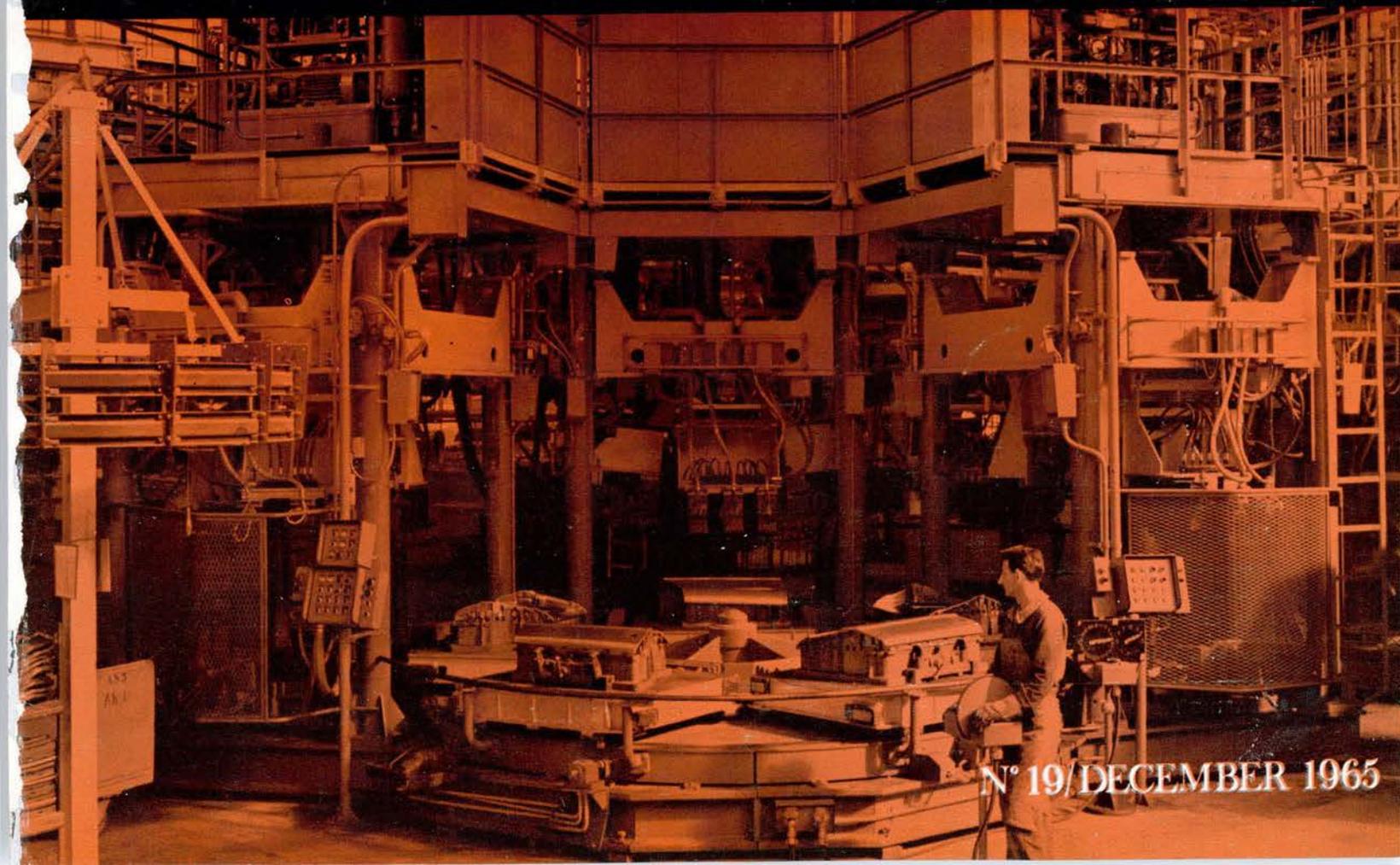


the **O E C D** **O B S E R V E R**

THE ECONOMIC OUTLOOK, NOVEMBER 1965
MEASURES EMPLOYED BY GOVERNMENTS
TO INFLUENCE INDUSTRIAL INVESTMENTS
AN ACTIVE MANPOWER POLICY IN CANADA
SWEDISH HOUSING CONSTRUCTION POLICY
NEW PROPOSAL FOR A VALUE-ADDED TAX



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STATEMENT BY THE OECD MINISTERIAL COUNCIL

The Council of OECD met at Ministerial level in Paris on 25th and 26th November 1965, under the Chairmanship of Dr. Hans Schaffner, Vice-President of the Swiss Federal Council, Head of the Federal Economic Department, and reviewed the economic situation of its Member countries and their economic relations with the rest of the world.

