ortoli (France)

Mr. C.A. Panaghiotakis (Greece)

Hon. Camillo Ripamonti (Italy)

Mrs. Frieden (Luxembourg)

Mr. Bjartmar Gjerde (Norway)

Mr. José Luis Villar Palasi (Spain)

Mr. S. Moberg (Sweden)

Mr. H.P. Tschudi (Switzerland).

Continued from page 27

bers might contribute more effectively to the development of the "least-developed countries", i.e. those countries whose levels of development are especially low and which are not always in a position to derive full benefit from many of the general measures in favour of developing countries. Work is being undertaken by the DAC and other OECD bodies aimed at examining the basic problems and at suggesting possible solutions. The Committee urged that high priority be given to this work, in preparation for the Third United Nations Conference on Trade and Development in April-May 1972.

Excerpts from Secretary General's opening remarks

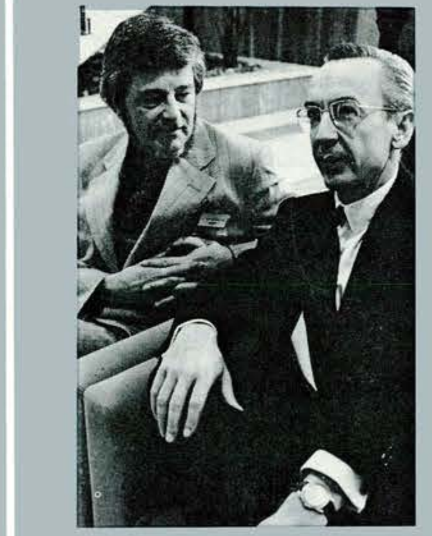
'This High-Level Meeting takes place against a background of a major crisis in the international monetary system. On several occasions I have already underlined that there are no reasons for undue alarm or fears for a world-wide recession provided that the appropriate economic policies are pursued by the most important countries. So far the reactions in various countries to the measures taken by the United States Government have also indicated a widespread confidence in the methods of international co-operation built up over the last 25 years.

"But we are nevertheless in a crisis and its solution will require many efforts, plenty of imagination and a spirit of compromise. I feel that we all have a heavy responsibility not to let the present difficulties weaken our determination to give full support to the efforts of the developing countries.

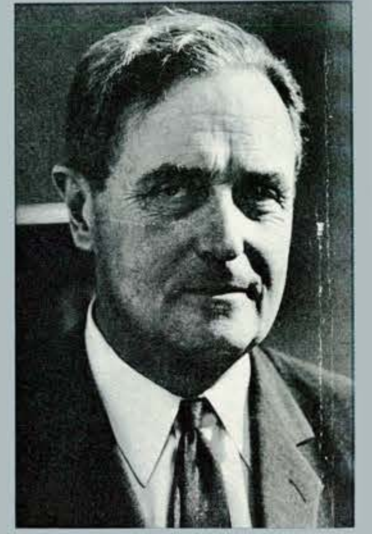
"Fortunately, in our days, times of crisis are also times of analysis, review and confrontation, on a national basis, and in bilateral and multilateral frameworks.

"It is entirely in accordance with the spirit of co-operation on which the OECD Convention and the work of this Committee are based that DAC Members should make all possible efforts to increase substantially the volume of their financial resource transfers to developing countries.

"We have now for the first time a list of the ' hard core ' least-developed countries. These countries are the poorest of the poor and on that account may justly claim special consideration from the international community. But many of them have the impression that their interests receive, if anything, less attention than those of the more advanced developing countries. The introduction of the generalised system of preferences has served to illustrate this point. The least-developed countries have drawn attention to the fact that, as the coverage of most of the preferences schemes is concentrated on manufactures and semi-manufactures, of which they have almost no production, they will derive scant benefit from the preferences system. The prospects for action in the trade field seem limited. There is thus a strong case for special financial and technical assistance to the least-developed countries and it is to be hoped that concrete measures can be devised in time for the Santiago Conference, at which this problem will be a major issue."



Mr. Paul Gérin-Lajoie (Canada), *Mr. Jacques de Larosière* (France).



Mr. Raymond Scheyven (Belgium).

Mr. C. Boertien (The Netherlands).

Rt. Hon. Richard Wood (United Kingdom).

Edgar Kröller (OECD), *Rinieri Paulucci di Calboli* (Assistant Secretary General, OECD), *Emile van Lennep* (Secretary General, OECD), *Edwin M. Martin* (Chairman DAC), *André Vincent* (Director of Development Assistance OECD), *Hellmuth Führer* (Deputy Director).

Mr. Ralph Hirschtritt, Mr. Ernest Stern, Dr. John. A. Hannah, Mr. Stuart H. Van Dyke (United States).

DELEGATES TO THE DAC HIGH-LEVEL MEETING

Australia	Sir Ronald Walker, Ambassador, Permanent Representative to OECD.
Austria	Mr. Georg Zuk, Director, Federal Chancellery.
Belgium	Mr. Raymond Scheyven, Minister for Development Co-operation.
Canada	Mr. Paul Gérin-Lajoie, President, Canadian International Development Agency.
Denmark	Mr. Hans Erik Kastoft, Deputy Under-Secretary of State, International Development Agency (DANIDA), Ministry of Foreign Affairs.
France	Mr. Jacques de Larosière, Head of Service, Finance Ministry.
Germany	Prof. Dr. Sohn, Secretary of State, Federal Ministry for Economic Co-operation.
Italy	Mr. Giuseppe Lattanzi, Economic Counsellor, Budget Ministry.
Japan	Mr. Masao Sawaki, Director-General, Economic Co-operation Bureau, Ministry of Foreign Affairs.
Netherlands	Mr. C. Boertien, Minister for Development Co-operation.
Norway	Mr. Thorvald Stoltenberg, Under-Secretary of State for Foreign Affairs.
Portugal	Dr. Antonio Santos Labiza, Under-Secretary of State, Treasury.
Sweden	Mr. E. Michanek, Director-General, Swedish International Development Agency (SIDA).
Switzerland	Mr. Fritz Rothenbuhler, Ambassador, Delegate of the Federal Council for Trade Agreements.
United Kingdom	Rt. Hon. Richard Wood, Minister for Overseas Development.
United States	Dr. John A. Hannah, Administrator, Agency for International Development.

Commission of the European Communities

Mr. Hans-Broder Krohn, Director-General for Development Aid.

OBSERVERS

IBRD	Mr. Michael L. Hoffman, Associate Director, Development Services Department.
IMF	Mr. Jean-Paul Sallé, Director, European Office.

HIGH-LEVEL MEETING OF THE OECD DEVELOPMENT ASSISTANCE COMMITTEE

Paris, 21st-22nd October, 1971

THE Tenth Annual High-Level Meeting of the Development Assistance Committee (DAC) took place on 21st-22nd October. Ambassador Edwin M. Martin chaired the meeting which was attended by ministers or senior officials of the seventeen Members, together with representatives of the IBRD and IMF (1).

The main headings of the discussions and conclusions are outlined below.

The Second United Nations' Development Decade

The importance of the Resolution adopted by the General Assembly of the United Nations on a Strategy for the Second Development Decade led DAC Members to reaffirm their determination to do everything possible to ensure the success of the new Decade.

The Situation in Developing Countries

A high average growth rate of GNP persists in the developing countries but the benefits of the expansion are very uneven as among different countries and sectors of the population, owing to such factors as rapid population increase, inequality of income distribution and unemployment. Improvements in the situation would require continuing efforts by donor countries to supplement those of the developing countries themselves.

The Flow of Resources

The total net flow of resources (2), (3) from DAC Members to developing countries and multilateral agencies increased in 1970 by around 7 per cent to $ 15.5 billion, largely owing to the expansion of export credits and other private flows. Net official development assistance disbursements rose by less than 3 per cent, but taking account of increased prices this means virtually no change in real terms in the amount of official development assistance made available. Total flows in 1970 represented 0.78 per cent of the combined GNP of Member countries and official development assistance, 0.34 per cent. Within these overall averages there were wide disparities among Member countries, both with respect to the percentages of GNP and to the progress in 1970.

DAC Members should do their best to increase the flow of financial resources to developing countries with special attention to the volume and quality of official development assistance. Despite the reductions by some governments of originally planned levels of official development assistance, the level of such disbursements is expected to rise for those countries both in the current year and in 1972. It was agreed that the DAC should further study the ways and means to overcome the various obstacles which DAC Members may face in ensuring adequate growth for their development assistance.

The Terms of Aid

The problem of indebtedness is becoming increasingly preoccupying for a number of developing countries, partly owing to the large volume of export credits. Recognising the importance of the expansion of exports from developing countries and of sound financial management in keeping their debt burdens manageable, there is a need for an adequate volume of official development assistance at appropriately concessionary terms as a means of alleviating this problem. In 1972 the DAC will, in the light of the first three years' experience, review the 1969 Recommendation on financial terms, including provisions on their harmonisation.

Untying of Aid

As regards the untying of development loans and contributions to multilateral institutions, some progress has been achieved. Untied contributions to multilateral organisations have represented a growing share of total assistance; some DAC Members have decided to relax, to varying extents, their tying practices. Following the decision of the previous DAC High-Level meeting, a possible agreement for the untying of multilateral contributions as well as the reciprocal untying of bilateral development loans has been under study. While substantial progress has been made on a draft agreement on untying, work has not been finalised, due in part to recent developments in the field of trade and monetary policies. The Committee invited Member countries in the meantime to pursue their efforts to mitigate the adverse effects of aid tying and urged them to take such steps as may be required to further reduce the scope of such aid tying. All DAC Members reiterated their support for the principle that contributions to multilateral institutions should not be tied and that such untied contributions should be increased.

The Problem of the Least-Developed Countries

There was detailed discussion of ways in which Mem-

(← Continued on page 25)

(1) *The members of the Committee are: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities. The International Bank for Reconstruction and Development and the International Monetary Fund participate as observers.*

(2) *Including, for the first time, grants by private voluntary agencies totalling $ 840 million.*

(3) *Net of amortisation.*

INTERGOVERNMENTAL CONFERENCE ON THE UTILISATION OF HIGHLY QUALIFIED PERSONNEL

Venice, 25th-27th October, 1971

The second OECD Intergovernmental Conference on the Utilisation of Highly Qualified Personnel was held in Venice on 25th-27th October, 1971. Among the 158 participants from 22 OECD countries were Ministers, parliamentarians and officials responsible for educational and manpower policies, representatives of international organisations, and employers' and employees' associations. Proposals for inclusion in the programme of work of OECD were drawn up by the Conference and will be considered by the appropriate bodies of the Organisation.