During the period 1960-1965, the Gross National Product for the OECD countries taken together has

increased at a somewhat higher rate than that needed to meet the target of 50 per cent for the decade 1960-1970 set by Ministers in 1961. The prospects for satisfactory growth in 1966 seem relatively good. Since, however, inflationary tendencies exist in many countries and insufficient growth in some others, there is still much to be done in order to combine, under conditions of full employment, satisfactory growth with price stability. This calls for an appropriate mixture of fiscal and monetary measures,

(Left to right) Agostino Soldati, Head of the Swiss Permanent Delegation to OECD; Hans Schaffner (Chairman), Vice-President of the Swiss Federal Council and Head of the Federal Department for Public Economy; Thorkil Kristensen, OECD Secretary-General.

incomes and prices policies, and structural reforms. The Organisation will continue its work on this problem in all its aspects.

The efforts to reduce the external deficits of the United Kingdom and the United States are now showing appreciable results. Large swings have appeared in the foreign payments of a few other Member countries. The need to reduce such swings should be taken into account in selecting measures designed to adjust demand to productive resources. Another source of disequilibrium has been the considerable capital outflow from the United States and to a lesser extent from the United Kingdom. Measures have already been taken by various countries to reduce this capital flow. Nevertheless, some of the considerable differences in interest rates between Member countries will have to be reduced and a number of Member countries will have to improve their arrangements to mobilise savings for investment at home and abroad.

The Organisation is studying these capital market problems together with other balance of payments problems.

Ministers agreed that in order to help less developed Member countries to solve their special problems of growth and to reduce the gap between them and the other countries, the industrialised Members of OECD should promote a more active flow of productive invest-

ments into these countries and take into consideration their export problems.

Concerning Greece and Turkey in particular, the Ministers expressed their concern over the difficult and interrelated problems of development and stability these countries are facing and the desire that they should be supported in solving these problems. To that end, the existing difficulties facing the Consortium for Greece should be eliminated and the Consortium reactivated in order to provide appropriate aid. In the Consortium for Turkey appropriate aid should be provided taking into account the aim of Turkey to reach external viability towards the end of her second Five-Year Plan.

Ministers discussed the continuing difficulties of developing Member and non-member countries in general and stressed the need for an increase in volume and an improvement in terms and conditions of aid. They also agreed that the effectiveness of aid programmes should be further improved through increasing co-operation between donor countries and by other appropriate measures.

In the long run, it will be even more important to increase the export proceeds of developing countries. The Ministers instructed the Organisation to undertake an examination of the problems regarding trade between developed and developing countries with a view to formulating constructive and concerted policies.



TOP LEFT: (Left to right) Marcel Fischbach, Deputy Minister of Foreign Affairs, Luxembourg; J. M. den Uyl, Minister of Economic Affairs, Netherlands; J.M.A.H. Luns, Minister of Foreign Affairs, Netherlands. TOP RIGHT: (Left to right) Raimondo Mangini, Head of the Italian Permanent Mission to OECD; Giovanni Pieraccini, Minister for the Budget, Italy; Egedio Ortona, Director-General of Foreign Affairs, Italy. LOWER RIGHT: (Left to right) François Valéry, Head of the French Permanent Delegation to OECD; Valéry Giscard d'Estaing, Minister of Finance, France; Olivier Wormser, Director of Economic and Financial Affairs, France.



GOVERNMENTAL POLICY FOR THE SCIENCES: Ministerial Meeting at OECD

Next month Ministers or other high-level officials responsible for scientific affairs from OECD countries will meet for the second time to discuss the role of governments in promoting the development and utilisation of science and technology at both national and international level. It is now generally accepted that advanced scientific research and technical development — which in turn require very highly qualified manpower and hence improved educational facilities — can make a decisive contribution to economic growth, defence, social welfare and a higher standard of living in general. It may lead to major structural changes in the economy and in society; for these reasons policy decisions on science and education are beginning to take a central place in national policies as a whole.

In the little over two years that have elapsed since the first Ministerial Meeting on Science, interest in this aspect of governmental policy has intensified, and in a number of OECD Member countries there is new or improved national machinery for dealing with science policy matters. Belgium and France, for example, as part of their annual budgetary procedures, have developed a "science budget" in which all the claims being made on scientific resources by government departments are brought together for common presentation and examination. In the United Kingdom a new Committee, the Council of Scientific Policy, has been set up to advise the Minister of Education and Science on the overall financial priorities of science

policy, while the newly created Ministry of Technology is to advance technology in the science-based industries and to encourage the application of research results throughout the economy. Greece, Ireland, Italy, Spain and Turkey are experimenting with longer-term programming of scientific needs in relation to economic development. Government expenditure on such non-military projects as desalination and air transport has increased in the United States, and growing Congressional interest in the problems of science policy is exemplified by a report submitted to the House of Representatives at the end of 1964 on national research and development goals and policies. At the same time there has been increased effort on the part of Member governments to develop tools for weighing the cost of, and benefits to be derived from, research and development expenditures.

Social Science and Policy

This year for the first time the Ministers will include the social as well as the natural sciences in their discussions. An Interim Committee of high-level government officials, appointed by the first Science Meeting, in turn selected a group of eminent advisers (1), who, on their own responsibility and not as representatives of their governments, have been investigating the place of the social sciences in a science policy, what should be done in order to promote research in this field, what the social sciences can contri-

(1) The Chairman is M. Lucien Massart of Belgium, Rector of the University of Antwerp. Members of the group are : Raymond Aron, Professor at the Sorbonne; Director of the European Centre of Sociology in Paris; Harry Briggs, Labour Adviser, Unilever Ltd., the UK; Ralf Dahrendorf, Director of the Seminar on Sociology of the University of Tübingen, Germany; Franco Ferrarotti, Director of the Institute of Sociology of the University of Rome; David Glass, Director of the Sociological Research Unit of the London School of Economics; Claude Gruson, Director-General of the French National Institute of Statistics and Economic Studies; E.W. Hofstee, Director of Sociology at the University of Wageningen, the Netherlands; Paul Lazarsfeld, Quetelet Professor of Social Science, Columbia University, the US; J. Robert Oppenheimer, until recently Director of the Institute of Advanced Study of Princeton University, the US; and Torngy Segerstedt, Rector of the University of Uppsala, Sweden. Rapporteur : Jean-Jacques Salomon.

GOVERNMENTAL POLICY FOR THE SCIENCES: Ministerial Meeting at OECD

bute to solving the problems created for individuals and for social organisms by the speed of change inherent in scientific and technological progress.

Several countries have indicated an interest in broadening the scope of science policies to include the social sciences and in increasing governmental support for social-science research. A committee appointed to study the extent and type of social science research being carried out in the United Kingdom (the Heyworth Committee) has recommended — and its proposals have been accepted by the Government — the creation of a national Social Science Research Council, its members to be appointed by the Secretary of State for Education and Science. The functions of this Council, to be carried out with an initial budget of £600,000 a year, would be to provide support for research, to keep under review the state of research and to advise the Government on the needs of social science research. In France, a new national organisation for applied research, the Bureau de Sociologie Appliquée, has been set up at the instigation of the Délégation Générale à la recherche scientifique et technique. Social science research has been given increasing emphasis in policy making in a number of countries including the Netherlands, Norway and Sweden.

The Ministers will compare experiences and exchange views on five other subjects as well :

Fundamental Research in the Policy of Government

The cost of fundamental research has risen rapidly especially in some fields of "big science" and in general only governments can be expected to provide the necessary resources. Fundamental research is the base on

which applied research and technological development must be built. However, although fundamental research is thus a long term national investment of significance, its dividends often appear in places far from the original point of investment. Fundamental research should therefore not be regarded in narrow terms of its immediate possibilities for application but in those of assuring a nation's scientific awareness and possession of the knowledge and skills to utilise the scientific research products of the world as a whole.

These problems together with detailed questions of funding mechanisms have been explored for the first time at international level by an advisory group of distinguished scientists (1) who reviewed the various aspects involved in the elaboration of a sound policy for fundamental research. Their report includes recommendations on questions such as the interrelation of fundamental research and higher education, the ideal location of research, the need for a dialogue between governments and scientists, and conditions necessary for a healthy and creative scientific effort. Other subjects covered are "oriented" fundamental research, government financing, and the various mechanisms of support, the need to stimulate neglected fields of research, research support by industry, possible forms of international co-operation to stimulate the fundamental research effort of Europe as a whole.