Opening the Conference, Gérard Eldin, OECD Deputy Secretary General, drew attention to its multidisciplinary nature, involving as it did educational specialists, statisticians, economists, and representatives of employers and trade unions. It thus conformed to the "horizontal approach" favoured by OECD and decided upon at the first OECD Conference held in Paris in 1966.

At the earlier Conference, Member countries were invited to set up multidisciplinary groups to draw up policies for training of highly qualified personnel. As a result, these national groups had prepared studies and recommendations for consideration by the responsible authorities in their countries; and had prepared for the use of the new Conference a far-reaching series of reports on the problems to be discussed.

Five policy issues formed the crux of these national studies during the period preceding the Conference:

- vocational adaptation;
- the improvement of personnel policies;
- knowledge of and changes in the relationships between education and employment;
- new responsibilities for the educational system; and;
- the coordination of activities.

Among the conclusions agreed upon by the Conference in the course of its final plenary session, the following have special bearing on future OECD work in this field:

Recurrent education

The Conference discussed in detail the requirements for manpower policy in the field of in-career education and training, and mobility and career development.

For the purposes of long-term policy, it would be necessary to envisage new ways of relating the educa-

Mr. H. French, Dept. of Education and Science, United Kingdom; *Prof. A. Capocaccia, University of Genoa,* Italy; *Mr. Raymond Vattier, Ministry of Education,* France; *Mr. H. Janne, former Minister, Free University of Brussels,* Belgium; *Rector Jean Capelle,* France.

Mr. M. Lovell, Assistant Secretary for Manpower, Department of Labor, United States.

Gérard Eldin (Deputy Secretary General, OECD); *the Hon. Pier-Luigi Romita* (Italy, Chairman); *Prof. D. Sette* (Univ. of Rome, Italy); *Ambassador Francesco Cavalletti di Oliveto Sabino* (Head of Permanent Delegation of Italy to OECD); *R. Grégoire* (Counsellor of State, France).

tional system to the needs of the individual in his professional or vocational career. In particular, an alternative to the ever-lengthening process of youth education, whereby alternating periods of work and education can lead to a more satisfying and realistic process of individual development in modern society, should be explored. This could take the form of a system of " recurrent education " in which education opportunities are spread throughout working life, and related to the motivations and aspirations of the individual as they unfold in his active life.

Personnel policies

Existing systems of in-career education and training can only produce fruitful results if the personnel policies of employers, including the public authorities, were to be improved and modernised. In this respect, future work to be carried out under the OECD programme should include the study and general diffusion of personnel policies of up-to-date undertakings and the findings of associations specialising in this field. It should also include the study of procedures designed to extend to all personnel—including those not working in the up-to-date firms referred to—the benefits of personnel management methods enabling all concerned to increase and improve their qualifications. This calls for the establishment of a new category of highly qualified personnel, namely personnel managers.

Improvement of research

The Conference recommended that OECD should endeavour to stimulate the activities of personnel research institutes to improve existing knowledge in matters of qualifications by means of better research techniques. This might be done by the setting up of a joint working party among the institutes concerned.

Co-ordination of activities

The Conference agreed that it was necessary to increase co-ordination among all those engaged in work on the problems which lie at the "inter-face" of education and employment: government agencies (Ministries of Education, Manpower, Industry, etc.), employers' and employees' organisations; and urged that a new body of multidisciplinary nature should be set up at the OECD level.

OFFICERS OF THE CONFERENCE

The Honourable Pier-Luigi Romita, Under Secretary of State, Ministry of National Education (Italy), Chairman.

Mr. M. Lovell, Assistant Secretary for Manpower (Department of Labor, United States), Chairman of the session on job prospects.

Dr. G. N. Perry, Deputy Minister, Ministry of Manpower and Immigration (Canada), Chairman of the Working Party I on Careers and Mobility.

M. le Recteur Jean Capelle, Rapporteur of the Cultural Family and Social Affairs Commission of the National Assembly (France), Chairman of Working Party II on Education and Training in the course of the Working Life.

Mr. French, HM Chief Inspector, Department of Education and Science (United Kingdom), Chairman of Working Party II in succession to M. Capelle.

M. G. Ducray, Director of the Centre of Studies and Research on Qualifications (France) — preparation of the Conference's Conclusions.

M. R. Grégoire, Counsellor of State (France) — General Rapporteur of the Conference.

WORKING PARTY N°3 OF THE ECONOMIC POLICY COMMITTEE

Paris, 18th-19th October, 1971

Working Party 3 of the OECD Economic Policy Committee, which is composed of the high officials responsible for general economic policy in their respective countries, and of central bankers, has a watchdog role as regards balance of payments problems. It comprises the representatives of the ten leading industrialised Member countries of OECD (see list).

The Working Party met on 18th - 19th October to assess " the scale of the balance of payments adjustment required for the United States and the implications for other countries " at the request of the Ministers of the Group of Ten. Otmar Emminger, Chairman of the group and vice-president of the German Central Bank, explained at a press Conference following the meeting that the job of the Working Party was " to clarify the economic magnitudes involved in the return to a world payments equilibrium ".

J.C.R. Dow (Assistant Secretary General, OECD), *O. Emminger* (Germany, Chairman), *S.N. Marris* (OECD).

" We started from the assumption that nearly the entire swing-around in the US balance of payments will have to be brought about within the group of countries which comprise the OECD ", stated Dr. Emminger. " The other countries are mostly developing countries and cannot be expected to bear the burden. That's why OECD was the most appropriate forum for discussion ".

The actual content of the discussions of this group is confidential, but the subjects covered included alternative appraisals of the structural trend in the US balance of payments and of the appropriate target for the US current account; what these differing estimate imply for the balance of payments of the other countries; and the extent to which balance of payments aims of each Member country are compatible with those of the others. The balance of payments problems were examined against the background of the general economic climate in which the adjustment will have to take place.

REPRESENTATIVES OF OECD MEMBER COUNTRIES AND OF OTHER INTERNATIONAL ORGANISATIONS AT THE WORKING PARTY 3 MEETING

Canada	Mr. S. Handfield-Jones, Director of International Financial Affairs, Department of Finance. Mr. R. W. Lawson, Deputy Governor, Bank of Canada.
France	M. Claude Pierre-Brossolette, Director of the Treasury, Economics and Finance Ministry. M. Bernard Clappier, Sub-Governor, Bank of France.
Germany	Dr. W. Hankel, Ministerialdirektor, Economics and Finance Ministry. Dr. H. Hartig, Ministerialdirigent, Economics and Finance Ministry.
Italy	M. S. Palumbo, Inspector-General, Treasury. M. R. Ossola, Deputy Director-General, Bank of Italy.
Japan	Mr. Y. Kashiwagi, Special Counsellor, Ministry of Finance. Mr. T. Hosomi, Vice-Minister, Ministry of Finance. Mr. H. Yukawa, Executive Director, Bank of Japan.
Netherlands	Dr. C. J. Oort, General Treasurer, Ministry of Finance. Dr. G. A. Kessler, Director, Central Bank.
Sweden	Mr. N. Sjonander, Under-Secretary, Ministry of Finance. Mr. S. Joge, Deputy Governor, Bank of Sweden.
Switzerland	Mr. A. Hay, Director-General, Swiss National Bank. M. A. Peter, Deputy, Federal Finance Administration.
United Kingdom	Mr. A. D. Neale, Second Permanent Secretary, HM Treasury. Sir Ronald MacDougall, Chief Economic Adviser, HM Treasury. Mr. J. Morse, Executive Director, Bank of England.
United States	Mr. Paul A. Volcker, Under-Secretary for Monetary Affairs, Treasury. Mr. J. Dewey Daane, Governor, Federal Reserve Board.
BIS	M. R. Larre, General Manager. M. M. Gilbert, Economic Adviser.
IMF	Mr. J. M. Fleming, Deputy Director, Research Department.
EEC	Mr. U. Mosca, Director General, Economic and Financial Affairs.

Highlights from

OECD ECONOMIC OUTLOOK

DECEMBER 1971

10

Continued from page 18

at least two years to come through. By that time there may have been a further increase in the OECD area's combined current surplus. The rising trend in the 1960's reflected, in part, rising private capital outflows to developed countries to exploit attractive investment opportunities, and these can be expected to continue. The reserve position of the developing countries has, moreover, been strengthening in the later 1960s, in part because of their share—approximately $ 1 billion—in SDR allocations since 1970. Furthermore, several OECD countries are engaged in a major effort to increase their aid; and it may be hoped that, if satisfactory solutions are found in other fields, the United States will feel able to cancel its aid cuts and begin to increase its contribution.

The implication is that other countries' current accounts are unlikely, in practice, to weaken as much as the figures shown in Table 5, would indicate. By the time the adjustment has been completed, the size of the cake will have increased. And if the new pattern of exchange rates correctly reflects the changed competitive conditions, it would be possible for all OECD countries to aim at higher current surpluses than have been suggested here—without any inconsistency in their

TABLE 5
Implications of United States' aims for other countries
$ billion

	U.S. in " bare balance "	U.S. in " full balance "	U.S. aim of " surplus "
Total OECD surplus with rest of world	11	11	11
Of which:			
United States	6	7	9
Other OECD	5	4	2

aims—if they were prepared to embark on a multilateral effort to increase their aid efforts.

The amount of adjustment action needed depends on the size of the underlying disequilibrium and the appropriate aims for the United States and other countries. The illustrative alternatives on both aspects are brought together in Table 4.

The estimate of the amount of adjustment action needed, either through exchange-rate changes or other measures, ranges, on these assumptions, from $ 8 billion to $ 13 billion.

• The Timing of the Adjustment

As past parity changes have shown, the impact of exchange rate changes is far from instantaneous. The first reaction of the exporters of a country which revalues may be to accept lower profit margins on their foreign sales, and only later to shift some of their effort to the more profitable home market. Similarly, the exporters of a country which devalues need time to exploit their new opportunities in foreign markets. In the case of the United States, a significant part of the deterioration in the trade balance has reflected the building up of production facilities by American companies outside the United States. For them adjustment will depend largely on the investment decisions they take from now on, rather than on diverting output from present facilities to different sales outlets. It seems unlikely that more than half of the adjustment will be accomplished by the end of the first year, and quite possibly less.