A special chapter is devoted to the problems of smaller but industrially advanced countries whose limited resources restrict the extent of research they can undertake.

Governments and Technological Innovation

The growing importance of science and technology in the economic and social development of Member countries has long been recognised and stress is now being given in most countries to the encouragement of economic growth through technological innovation, i.e. the introduction into the economy of new and improved products, materials and production processes.

Governments can and do help this process by a variety of measures. In technologically advanced industries one of the crucial factors appears to be the scale of research and development. Big research and development resources devoted by some governments to defence and space research are bound to have repercussions on civil technology. Development contracts have been used in the first place to develop new technology for governments' own requirements in these fields, but governments of the industrially more advanced Member countries are increasingly using civilian development contracts to support research and development projects in sectors which are *not* related to governments' immediate needs. As compared with development contracts in the nuclear, space and civil aviation sectors, the scale of support for such contracts is

(1) *Chairman* : Professor A. Maréchal, *Délégué général à la Recherche scientifique et technique, Professeur à l'Institut d'Optique et à la Faculté des Sciences de l'Université de Paris*; Professor E. Amaldi, *Istituto di Fisica Sperimentale, University of Rome*; Professor S. Bergström, *Professor of Chemistry, Karolinska Institutet, Stockholm*; Professor H. Brooks, *Dean of the Faculty of Engineering and Applied*

Physics, Harvard University, Member of the President's Science Advisory Committee, US; Professor Dr. F. Lynen, *Director of the Max-Planck-Institut für Zellchemie, Munich and Nobel Laureate*; Professor C.H. Waddington, *Institute of Animal Genetics, Edinburgh*.
Rapporteur : Dr. A. King.

(2) *The Working Party on Governments and Innovation included*

still small in all Member countries except Japan, although increased resources are being devoted to them in France, Norway, and the United Kingdom. Other countries employing this type of development contract include Belgium, Japan, the Netherlands and Sweden.

In many industries, and especially the old-established ones, where science has not played an important role in internal development, governments help to finance co-operative research institutes and technical information and advisory services.

Government Departments and public authorities are often important customers for products of certain economic sectors. By closely co-operating with the industries and suppliers concerned in the formulation of technical specifications, in the subsequent development of the products in question, and by assisting — e.g. through development contracts — where such development requires the commitment of major financial and technical resources, their procurement policy may have far-reaching effects.

These and many other aspects of governments' responsibilities in speeding up innovation in industry have been discussed by a working party of the Interim Committee and issues involved will be presented to the Ministers (2).

The International Statistical Year on Research and Development

Despite the continued growth of research and development activity, the statistics relating to the number of research scientists and technicians, their output and cost, are still very inadequate. OECD Member countries have been working with the help of OECD's Scientific Affairs Directorate and a single approach has been accepted by all the countries. Surveys based on a standard set of definitions and on a common price scale have been undertaken, on the initiative of the committee for Scientific Research, in a special co-operative venture called the International Statistical Year. It is hoped that the first results of this survey can be presented to the Ministers at their January meeting.

The Role of Governments in Allocating Resources to Science

Because government expenditure on science and technology now constitutes such a significant portion of all governmental outlays and has such an important impact on the total scientific effort of their countries, an attempt is being made to develop explicit objectives and rational criteria for the allocation of these funds. A working party of the Interim Committee on Allocation of Resources to Science has been examining the methods used in Member countries and studying a number of particularly problematic cases (3).

The need for rapid progress in science and technology is placing increasing strains both on national budgets and on reserves of technical manpower. The working party therefore considered several aspects of this problem in relation to various development objectives: differences between countries in the total amount spent for research and development, the number of scientists available and in the extent to which research is financed by governments; the migration of scientific manpower and the so-called technological balance of payments — what countries import and export in the way of technical know-how, licenses and patents.

This study touches on many of the critical problems of linking scientific efforts to the general economic and political aims of the Member countries.

Problems of International Scientific Co-operation

Countries are at present co-operating, both officially and through private organisations, in a variety of scientific and technological fields. There are strong reasons why many aspects in the development of national science policy should be considered from an international point of view. Even in the case of industrially advanced Member countries, especially in Europe, the scale of effort required in many fields of science and technology is such as to compel increased co-operation if research and development programmes on a viable level are to be established. Moreover, a growing number of countries, especially the smaller ones, may find it necessary to specialise in a limited number of fields; in others which involve particularly expensive installations and equipment it will only be possible for them to play a part by association with groups of countries and through international organisations for the sharing of costs.

At their first meeting the Science Ministers expressed concern at these problems and in particular at the lack of co-ordination in international scientific activity as a whole. As a result, the Interim Committee has been investigating possible arrangements for assessing new or existing forms of international co-operation. As part of this work the Committee has drawn up a supplement to the catalogue of the main international scientific organisations which had been prepared for the first Ministerial Meeting. It also gathered information, by means of a questionnaire sent out to Member countries, on their arrangements for co-ordinating policy in international scientific organisations. All these elements will serve as a basis for a discussion by Ministers on policy problems involved in international co-operation.

It is hoped that the international exchange of views and information will help the Ministers and other governmental authorities in their attempts to formulate constructive, coherent policies for science and technology.

the following country representatives: Dr. J. Spaey (Belgium); M. A. Maréchal (France); M. R. Major (Norway); Sir Frank Turnbull (UK); M. B. Rexed (Sweden); under the presidency of Dr. C.M. Macleod, US Delegate to the Interim Committee.

(3) The working party concerned with this subject includes: Dr. J. Spaey, Secretary General of the Belgian National Council for

Science Policy, President of the Interministerial Commission for Scientific Research; Mr. J. St. Geours, Director for Planning, Ministry of Finance, France; Mr. C. Freeman, National Institute for Economic and Social Research, UK; Mr. L. Gunn, Department of Government, University of Manchester, UK; Professor H. Brooks, Dean of the Faculty of Engineering and Applied Physics, Harvard University, Member of the President's Science Advisory Committee, US.

AN ACTIVE MANPOWER POLICY IN CANADA

Among OECD countries Canada has been one of the most active in dealing with its recent manpower and social problems. As part of a programme to promote effective policies in this field, OECD's Manpower and Social Affairs Committee has been looking into the Canadian experience. The results of this work, to be published shortly, are reviewed below.

The number of Canadians who will come of working age during the last half of the 1960's is expected to be larger, relative to the present population, than in any other industrially advanced nation. This population "bulge", which is the result of the influx during the post-war years of a great many immigrants — 2 1/4 million in all — superimposed upon an exceptionally high natural rate of population increase, will create new consumer demand, but at the same time it poses a challenge to the Canadian economic authorities: if these young people are to be employed, roughly a million new jobs will have to be created by 1970.

Finding jobs for the newcomers is not the only problem. They must be trained for the kinds of highly-skilled jobs that are crucial to the growth of the Canadian economy. And the need for new training facilities will be particularly acute because until recently Canada has depended heavily on the importation of skills from abroad: out of 280,000 skilled workers added to the labour force in the decade after the war roughly 40 per cent came from other countries. The census of 1961 showed that some 25 per cent of those qualified as engineers and physical scientists, 35 per cent of Canada's architects and 20 per cent of the computer programmers were post-war immigrants. Now outside sources

of qualified workers are drying up, and at the same time a large and increasing number of professional workers is leaving Canada every year to take up employment in the United States.

The length and bitterness of Canadian winters also causes special manpower problems: as in other Northern countries, there is a great deal of seasonal unemployment. Approximately 585,000 people lose their jobs in winter, and although some find work in other fields or drop out of the labour force, a great many of them remain unemployed.

A Search for Solutions

Over the last few years the Canadian federal government and the provinces, which have the basic responsibility for education and vocational training in the Canadian governmental system, have inaugurated a series of far-reaching programmes to solve the nation's manpower and social problems. This is a new departure for a country in which economic decision-making has traditionally been highly decentralised, even collective bargaining being carried on at the level of the individual enterprise.

Among the most original of the new measures are those aimed at reducing winter unemployment; the first of these was a programme to stimulate the building of municipal roads, sewage systems, parks and certain other public works during the winter months. For projects undertaken between November 1 and April 30 the federal government pays half the direct payroll costs up to a maximum of \$100,000 per project. (For certain areas with a particularly heavy seasonal unemployment the figure is 60 per cent.) Most of the provinces have supplemented the federal programme: Quebec, for example, contributed



an additional 40 per cent of payroll costs during the winter of 1962-63. More than 2,700 municipalities participated in the programme in 1963-64, creating 7 million man-days of work.