• The Impact on Trade Flows

The growth in the volume of OECD trade has slowed down sharply from 12 per cent in 1969 to around 6 per cent in 1971. Under normal circumstances it could be expected to pick up again over the next 12-18 months as the recovery in activity gathers momentum. A continuation of present uncertainties and unsettled conditions in foreign exchange markets could, however, lead to a further slowdown in the first half of next year.

An appropriate realignment of exchange rates should not—in the absence of protectionist measures—have a significant effect on the growth of total world trade.

(Continued on page 32)

There will necessarily be adjustments to the composition of world trade as between different countries. Although in *balance of payments terms* the adjustments appear rather large, they appear much smaller when looked at against trade flows. Exchange rate changes vis-à-vis the dollar will both tend to increase other countries' imports and depress their exports. Excluding the United States, the total of OECD countries' imports and exports amounted to some $ 350 billion in 1970. It is not a question of countries experiencing a drastic reduction in their exports, but rather of some clearly manageable modifications in what are very large and rising trade flows. For example, an improvement in the United States' trade balance of $ 8 billion, if spread over two years and evenly divided between imports and exports, would mean that other OECD countries' imports, instead of rising by 10 ½ per cent a year (average of the last decade) would need to rise by 11¾ per cent and their exports by 9¾ per cent instead of 11 per cent.

• The Impact on Reserves

In the first nine months of 1971, mounting speculation against the dollar and in favour of strong currencies was reflected in massive capital outflows from the United States, probably amounting to as much as $ 23 billion. The resulting United States deficit on official settlements was financed very largely via increasing liabilities, so that by end-September countries' total recorded reserves had reached $ 118 billion, an increase of $ 38½ billion from the beginning of 1970. For the immediate future, therefore, there are ample reserves, and virtually no country need be concerned about the possibility of reserve losses—rather the contrary.

Looking further ahead, it is relevant that most OECD countries other than the United States have been in surplus on official settlements most of the time through the 1960s. As is well-known, the major counterpart to these surpluses was (in the early years) a net increase in monetary gold, large United States deficits financed mainly through an increase in official liabilities and, in the last two years, allocations of SDR's by the International Monetary Fund. If the adjustment process is successful, the second of these sources of reserves will no longer exist. Indeed, there should at some point be substantial backflows of short-term funds to the United States, entailing an equivalent destruction of reserves. It is a proposition of fundamental importance that a consistent set of balances of payments is difficult or impossible if all OECD countries (or even a majority of them) plan to increase their reserves out of payments surpluses. The reason for a country aiming at balance of payments surplus is, largely, to enable it to play safe with its reserve position. To the extent that this is true, it is relevant to note that this purpose could equally be met by " unearned " annual allocations of SDRs'.

• What has Happened so Far

The figures shown in Table 4 are illustrations of the amount of policy action that might be needed *as compared with the situation prevailing before May 1971.* Since then the United States' import surcharge has been imposed and many exchanges rates have moved up against the dollar. However undesirable and unbalanced the present collection of *ad hoc* measures may be considered to be, it is important to recognise that the disparate movement of exchange rates, together with the United States import surcharge and other measures, would, if maintained, produce a significant improvement in the United States' current balance.

The way exchange rate changes since May 1971 have modified the previous pattern of export price relationships is shown in Chart B (last column). Clearly, the importance for a given country of an exchange-rate change in another country will depend on the extent to which these countries trade with each other or compete in third markets. Estimated " effective " changes in exchange rates comparing the position in mid-November with that on 1st May are shown in Table 6. The main point to emerge is that *on account of exchange rate changes abroad* the United States dollar had, at 15th November, been effectively depreciated by some 4 per cent since 1st May. The counterpart of this depreciation has not been evenly spread. Changes from the May position range from effective appreciations of the order of 7½ per cent for Japan and 6½ per cent for Germany, little change for the United Kingdom, and effective depreciations of about 2 per cent for Italy and nearly 5 per cent for France. The effective depreciation of the Canadian dollar since May 1971 follows an appreciation of 7 per cent in the preceding 12 months so that, compared with its position in May 1970 the Canadian dollar had effectively appreciated by some 6 per cent. The effective devaluation of the US dollar by 4 per cent might, if unchanged, in due course have produced an improvement of the US current account of some $ 3-4 billion.

TABLE 6
Nominal and effective changes in exchange rates
Spot rates in mid-November compared with official parities on 1st May 1971
Per cent

	Nominal changes	Changes on average in other countries	Effective changes
United States	0	4.1	–4.1
United Kingdom	3.9	3.6	0.3
France	0 [a]	4.7	–4.7
Germany	9.5	3.2	6.3
Italy	2.0	4.1	–2.1
Belgium-Luxembourg	7.7	4.5	3.2
Netherlands	8.2	4.5	3.7
Canada	0.7 [b]	1.8	–1.1
Japan	9.7	2.1	7.6
Other OECD	4.7	3.9	0.8

a) Commercial franc.
b) Change relative to average of May 1971 spot rates.

In terms of balance of payments effects, the combination of the surcharge of 10 per cent on imports of manufactures and the discriminatory clauses attached to the investment tax credit scheme recently under discussion by the United States Congress were probably as important as the exchange-rate changes just discussed. Contrary to these effective exchange rate changes—which affect individual countries' relations with *all* other countries—the United States surcharge only affects an individual country's exports to the United States. Thus, the impact of the surcharge on individual countries depends on the importance of their export trade with the United States. Thus, the impact of the surcharge on individual countries depends on the importance of their export trade with the United States in the commodities affected, in relation to their total exports. The following figures indicate the ranking of the ten OECD countries most affected. The differences are very large, with Japan and Canada clearly standing out as the countries most affected. Among major European countries Italy, Germany and the United Kingdom rank high. France does not figure in the list, as under 5 per cent of her total exports are affected. Spain is the most affected of the smaller OECD countries, followed by Switzerland.

Proportion of countries' total exports subject to United States' import surcharge

	Per cent
1. Japan	29
2. Canada	16
3. Spain	11
4. Italy	9
5. Germany	9
6. United Kingdom	8
7. Switzerland	8
8. Portugal	6
9. Belgium	5
10. Sweden	5

Even though the import surcharge is considered a temporary device, it may be useful to keep in mind an important characteristic which distinguishes it from an exchange rate change. A currency devaluation facilitates balance of payments adjustment by providing the price incentive to a transfer of real resources. If the devaluation is successful, the transfer of real resources will be greater than the nominal improvement to the balance of payments because the country will suffer a loss in its terms of trade. In other words, it will need to export more in terms of real resources for a given import of real resources from abroad. An import surcharge, on the other hand, achieves lower imports by taxing foreign supplies. The country imposing it does not suffer a terms of trade loss, but rather a terms-of-trade gain as foreign exporters try to keep their market share by lowering their export prices. And the rest of the world may suffer a volume loss of exports without the benefits of the greater volume of imports in exchange. This characteristic of an import surcharge means that it may have a large balance of payments effect, though one unacceptable to other countries as a permanent feature.

There is general acceptance that the present collection of *ad hoc* measures needs to be replaced at an early date by an agreed pattern of exchange-rate adjustments and the abolition of the U.S. import surcharge. But an assessment of the impact that these measures might eventually have had if kept on long enough is of some theoretical interest in that it provides an idea of the eventual importance of the impulses to which the economies of OECD countries have been subject as a result of the measures. The above analysis suggests that the exchange rate changes and other *ad hoc* measures in force in November would, if maintained, have sufficed to produce in due course an adjustment somewhat below the lower end of the figures indicated in Table 4 as the adjustment that may be required. (8)

* * *

Also contained in *Economic Outlook N° 10* are forecasts for the overall economic picture, discussion of price movements and of monetary and financial developments for the OECD area. The following is a summary of the major trends in each of the three fields.

CONJUNCTURAL PROSPECTS

The fact that OECD output has grown faster this year than in 1970 largely reflects the revival of demand in North America where the shift towards more expansionary policies began early in 1970. Elsewhere, cyclical positions have generally been less advanced, with demand in a number of countries still weakening in response to anti-inflationary policies and/or autonomous influences.

Since policies in most major countries are now designed to stimulate demand, there are powerful technical factors working towards an acceleration of the growth of OECD output in the first half of 1972 (see Table 7); these could result in relatively strong advance in North America accompanied by some recovery in Japan and Europe. As noted earlier, however, uncertainties concerning future exchange rate relationships and world trade conditions could seriously affect business confidence and substantially weaken the expected rise in output. The outcome is likely to depend to a large extent on whether there is a general feeling that rapid progress is being made towards an orderly solution of the present international problems. An essential prerequisite would seem to be avoidance of further restrictive measures in the field of international trade and payments.

The volume of total OECD trade will probably have grown by only about 6 per cent in 1971 (see Table 8). Foreign trade prices have continued to rise strongly,

(8) Starting from a 1972 underlying current account position of \$ —2 to —4 billion, the adjustment required to reach a surplus of \$ 6 billion (the lower end of the illustrative range) would be \$ 8 to 10 billion.

and recent appreciations against the dollar have had the effect of further raising prices measured in that currency. The dollar value of trade may thus have risen in 1971 by 11-12 per cent. On the assumptions outlined below, the rate of increase may be about the same in the first half of 1972, with about half the rise representing growth in real terms.

Changing relative cyclical positions this year have led to sharp disequilibrating swings in current balances, with the United States moving into sizeable deficit and Japan more than doubling its surplus. Current account positions may not change much in the first half of next year, the effects of recent *ad hoc* measures being to a great extent offset by expected cyclical changes.

PRICES COSTS AND STABILISATION POLICIES

Up to the third quarter of 1971, disappointing progress had been made in reducing the rate of price increases in the OECD area. A significant acceleration of consumer price increases in Europe was barely offset by deceleration in North America and Japan (see chart C.) Wage costs continued to rise at a very high rate, although there was relatively little sign of their continuing

TABLE 7

Growth of real GNP in seven major countries

Percentage changes from previous period at seasonally adjusted annual rates

		Average 1958-59 to 1968-69	1970	1971	1970 I	1970 II	1971 I	1971 II	1972 I
United States	GNP	4.5	–0.7	3	–1.7	–0.2	4.1	4½	6
Canada	GNP	4.8	3.3	5¾	2.3	3.5	6.8	6½	6
Japan	GNP	11.2	10.7	4¾	10.4	9.5	4.2	1½	6
France	GDP	5.7	5.9	5½	6.0	5.2	5.7	5¼	5¼
Germany	GNP	5.1	5.4	3½	6.1	2.3	6.2	0	2
Italy	GDP	5.7	5.2	½	11.5	0.4	0.1	1¾	2¼
United Kingdom	GDP	3.1	2.2	1½	1.0	3.5	–1.4	5	3½
TOTAL OF ABOVE COUNTRIES[a]		5.4	2.4	3¼	2.1	2.0	4.0	3¾	5¼

a) At 1970 exchange rates.