Federal Departments and agencies are also under instructions to arrange their expenditures so as to create a maximum of winter employment.

The building of housing in winter has also been encouraged since 1963 under a programme in which the federal Department of Labour pays \$ 500 in cash to the owner (if he is the actual builder or the first one to purchase the house) providing that most of the construction is completed between November 15 and March 31. During the winter of 1963-64 the Government spent some \$ 14 million on these allowances, a relatively small amount by comparison with the \$ 568 million worth of winter housing construction generated and the 205,000 resulting jobs.

Supplementing these programmes is a promotional campaign, "Do It Now", which urges home owners to carry out repairs and other home improvements in winter.

Adjustment to technological change

One of the most recent manpower innovations of the Canadian government is intended to encourage management and unions to plan ahead when a major technological change is anticipated and to help finance the development and implementation of such plans. To carry out this work a Manpower Consultative Service has been set up within the Department of Labour; its job is to urge management and labour to sign Manpower Assessment Incentive Agreements. The first such accord, between the Ministry of

Labour, the National Association of Broadcast Employees and Technicians, and the Canadian Broadcasting Corporation, in February 1965, provides for the establishment of a joint committee to prepare for impending technological changes. The Committee may employ investigators and research workers to assess changing work situations, employee potential and the training and upgrading necessary to help the staff adjust to changing job requirements. Another committee, representing 46 towing companies and four maritime unions has been set up to look into the changes expected as a result of the increasing size and efficiency of vessels and barges, new steering control mechanisms, navigational aids and galley equipment. Fifty per cent of the cost incurred in planning is paid by the Department of Labour. Financial aid is also available to help workers move and acquire new skills.

The elements of an active manpower policy

Some of the other measures adopted by the Canadian government resemble those taken by governments of countries whose manpower policies have already been studied in detail by OECD's Manpower and Social Affairs Directorate - Sweden and the United States. What is most characteristic of the Canadian effort to solve manpower problems is its breadth of approach: manpower policy has come to be considered an integral and essential component of general economic and social policy making. The Government and the newly created Economic Council of Canada have recognised the central importance of national manpower and social

policy; and the Minister of Labour has played a key role in the formulation of the government's overall economic programme, which has included measures to stimulate the level of demand in less-developed regions and in the economy as a whole.

In addition, steps have been taken to improve the supply of labour and the quality of skills in the labour force. A Technical and Vocational Training Assistance Act of 1960 provided the basis for what is generally considered a revolutionary development in the Canadian educational system. Under the terms of this act and subsequent amendments the Federal Government can stimulate the creation of school facilities and programmes operated by the provinces through contributing to the cost of their construction (and to a certain extent of their operation). The amount of the federal contribution to capital costs varies from 50 to 75 per cent (the 75 per cent participation continues up to the equivalent of \$480 for every 15-19 - year old in the province). From the beginning of the programme through the end of 1964, 652 capital projects had been approved entailing a federal contribution of \$411 million and an increase of 192,000 places for technical and vocational students.

For adults there is also a federal-provincial programme on which the Federal Government spent \$10 million in 1964 training 27,000 adults. There are special training centres for the unemployed who continue to receive unemployment benefits and, in certain cases, an additional allowance as well; federal help is also available for in-plant training, retraining and upgrading.

As these programmes are elaborated, they are continually being examined for possible areas of improvement. The evaluation is carried out by the Economics and Research Branch of the Depart-

ment of Labour which also forecasts employment and general economic trends. The Canadian authorities are attempting to define their problems as precisely as possible and to develop a strong programme of action-oriented research.

OECD's report on Canadian manpower policies points to some directions for possible strengthening of the Canadian programme. It recommends, for example, that the National Employment Service, which has been reinforced in recent years, have its staff enlarged and upgraded. One pressing need is for the elaboration of labour market data on a regional and local basis to improve the coverage and quality of the statistical data currently provided. The regional development programme, begun in 1963, is long-term in nature and, the report suggests, should be supplemented by government programmes for immediate employment. There is a need for careful review of the vocational teaching programme — teaching materials, teacher qualifications and curricula. Finally, it is suggested that a central national advisory board representing management, labour, and other interested groups might be helpful as a guide to the government in formulating policy measures.