TABLE 8

Foreign trade of the OECD area[a]

Per cent changes, seasonally adjusted annual rates
Estimates and forecasts

	1970 $ bill.	From previous year 1970	1971	From previous half-year 1970 I	1970 II	1971 I	1971 II	1972 I
VOLUME								
Imports	..	8.7	5¾	8.6	6.9	5.1	5¾	6½
Exports	..	9.6	5¾	10.3	6.1	6.3	4	5¾
AVERAGE VALUE [b]								
Imports	..	5.4	5¼	7.3	3.2	5.5	7	4½
Exports	..	5.6	5¾	7.3	4.0	5.1	8	5¾
VALUE [b]								
Total trade [c]								
Imports	209.1	14.6	11¼	16.4	10.5	10.9	12¾	11¼
Exports	214.5	15.7	11¾	18.4	10.5	11.7	12½	11¾
Intra-OECD								
Exports	156.4	15.7	11½	18.6	10.0	12.4	11¾	11¾
Extra-OECD								
Imports	52.6	11.7	10½	10.0	11.5	6.9	16	9¼
Exports	58.1	14.9	12	19.0	7.5	13.8	12½	11¼
Memorandum item:								
Recorded figures [d]								
TOTAL TRADE IN VALUE [b c]								
Imports	..	15.0	11¼	17.5	10.0	11.5	11¾	11¾
Exports	..	16.1	11½	19.5	9.8	12.6	11½	12¼

a) Adjusted for statistical discrepancy in the recording of intra-OECD trade, and for the timing effects of the Canadian strikes (in late 1969) the General Motors strikes (late 1970), anticipation of U.S. steel strike (mid-1971), and for the estimated shift between 1968 and 1969 of German imports and exports affected by speculation and the export tax. The effects of the U.S. dock strikes are assumed to work themselves out within the second half of 1971.

b) In terms of U.S. dollars.

c) Including trade with unspecified origins/destinations.

d) Adjusted for statistical discrepancy in the recording of intra-OECD trade.

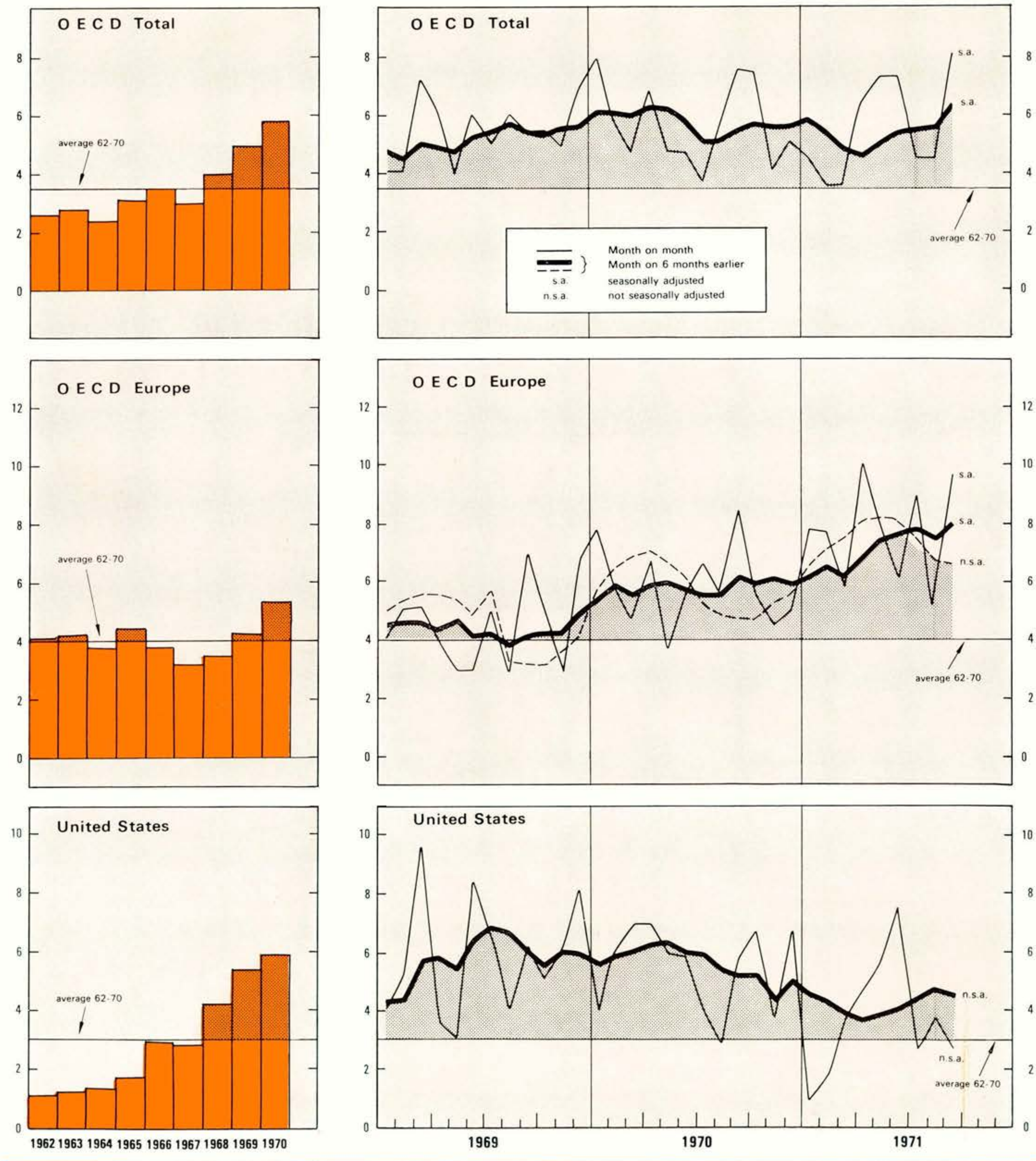
acceleration. The slow-down in production in Europe and Japan aggravated the rise in unit labour costs.

Governments have responded to the stubbornness of inflation with an unusually widespread and synchronised resort to direct price and incomes policies (see chart D.) Price freezes or restraint operations have been introduced in the majority of OECD countries, and the extent of involvement by the authorities in wage bargaining has

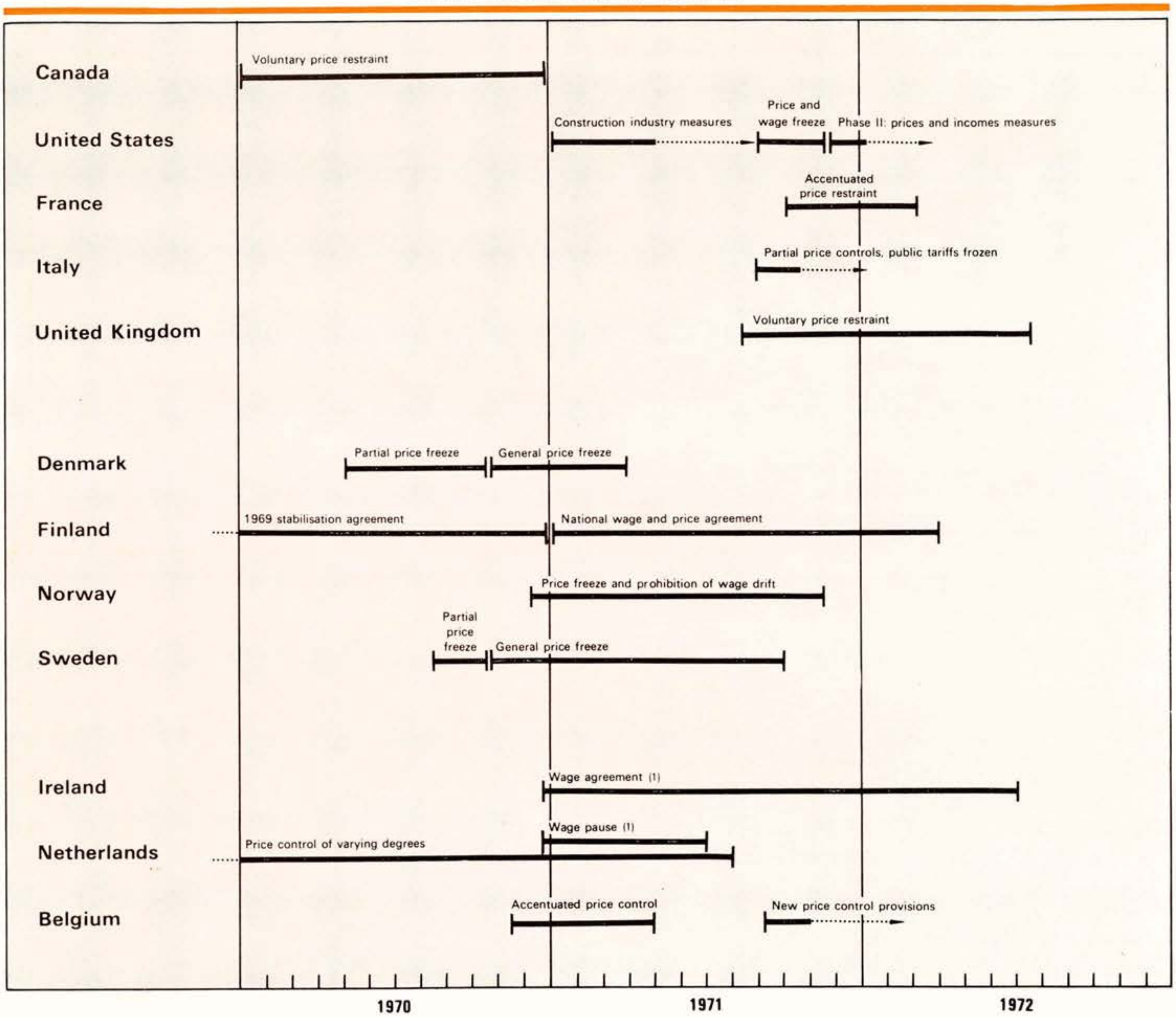
C. CHANGE IN CONSUMER PRICES

1962-70 and 1969-71

Percentage changes, at annual rates



D. CALENDAR OF DIRECT ACTION ON PRICES AND INCOMES IN 1970-71



1. Precise dates vary according to individual wage contracts.

also increased markedly. There are reasons to hope that the combined effect of official policies and changing conjunctural conditions (eased demand pressures in some countries and growing productivity gains in North America and the United Kingdom) will permit an improved price performance to establish itself in late 1971 and early 1972.

MONETARY AND FINANCIAL DEVELOPMENTS

Massive capital outflows from the United States dominated the recent international financial scene. Entirely speculative in nature, the pressure of the flows forced most other OECD countries to depart from their previous exchange rate regimes, and induced widespread use of exchange controls and similar devices. This was after an unprecedented rise in central banks' international reserves—the counterpart of a considerable easing of commercial banking systems' liquidity. Fortunately, some monetary ease is appropriate to the economic circumstances of most recipient countries at the present time. Looking ahead, agreement on the new shape of the international monetary system could lead to large backflows. Depending on the conjunctural situation, there could be a need for active offsetting policies by the countries affected.

* *

In addition there are notes on economic developments in each of the major OECD countries and a special supplement contains an econometric study on capital flows by Prof. William H. Branson and Raymond D. Hill Jr.

INTERNATIONAL INSTITUTE FOR THE MANAGEMENT OF TECHNOLOGY

AN OECD-sponsored training and service centre designed to improve management performance in the development and use of technology in the public and private sector in Europe formally came into being on 6th October (1).

The Convention setting up the centre—the International Institute for the Management of Technology in Milan (Italy)—was signed at OECD headquarters by the Permanent Representatives of six participating Member governments, Austria, France, the German Federal Republic, Italy, the Netherlands and the United Kingdom, in the presence of the Secretary-General of OECD, Mr. Emile van Lennep, and of the Italian Under-Secretary of State for Foreign Affairs, Dr. Mario Pedini. As well as representatives of industry and the scientific community, among those present at the ceremony was the Mayor of Milan, Signor Aldo Aniasi, whose city made available the restored Collegio della Stelline to accommodate the Institute.

The Institute has been set up on inter-disciplinary lines to enable executives with insufficient technical training who are yet responsible for the management of technology-intensive organisations to learn more about the technical problems involved, and scientists and engineers to learn more about the meaning of total management.

Continual adaptation of its training programmes to meet new ideas or new needs in the management of technology, research contributing to innovations aiding practical management and the training of managers in technology, and participation of technical managers from industry, government and universities in a number of countries are among the main features of the new Institute.

Projected expenditure for the first three years will rise to a level of about 3 million European units of account in the third and subsequent years. The sources of income are course fees and direct contributions from governments and industries.

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(1) *See OECD Observer N° 47, August 1970.*

Emile van Lennep, Secretary-General of OECD, greets members of the IIMT Study Committee.

OECD'S CODE FOR LIBERALISATION OF CAPITAL MOVEMENTS

General Principles

OECD countries agreed a decade ago that freedom for some, mainly longer-term kinds, of private capital flows — direct investment, portfolio investment and various forms of personal capital — but also short-term commercial credits, is a desirable objective for the developed countries in that such movements of capital promote more efficient utilisation of available economic resources.

OECD's Convention states that Members will "pursue their efforts to extend the liberalisation of capital movements", and this principle is embodied in a legal instrument, a Code of Liberalisation of Capital Movements, to which all Member countries except Canada adhere (1).

Liberalisation means that private individuals and firms are free to carry out the transactions covered by the Code and to take money out of one country and bring it into another to effect the operation. If governments require that such transactions be reported (as a check on their authenticity for example or for statistical purposes) this procedure is not to be used as a restrictive mechanism. Liberalisation measures must be applied to all countries on a non-discriminatory basis as must any restrictions.

Coverage of the Code

The range of items covered by the Code includes not only those considered economically desirable but some which, it is felt, should not be impeded for social reasons: gifts and inheritances, for example, and the transfer of capital from life assurance. The list (see chart) is by no means immutable and can be changed or added to when countries agree to do so. Thus, for example, discussions are now going on within OECD as to the desirability of making transactions in securities of institutions for collective investment (mutual funds) a separate item in the Code.

On the other hand, certain kinds of flows are excluded from the Code's coverage which means that governments have not committed themselves to abstain from regulating them. Short-term financial credits and loans are specifically omitted, as are the buying and selling of short-term treasury bills and other short-term money market securities, because they are the vehicle for hot money and because control of such flows is often considered necessary to buttress domestic monetary policy. Certain long-term transactions are also excluded, notably commercial credits of five years or more which have often been the object of intense trade competition among the industrial nations.

Reservations

The drafters of the Code were aiming at constructing an instrument which would assist countries in moving in an orderly manner towards their common aim of freedom for international flows of private capital—as those flows are defined in the Code—whilst making practical arrangements to meet the situation of countries which, for various reasons, consider that they are unable to apply in full, and at all times, the stipulation of liberalisation. They sought to achieve this result, first by allowing for exceptions through lodging reservations or requesting derogations in respect of specific forms of capital movements and, secondly, by entrusting surveillance of the working of the Code to a special committee of independent experts, the Invisible Transactions Committee.

Countries are permitted to lodge reservations to specific items at the time they adhere to the Code, when a new item is added or the scope of an already-existing one broadened. Generally speaking reservations on the more important items cannot be extended or added to; they can only be withdrawn or their scope narrowed (2). Each country's reservations are periodically reviewed by OECD's Invisible Transactions Committee to see whether or not they are still justified. These reviews are carried out against the background of special country reports now being prepared on the overall financial policies of each country, including exchange control policy (3). In the course of these reviews the Invisible Transactions Committee may find that the original reasoning behind the restrictions no longer holds or that the country's overall economic position has improved enough to justify the removal of some restrictions, and may urge that certain reservations be dropped.

(Continued on page 40)

(1) Canada considers that its situation as regards capital movements is a special one which does not permit it to adhere to the Code.

(2) Except on List B which contains the issue of securities, operations in unlisted securities, credits and loans not connected with trade in goods or services, etc.; on List B items reservations can be lodged or reintroduced at any time.

(3) "The Capital Market, International Capital Movements and Restrictions on Capital Operations". Reports so far published cover Germany (1969), Austria, Denmark and Norway (1970), Spain, Sweden and Switzerland (1971).

PRESENT RESERVATIONS (1)

● Full Reservation

○ Limited Reservation

	Australia	Austria	Belgium	Denmark	Finland	France	Germany	Ireland	Italy	Japan	Luxembourg	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	United Kingdom	United States
Inward direct investment.	●	○		○	○			○		○			○	○	○	○			○
Outward direct investment.	●				●				○	○			●	○	●				
Liquidation of direct investment in the country concerned by non-residents.															○				
Introduction of domestic securities on a recognised foreign security exchange.														○					
Introduction of foreign securities on a recognised domestic security exchange.	●		●	●	●	●			●			○	●	●	●	●	●		
Purchase in the country concerned by non-residents of listed securities.		○		○						○			○	○	○	○			
Sale in the country concerned by non-residents of listed securities.				○	○			○					○	○	○	○		○	
Purchase abroad by residents of listed securities.	○			○	○			○	○	○		○	○	○	●	○		○	
Sale abroad by residents of listed securities.				○				○	○				○			○		○	
Sale of real estate by non-residents.															○				
Inward commercial credits (in cases where a resident partcipates in the underlying commercial or service transaction).					○				○	○			○						
Outward commercial credits (in cases where a resident participates in the commercial or service transaction).	○				○			○	○	○				○				○	
Personal capital movements.		○			○			○	○					○				○	
Life assurance														○					
Sureties and guarantees by residents in favour of non-residents.	○				●								●	○					
Use of blocked funds for operations of a capital nature.															○				
Cession of blocked funds between non-residents.															●				

(1) As of December 1, 1971. On items included in List A of the Code. There is also a List B which contains the issue of securities, operations in unlisted securities, credits and loans not connected with trade in goods or services, etc.; on these items, reservations may be lodged or reintroduced at any time. Greece, Iceland and Turkey are not included because they have obtained a general exemption from the Code under a derogation clause.

PAST AND PRESENT DEROGATIONS

May 1964 — **Switzerland**
Introduced regulations making it illegal for financial institutions to be instrumental in net new investment of foreign funds in Swiss securities. Measures withdrawn in October 1966.

May 1966 — **United Kingdom**
Restricted direct investment and cash gifts outside the Sterling Area.
Restrictions withdrawn in January 1970 and March 1971 respectively.

January 1968 — **United States**
Restricted transfers in connection with direct investment abroad.
Derogation still in effect.

May 1968 — **France**
Restricted outward portfolio investment, outward commercial credits and outward financial credits and loans.
Restrictions withdrawn in September 1968.

November 1968 — **France**
Reintroduced above restrictions plus restrictions on certain outward personal capital movements (family loans' gifts and endowments, dowries, emigrants' assets).
Derogation still in effect.