OECD's Manpower and Social Affairs Committee notes in the report that most of the Canadian manpower activities, being of fairly recent origin, are still in the process of development. "Nevertheless", the Committee concludes, "the programmes have been characterised by clarity of purpose and close awareness of national economic needs. They are imaginative and reflect great initiative and willingness to experiment, test, revise and substitute, where necessary, new for old methods".

THE ECONOMIC OUTLOOK

NOVEMBER 1965

This article by the Economics and Statistics Department of OECD assesses prospects for demand, output and trade and payments. A previous article appeared in the August 1965 issue of the OECD Observer. Some of the judgments given there have been modified in the light of later information, and the assessment has been extended to cover the first half of 1966. So far as possible, the analysis has been made in terms of seasonally-adjusted figures. The statistics follow OECD definitions, which differ somewhat from those of individual countries.



Growth prospects are somewhat brighter than they seemed last July. This is mainly because of firmer demand trends in the United States. Europe's expansion is slowing down slightly, to an annual rate of about 3 1/2 per cent as against perhaps 5 per cent in North America. Slower growth in Europe means less buoyant earnings for the primary producing countries; and mainly because their imports from OECD countries have already had to be restricted world trade is expanding less fast. Some favourable developments in the balance of payments have been taking place. Both

of the reserve currency countries' deficits have fallen since the second half of last year. The recent substantial shrinkage in the United States' deficit largely reflects a sharp turn-around of short-term capital flows, helped particularly by the voluntary restraint programme adopted last February. The United Kingdom seems gradually to be getting back into balance, and towards a position that would permit the import surcharge to be abolished. Some important surpluses have developed. Italy's is particularly large, but sizeable ones have also arisen in Japan and France - in all three cases the result of earlier steps to restrain demand pressures. These surplus positions are partly behind the large deficit at present being run by Germany.

DEMAND, OUTPUT, COSTS AND PRICES

The main feature of the last few months has been the improved prospects for continued strong expansion in North America in the remainder of 1965 and well into 1966, led by buoyant consumption and investment demand, and bolstered by increased military outlays. This, together with strong demand coming from Ger-

many and some of the smaller industrialised countries in Europe, has helped to sustain output in the other major OECD countries where domestic demand has been slackening (Japan), is levelling out (the United Kingdom) or has picked up more slowly than hoped (France and Italy).

1. THE GROWTH OF INDUSTRIAL PRODUCTION

seasonally adjusted per cent change, at *annual rates*

	Weight in 1958	2nd half 1963 to 1st half 1964	1st half 1964 to 2nd half 1964	2nd half 1964 to 1st half 1965	Recent Trend (1)
OECD North America	56	6.9	6.7	9.4	8
OECD EUROPE	40	7.9	2.0	5.9	2
of which : EEC	23	8.0	1.2	6.7	3.5
FRANCE	6	11.9	— 4.5	2.4	1.5
GERMANY	11	10.1	5.5	9.0	1.5
ITALY	4	— 1.0	— 5.3	7.1	11
UNITED KINGDOM	11	6.9	3.5	3.6	— 1.5
JAPAN	4	16.7	10.8	1.6	0.5
TOTAL OECD	100	7.9	5.3	7.5	5

(1) Change from Nov. 1964-Jan. 1965 to May-July 1965.

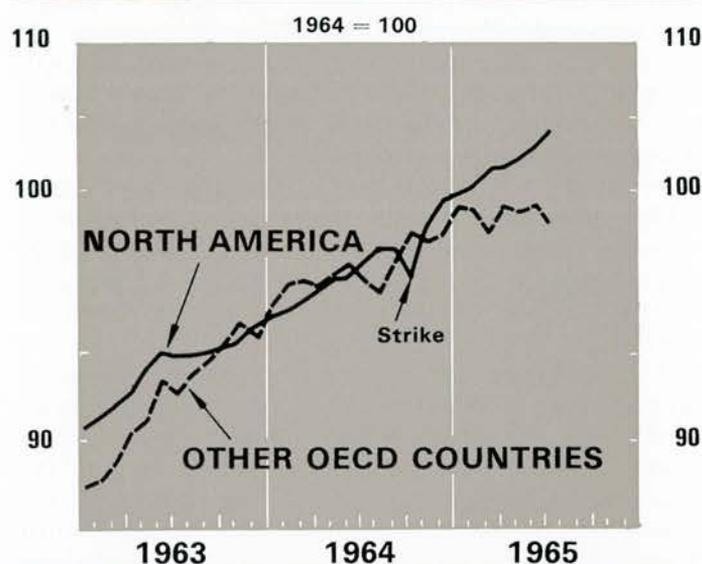
These trends are illustrated by the development of industrial production, which has been rising considerably faster in North America than in the rest of the OECD area since the latter part of 1964. In North America industrial production has been rising this year at an annual rate of around 8 per cent. Elsewhere trends in industrial production have differed markedly from country to country and in some cases have been rather strongly influenced by abnormal weather conditions. On balance in Europe during the year to date, the sharp slow-down and recent decline in the United Kingdom, and the slower rise in Germany, have more than offset the moderate recovery in Italy and the small gains made in France. In Japan industrial output has been on a generally declining trend since last autumn. Thus, by mid-year industrial output was only about 4 per cent up in Europe and Japan over a year earlier, while the United States was showing gains twice as large.