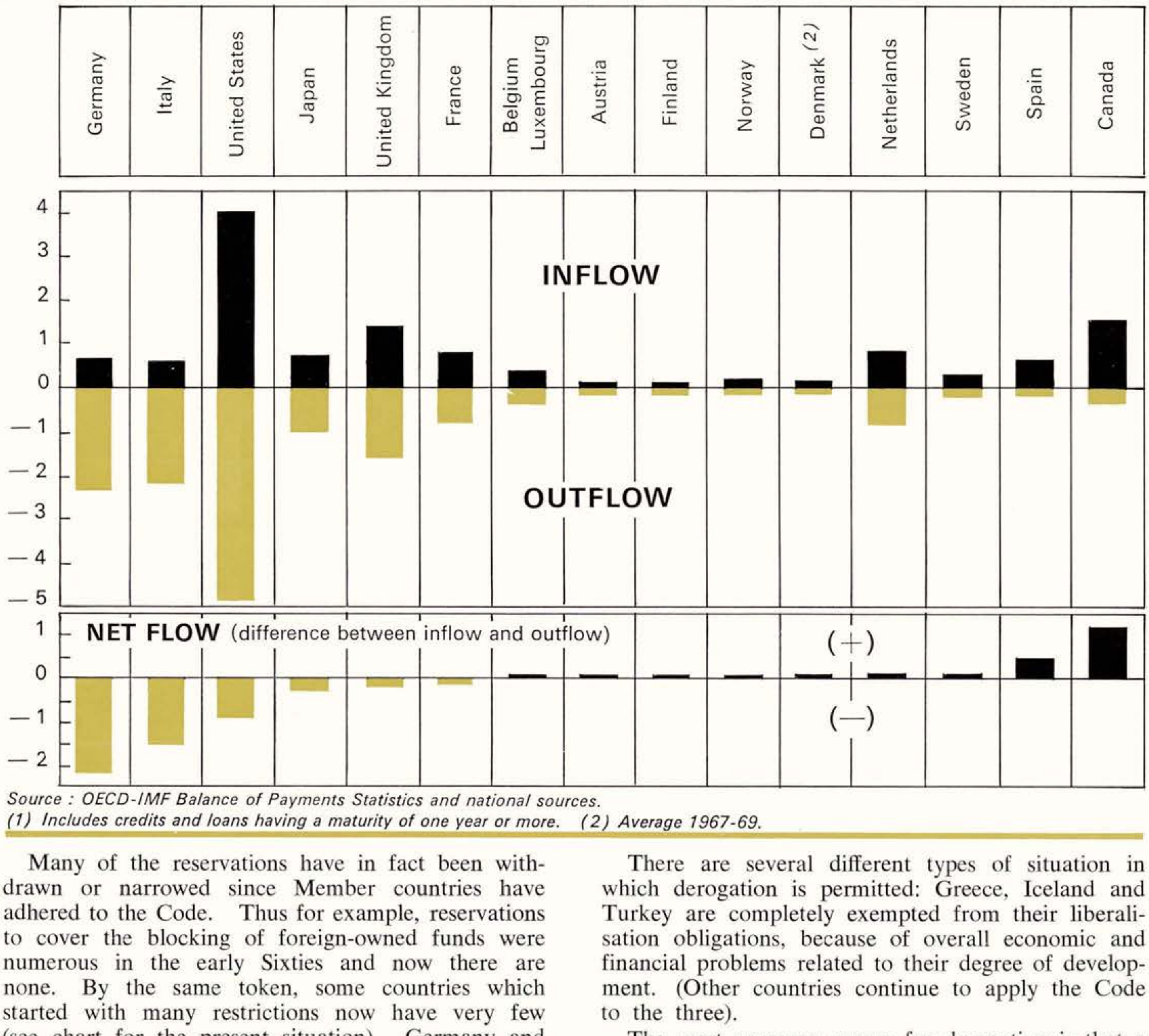
April 1969 — **Italy**
Restricted outward investment in mutual funds.
Derogation still in effect.

July 1969 — **Denmark**
Restricted outward portfolio investment. Some of measures withdrawn so derogation no longer necessary, others covered by new reservation to Code.

September 1969 — **Sweden**
Restricted outward direct investment, outward portfolio investment in Swedish securities and transfers of emigrants' assets.
Derogation still in effect.

November 1970 — **Finland**
Short-term commercial credits by non-residents to residents restricted.
Derogation still in effect.

INTERNATIONAL MOVEMENTS OF PRIVATE MEDIUM AND LONG-TERM CAPITAL (1) *Selected OECD Countries: annual average 1967-1970 (US $ billion)*



Source: OECD-IMF Balance of Payments Statistics and national sources.
(1) Includes credits and loans having a maturity of one year or more. (2) Average 1967-69.

Many of the reservations have in fact been withdrawn or narrowed since Member countries have adhered to the Code. Thus for example, reservations to cover the blocking of foreign-owned funds were numerous in the early Sixties and now there are none. By the same token, some countries which started with many restrictions now have very few (see chart for the present situation). Germany and Luxembourg have liberalised all items under the Code and in some cases such as Belgium, Switzerland and the United States, the reservations are few in number. Japan is an example of a country that has made rapid progress in the last two years in removing reservations. Thus there is evidence of long-term progress towards liberalisation.

Derogations

However there is another way in which a country can be relieved of some or all of its obligations under the Code—by invoking a derogation clause (under Article 7); and recourse to this procedure has become more frequent since 1968 (see Inset).

There are several different types of situation in which derogation is permitted: Greece, Iceland and Turkey are completely exempted from their liberalisation obligations, because of overall economic and financial problems related to their degree of development. (Other countries continue to apply the Code to the three).

The most common reason for derogating is that a country finds itself in balance of payments difficulties. If so, it may be permitted to withdraw temporarily a measure of liberalisation. In such a case, OECD must decide whether or not invocation of the derogation clause is justified. This means that the measure must be reported "forthwith" to OECD's Invisible Transactions Committee, along with the reasons for taking it. The action itself and the context within which it has been taken will be discussed in this Committee as will the probable efficiency of the measure in reaching the desired aims and the likely impact on other countries. The Committee may try to get the country to remove the measure and make specific proposals to this end or it may recommend granting the cover of the derogation clause. Since the Committee is an expert group, its findings do not commit governments. The final decision with regard to granting a derogation rests with the OECD Council.

If the derogation is accepted, it too is reviewed periodically until liberalisation has been restored. When a country derogates—and this is one of the essential features of the Code which applies to reservations as well—there must be no retaliation on the part of the other Members: they will continue to apply the Code to the country in question.

* * *

Thus the Code provides not only a legal definition of the objectives agreed upon in the field of capital movements but also a mechanism for measuring performance against the objective. It also provides machinery to deal with what are considered to be unjustified restrictions and to exert pressure on Member countries to liberalise their treatment of capital movements.

Extracts from OECD's Code for the Liberalisation of Capital Movements

PART I
UNDERTAKINGS WITH REGARD TO CAPITAL MOVEMENTS

Article 1
GENERAL UNDERTAKINGS

a. Members shall progressively abolish between one another, in accordance with the provisions of Article 2, restrictions on movements of capital to the extent necessary for effective economic co-operation. Measures designed to eliminate such restrictions are hereinafter called " measures of liberalisation ".

b. Members shall, in particular, endeavour:

i) To treat all non-resident owned assets in the same way irrespective of the date of their formation, and

ii) To permit the liquidation of all non-resident owned assets and the transfer of such assets or of their liquidation proceeds.

c. Members should use their best offices to ensure that the measures of liberalisation are applied within their overseas territories.

d. Members shall endeavour to extend the measures of liberalisation to all members of the International Monetary Fund.

e. Members shall endeavour to avoid introducing any new exchange restrictions on the movements of capital or the use of non-resident owned funds and shall endeavour to avoid making existing regulations more restrictive.

Article 2
MEASURES OF LIBERALISATION

a. Subject to the provisions of paragraph *(b) (iv)*, Members shall grant any authorisation required for the conclusion or execution of transactions and for transfers specified in an item set out in List A or List B of Annex A to this Code.

b. A Member may lodge reservations relating to the obligations resulting from paragraph *(a)* when:

i) An item is added to List A of Annex A to this Code;

ii) Obligations relating to an item in that List are extended;

iii) Obligations relating to any such item begin to apply to that Member; or

iv) At any time, in respect of an item in List B.

Reservations shall be set out in Annex B to the Code.

c. Whenever the liquidation proceeds of non-resident owned assets may be transferred, the right of transfer shall include any appreciation of the original assets.

d. Whenever existing regulations or international agreements permit loans between residents of different Members otherwise than by issuing marketable domestic securities or by using, in the country in which the borrower resides, funds the transfer of which is restricted, the repayment obligation may be expressed or guaranteed in the currency of either of the two Members concerned.

Article 3
PUBLIC ORDER AND SECURITY

The provisions of this Code shall not prevent a Member from taking action which it considers necessary for:

i) The maintenance of public order or the protection of public health morals and safety;

ii) The protection of its essential security interests;

iii) The fulfilment of its obligations relating to international peace and security.

Article 4
OBLIGATIONS IN EXISTING MULTILATERAL INTERNATIONAL AGREEMENTS

Nothing in this Code shall be regarded as altering the obligations undertaken by a Member as a Signatory of the Articles of Agreement of the International Monetary Fund or other existing multilateral international agreements.

Article 5
CONTROLS AND FORMALITIES

a. The measures of liberalisation provided for in this Code shall not limit the powers of Members to verify the authenticity of transactions or transfers nor to take any measures required to prevent evasion of their laws or regulations.

b. Members shall simplify as much as possible all formalities connected with the authorisation or verification of transactions or transfers and shall co-operate, if necessary, to attain such simplification.

Article 6
EXECUTION OF TRANSFERS

A Member shall be deemed to have complied with its obligations as regards transfers whenever a transfer may be made:

i) Between persons entitled, by the exchange regulations of the State from which and of the State to which the transfer is to be made, respectively, to make and/or to receive the said transfer;

ii) In accordance with international agreements in force at the time the transfer is to be made; and

iii) In accordance with the monetary arrangements in force between the State from which and the

State to which the transfer is to be made.

Article 7

CLAUSES OF DEROGATION

a. If its economic and financial situation justifies such a course, a Member need not take the whole of the measures of liberalisation provided for in Article 2 *(a)*.
b. If any measures of liberalisation taken or maintained in accordance with the provisions of Article 2 *(a)* result in serious economic and financial disturbance in the Member State concerned, that Member may withdraw those measures.
c. If the overall balance of payments of a Member develops adversely at a rate and in circumstances, including the state of its monetary reserves, which it considers serious, that Member may temporarily suspend the application of measures of liberalisation taken or maintained in accordance with the provisions of Article 2 *(a)*.
d. However, a Member invoking paragraph *(c)* shall endeavour to ensure that its measures of liberalisation:

i) Cover, twelve months after it has invoked that paragraph, to a reasonable extent, having regard to the need for advancing towards the objective defined in sub-paragraph *(ii)*, transactions and transfers which the Member must authorise in accordance with Article 2 *(a)* and the authorisation of which it has suspended, since it invoked paragraph *(c)*; and

ii) Comply, eighteen months after it has invoked that paragraph, with its obligations under Article 2 *(a)*.

e. Any Member invoking the provisions of this Article shall do so in such a way as to avoid unecessary damage which bears especially on the financial or economic interests of another Member and, in particular, shall avoid any discrimination between other Members.

Article 8

RIGHT TO BENEFIT FROM MEASURES OF LIBERALISATION

Any Member lodging a reservation under Article 2 *(b)* or invoking the provisions of Article 7 shall, nevertheless, benefit from the measures of liberalisation taken by other Members, provided it has complied with the procedure laid down in Article 12 or Article 13 as the case may be.

Article 9

NON-DISCRIMINATION

A Member shall not discriminate as between other Members in authorising the conclusion and execution of transactions and transfers which are listed in Annex A and which are subject to any degree of liberalisation.

Article 10

EXCEPTIONS TO THE PRINCIPLE OF NON-DISCRIMINATION SPECIAL CUSTOMS OR MONETARY SYSTEMS

Members forming part of a special customs or monetary system may apply to one another, in addition to measures of liberalisation taken in accordance with the provisions of Article 2 *(a)*, other measures of liberalisation without extending them to other Members. Members forming part of such a system shall inform the Organisation of its membership and those of its provisions which have a bearing on this Code.

PART II

PROCEDURE

Article 11

NOTIFICATION AND INFORMATION FROM MEMBERS

a. Members shall notify the Organisation, within the periods which the latter may determine, of the measures of liberalisation which they have taken and of any other measures which have a bearing on this Code, as well as of any modifications of such measures.
b. Members shall notify the Organisation forthwith of any cases in which they have by virtue of remark *(ii)* against Section I of List A of Annex A to this Code imposed restrictions on specific transactions or transfers relating to direct investments and shall state their reasons for doing so.
c. Members shall submit to the Organisation, at intervals determined by the Organisation, but of no more than eighteen months, information concerning:

i) Any channels, other than official channels, through which transfers are made, and any rates of exchange applying to such transfers, if they are different from the official rates of exchange;

ii) Any security money markets and any premiums or discounts in relation to official rates of exchange prevailing therein.

d. The Organisation shall consider the notifications submitted to it in accordance with the provisions of paragraphs *(a)*, *(b)* and *(c)* with a view to determining whether each Member is complying with its obligations under this Code.

Article 12

NOTIFICATION AND EXAMINATION OF RESERVATIONS LODGED UNDER ARTICLE 2 (b)

a. Each Member lodging a reservation in respect of an item specified in List B of Annex A to the Code shall forthwith notify the Organisation of its reasons therefor.
b. Each Member shall notify the Organisation within a period to be determined by the Organisation, whether it desires to maintain any reservation lodged by it in respect of an item specified in List A or List B of Annex A to this Code, and if so, state its reasons therefor.
c. The Organisation shall examine each reservation lodged by a Member in respect of an item specified in:

i) List A at intervals of not more than eighteen months;

ii) List B within six months of notification, and at intervals of not more than eighteen months thereafter;

unless the Council decides otherwise.
d. The examinations provided for in paragraph *(c)* shall be directed to making suitable proposals designed to assist Members to withdraw their reservations.

Article 13

NOTIFICATION AND EXAMINATION MADE UNDER ARTICLE 7

a. Any Member invoking the provisions of Article 7 shall notify the Organisation forthwith of its action, together with its reasons therefor.
b. The Organisation shall consider the notifications and reasons submitted to it in accordance with the provisions of paragraph *(a)* with a view to determining " whether the Member concerned is justified in invoking the provisions of Article 7 and, in particular, whether it is complying with the provisions of paragraph *(e)* of that Article ".
c. If the action taken by a Member in accordance with the provisions of Article 7 is not disapproved by the Organisation, that action shall be reconsidered by the Organisation every six months or, subject to the provisions of Article 15 on any other date which the latter may deem appropriate.
d. If, however, in the opinion of a Member other than the one which has invoked Article 7, the circumstances justifying the action taken by the latter in accordance with the provi-

sions of that Article have changed, that other Member may at any time refer to the Organisation for reconsideration of the case at issue.

e. If the action taken by a Member in accordance with the provisions of paragraph *(a)*, *(b)* or *(c)* of Article 7 has not been disapproved by the Organisation, then, if that Member subsequently invokes paragraph *(a)*, *(b)* or *(c)* of Article 7 of the Code of Liberalisation of Current Invisible Operations, or, having invoked one paragraph of Article 7 of this Code, invokes another paragraph of that Article, its case shall be reconsidered by the Organisation after six months have elapsed since the date of the previous consideration, or on any other date which the latter may deem appropriate. If another Member claims that the Member in question is failing to carry out its obligations under paragraph *(e)* of Article 7 of this Code or paragraph *(e)* of Article 7 of the Code of Liberalisation of Current Invisible Operations, the Organisation shall consider the case without delay.

i) If the Organisation, following its consideration in accordance with paragraph *(b)*, determines that a Member is not justified in invoking the provisions of Article 7 or is not complying with the provisions of that Article, it shall remain in consultation with the Member concerned, with a view to restoring compliance with the Code.

ii) If, after a reasonable period of time, that Member continues to invoke the provisions of Article 7, the Organisation shall reconsider the matter. If the Organisation is then unable to determine that the Member concerned is justified in invoking the provisions of Article 7 or is complying with the provisions of that Article, the situation of that Member shall be examined by a special Ministerial Group, unless the Organisation decides on some other exceptional procedure.

Article 14

EXAMINATION OF DEROGATIONS MADE IN ACCORDANCE WITH ARTICLE 7 MEMBERS IN PROCESS OF ECONOMIC DEVELOPMENT

a. In examining the case of any Member which it considers to be in the process of economic development and which has invoked the provisions of Article 7 the Organisation shall have special regard to the effect that the economic development of the Member has upon its ability to carry out its obligations under paragraph *(a)* of Articles 1 and 2.

b. In order to reconcile the obligations of the Member concerned under paragraph *(a)* of Article 2 with the requirements of its economic development, the Organisation may grant that Member a special dispensation from those obligations.

Article 15

SPECIAL REPORT AND EXAMINATION CONCERNING DEROGATIONS MADE UNDER ARTICLE 7

a. A Member invoking the provisions of paragraph *(c)* of Article 7 shall report to the Organisation, within ten months after such invocation, on the measures of liberalisation it has restored or proposes to restore in order to attain the objective determined in sub-paragraph *(d) (i)* of Article 7. The Member shall, if it continues to invoke these provisions, report to the Organisation again on the same subject—but with reference to the objective determined in sub-paragraph *(d) (ii)* of Article 7—within sixteen months after such invocation.

b. If the Member considers that it will not be able to attain the objective, it shall indicate its reasons in its report and, in addition, shall state:

i) What internal measures it has taken to restore its economic equilibrium and what results have already been attained, and

ii) What further internal measures it proposes to take and what additional period it considers it will need in order to attain the objective determined in sub-paragraph *(d) (i)* or *(d) (ii)* of Article 7.

c. In cases referred to in paragraph *(b)*, the Organisation shall consider within a period of twelve months, and, if required, of eighteen months from the date on which the Member invoked the provisions of paragraph *(c)* of Article 7, whether the situation of that Member appears to justify its failure to attain the objective determined in sub-paragraph *(d) (i)* or *(d) (ii)* of Article 7 and whether the measures taken or envisaged and the period considered by it as necessary for attaining the objective determined, appear acceptable in the light of the objectives of the Organisation in the commercial and financial fields.

d. If a Member invokes the provisions of both paragraph *(c)* of Article 7 of this Code and paragraph *(c)* of Article 7 of the Code of Liberalisation of Current Invisible Operations the periods of twelve and eighteen months referred to in paragraph *(c)* shall run from the date of the earlier invocation.

e. If following any of the examinations provided for in paragraph *(c)* the Organisation is unable to approve the arguments advanced by the Member concerned in accordance with the provisions of paragraph *(b)* the situation of that Member shall be examined by a special Ministerial Group, unless the Organisation decides on some other exceptional procedure.

Article 16

REFERENCE TO THE ORGANISATION INTERNAL ARRANGEMENTS

(not reproduced)

Article 17

REFERENCE TO THE ORGANISATION RETENTION, INTRODUCTION OR RE-INTRODUCTION OF RESTRICTIONS

(not reproduced)

PART III
TERMS OF REFERENCE

Article 18

COMMITTEE FOR INVISIBLE TRANSACTIONS GENERAL TASKS

a. The Committee for Invisible Transactions shall consider all questions concerning the interpretation or implementation of the provisions of this Code or other Acts of the Council relating to the liberalisation of capital movements and the use of non-resident owned funds and shall report its conclusions thereon to the Council as appropriate.

b. The Committee for Invisible Transactions shall submit to the Council any appropriate proposals in connection with its tasks as defined in paragraph *(a)* and, in particular, with the extension of measures of liberalisation as provided in Article 1 of this Code.

Article 19

(This article refers to a number of matters which are mainly of a procedural character and is not reproduced here).

Article 20

(not reproduced)

PART IV
MISCELLANEOUS

(not reproduced)

REUNION OF THE "GROUP OF FOUR"

In the accompanying article, Ambassador W. Randolph Burgess, former Undersecretary of the United States Treasury, recalls the setting-up of and the work carried out by the "Four Wise Men" in the changeover from the Organisation for European Economic Co-operation (OEEC) to the Organisation for Economic Co-operation and Development (OECD).

Why was this group brought into being—and who were the "Four Wise Men"?

Ambassador Burgess, their Chairman, explains in his article the reasons — the recovery of war-torn Europe from its economic collapse, the growing sense of interdependence between the industrialised free-market economies of the world—which led the Heads of State of France, Germany, the United Kingdom and the United States, at a summit meeting held in Paris in 1959, to decide that future co-operative effort should be devoted to the objectives of furthering the development of the less-developed countries, and of pursuing trade policies aimed at the sound use of economic resources and good economic relations.

Further exploration by the eighteen OEEC European countries, Canada and the United States of the prospects opened up by their decision led to the creation of the Group of Four on Economic Organisation : the "Four Wise Men".

The members of this group symbolised to some extent the varied characteristics of the countries which would eventually form the remodelled Organisation.

Ambassador Burgess himself represented the leading Western economic power, which had provided the means for European recovery, and North American participation in general.

The two European economic groupings—the European Economic Community and the European Free Trade Association—were symbolised (though not represented) by M. Bernard Clappier (France) and Sir Paul (now Lord) Gore-Booth (UK) respectively.

Finally, Mr. Xenophon Zolotas of Greece symbolised the group of smaller European countries which had a role to play in the free-market economy alongside that of their larger partners.

These four, in their report "A Remodelled Economic Organisation", laid the foundations for the wider, more experienced group of countries which today shares in the economic alliance of OECD. Their proposals —economic growth with stability; economic expansion in less-developed as well as in the Member countries; the lowering of trade barriers between nations—remain the expression of the motives which animate the work of the Organisation for Economic Co-operation and Development.

IN September, the " Group of Four ," who in 1960 drew up the charter for OECD, held a meeting in Paris. They came together unofficially, and at their own initiative, to survey the results of their handiwork after 10 years. They conferred with Secretary General Emile van Lennep at the offices of the Atlantic Institute on the invitation of John W. Tuthill, its Director General.

The " Four " were W. Randolph Burgess, US, Chairman, Bernard Clappier, France, Lord Gore-Booth, UK, and Xenophon Zolotas, Greece.

At this September meeting, they made no attempt to compose an agreed public statement of their judgement about OECD, but left no doubt that they were proud of the sequel to their work, and enthusiastic about what the " remodelled " organisation had accomplished over the space of 10 years. It was agreed that in lieu of a " statement ", I should write a personal interpretation of their discussion, which I am glad to do.

Such a reunion inevitably gives one a sense of the sweep of history. The 12-year lifespan of OEEC, from 1948 to 1960, had seen the launching of a great experiment as to whether 18 countries, similar in basic ideals, but vastly different in many other respects, and with deep national roots, could learn to work more effectively together. They did so in impressive fashion. Of course, the motivation was compelling. That period was under the shadow of the life and death struggles of war and post-war penury. The Marshall Plan was to be administered. With it came the necessity to break down the barriers to the free flow of goods, capital, and people. That this effort was crowned with so much success was due in no small measure to OEEC. But with that job done, was there the stimulus for continued effective co-operation? It was at that juncture when the task was passed to our " Group of Four ".

Let me recall the circumstances. In June of 1959, the London " Atlantic Congress " proposed a new Atlantic initiative. Then a " Summit " meeting of four heads of government took place in Paris. They passed the ball to meetings of representatives of 13, and then 20 countries who in turn asked our " Group of Four " to draw up a specific plan.

To reinforce the impetus of the OEEC experiment, we made these major proposals:

A. Membership - *to include the US and Canada and then Japan ; - to do this we removed the word " European " from the name.*

B. Development - *we put this important word into the name, and in so doing recognised responsibility towards the developing countries.*

C. Economic consultation and action - *we proposed a vastly broadened undertaking.*

W. Randolph Burgess

As the Four of us met after 10 years, what have been the results?

Membership *including one new European Member, Finland, has grown to 23, with Japan a full Member and now Australia, which is no slight change in breadth of outlook: it gives the OECD an impressive stance as representing the great industrial countries of the free world, together with their great economic challenges and opportunities.*

Development, *the objective to which is dedicated the Development Assistance Committee, has seen the results of a persistent and imaginative analysis of what the developed countries have been doing with and for the less developed. The continuing measurement and confrontation with respect to the amount and character of that contribution, both public and private, has been a potent stimulus. In 10 years, the flow of assistance has steadily risen and its effectiveness vastly improved. The total annual transfer of resources is now over $ 15,000,000,000. Especially impressive is the increase in private investment and in the activity of multinational agencies. Member countries continue to strive towards the aim of transferring as much as 1 per cent of their gross national product. But much remains to be done in this field.*

Consultation *in turn has perhaps been most effective in monetary questions. Working Party Number Three, chaired for years by Emile van Lennep and now by Dr. Emminger, and working with the International Monetary Fund, has been a central instigator of new ideas for increasing resources and improving monetary mechanisms. This task, one should add, is in the midst of further evolution at this moment. The same methods of consultation have been applied effectively in many fields.*

Among the new ventures of OECD has been its plunge into the problems of improving the quality of the environment. Emphasis has been placed on the need to look at growth in broad social as well as economic terms. In dividing up the work on this topic, and avoiding duplication of effort, OECD has accepted a major assignment along with the UN and NATO.

But besides recounting the specific areas where the organisation has proved its value, it seems to me fair to look at the overall picture. That picture shows that in these 10 years the gross national product and national income of the OECD countries as a whole have doubled to reach a height and quality never before known. We have our troubles of crime and pollution but we must never forget these are the diseases of prosperity, perhaps of over-prosperity, which we must learn to treat as effectively as we are learning to treat poverty and physical disease.

What about the next 10 years? Are there indeed challenges to which we can rise as effectively as in the past? And is the machinery of international organisation adapted to the new struggles? We have already mentioned several of these challenges. The monetary structure of the past 22 years performed well: its essentials are sound, but it needs modernising. There must be changed parities and better methods of adjustment. While this is a major responsibility of the IMF, the more compact OECD with its 23 industrial countries, and its experienced and able staff, is fortunately available and is taking a leading role in the negotiations.

Similarly, in the field of trade, policies need to be harmonised with monetary trends, and problems of economic growth and stability. The potential contribution of OECD has been recognised in the appointment of a new, high level group on trade and related problems.

At this time when the six countries of the EEC are by way of becoming ten countries, there is special need for an agency to seek harmonisation of trade and other economic policies of the ten with the policies of North America, and Japan, and the developing countries. That is a pressing job for OECD.

Still another problem involves the implications of the rapid spread of great industrial corporations with *their facilities for shifting production and funds among regions. OECD has already established close relations with business groups, for it recognises the capacity of these corporations to contribute to the prosperity of the countries in which they operate, under suitable, and encouraging, conditions. The obligations are reciprocal.*

In these and other new and old questions, the advantages of OECD are:

A. Its membership is small enough to be flexible but large enough to include the principal actors on the free world stage.

B. Its charter and organisation are flexible and broad enough to give it viability in a broad range of economic, social and scientific problems with their political implications.

C. It has been steadily building up methods of analysis and of reaching understanding, and a reputation for objectivity and impartiality which elicit increasing confidence in its work. It has been developing the habit of taking the long look ahead.

Now, let me try in closing to state a personal conclusion which I believe is shared by my associates of the " Group of Four ".

Great as have been the accomplishments of OECD, its future success will depend upon a new understanding and vision on the part of the nations and people who are its members. They must learn to think internationally.

From early childhood the people of our different countries have been brought up to think in national *terms: the flags, the songs, the traditions, the pride in strength and victory.*

This alone is not good enough for today's complicated and perilous world. We are slowly, all too slowly discovering that we must think in broader terms. Only as our vision expands can international organisations like OECD count upon the full support they require, — and the effective operation of these organisations offers our best hope for peace and prosperity.

To put it very simply, OECD is a fine tool. We need the will to use it ever more effectively.

W. Randolph Burgess

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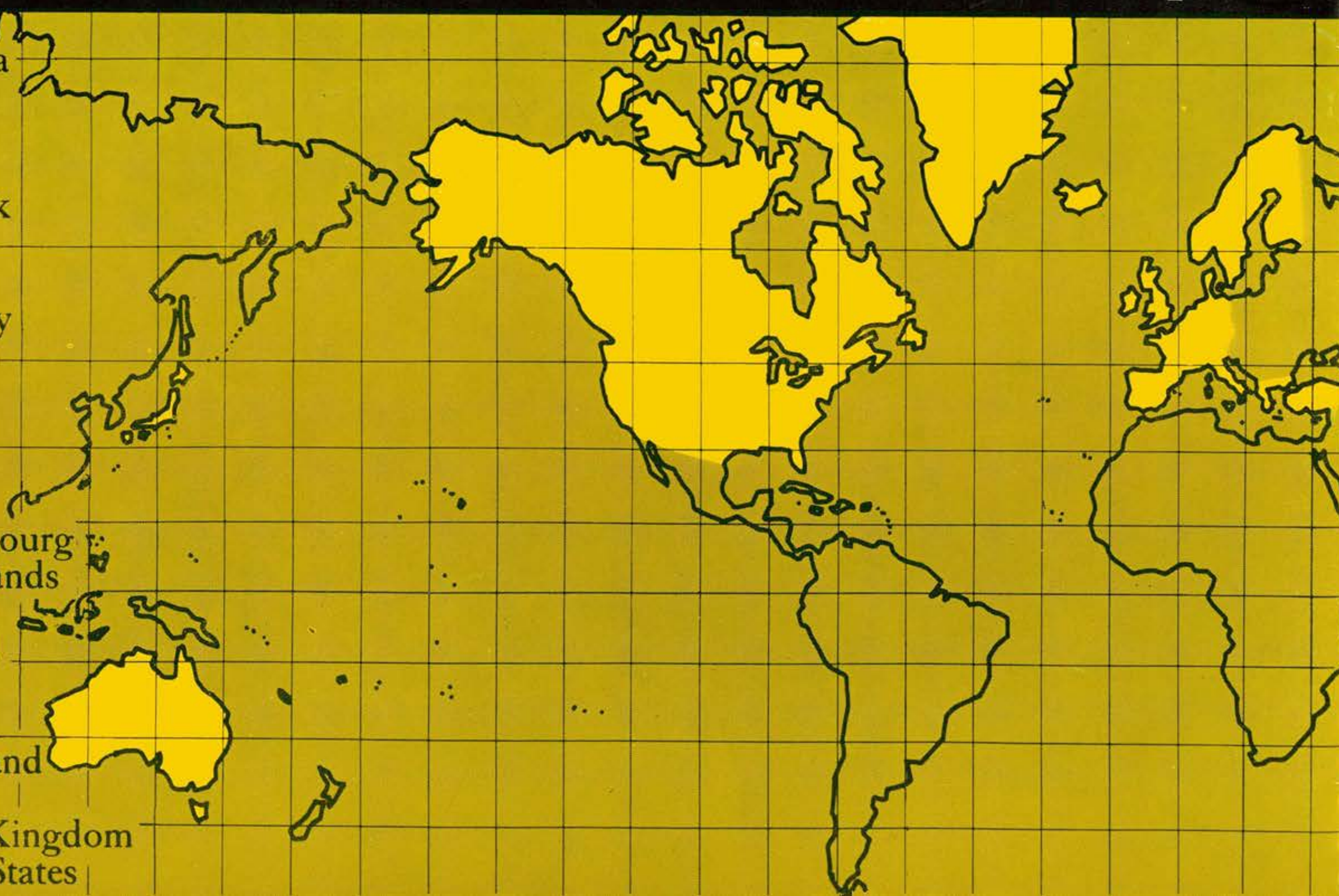

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