The divergence is less marked in the development of real GNP, since demand and output outside manufacturing industry tend to be less influenced by cyclical fluctuations in demand. It is nevertheless likely to be significant.

(continued on page 14)

1. INDUSTRIAL PRODUCTION

has been rising faster in North America than in the rest of the OECD area



2. GROWTH OF REAL GROSS DOMESTIC PRODUCT ⁽¹⁾

Estimates and Forecasts (percentage changes) by the Secretariat

	Weight (2) 1963	Growth over previous year		Half-yearly increases at annual rates (3)			
		1963	1964	1965	1964 2nd half	1965 1st half	1965 2nd half
FRANCE	7.3	5.3	2.5	1.5	2	3.5	4
F.R. GERMANY	8.6	6.5	5	4.5	5.5	5	5
ITALY	4.1	2.9	2.75	— 0.5	3.5	4	5
UNITED KINGDOM	7.7	5.4	2.25	3.2	2.25	1.5	1
TOTAL 4	27.7	5.3	3.2	2.8	3.4	3.5	3.5
OTHER OECD IN EUROPE	10.0	6.3	4-4.5	4.4	4.7	4.5	4
UNITED STATES	53.3	4.8	4.5-5	4.0	5.2	5	4.5-5
CANADA	3.6	6.4	6.5-7	2.8	9.4	5	5
JAPAN	5.4	13.9	1	8.4	— 2	0	6
TOTAL OECD	100.0	5.6	4.2	4	4.25	4.25	4.5
of which :							
OECD EUROPE	37.7	5.6	3.5	3.25	3.75	3.5	3.5
EEC	22.7	5.5	3.4	3	4	4	4.5

(1) GNP for USA. (2) Member countries' GDP for 1963 converted into dollars at current rates of exchange. (3) For countries which do not have quarterly national accounts these are necessarily very tentative estimates based on available information about the development of output, employment and expenditure.

In Europe the outlook has not changed much since mid-year; the growth of real output in 1965 looks like being around 3.5 per cent, with the United Kingdom, France and Italy lagging behind, and Germany and most of the small industrialised countries — except Belgium — showing gains well above the average. If this proves to be correct the aggregate growth rate will be about 1 percentage point below the average achieved over the first half of the 1960s, and 2 points below the exceptionally high figure for 1964.

In Japan the outlook has deteriorated and there is unlikely to be any significant rise in real output this year.

In the United States the growth of GNP seems likely to be nearer to 5 per cent than to the 4.5 per cent expected earlier. Bigger gains are also expected in Canada.

These differences in the rate of expansion appear to have had only a limited effect on relative cost and price movements. On balance, and though there are many exceptions, there has been some slowing down in the price rise in Europe and, recently, in Japan. At the same time, the rise in the general price level in North America has edged up from an annual rate of something over 1 per cent towards the 2 per cent mark. Nevertheless, it remains true that the general price level is rising faster in virtually all European countries than in Canada and the United States.

As far as international trade is concerned, such changes in relative costs and prices as have taken place — while undoubtedly important in the longer run — have in the recent past tended to be swamped by changes in the relative pressure of demand in different countries. Indeed, the best export performances have been put up by countries which show some of the largest rises in domestic costs.

INVESTMENT AND THE EXTERNAL BALANCE

Looking at the behaviour of the main components of demand in the major countries, two features stand out :

- Where domestic demand is — or has been — rising strongly, it has been led by business investment (particularly investment in machinery and equipment), whereas a weakness of investment demand has been an important factor in countries where domestic demand is weak or has been slackening.
- Where domestic demand has been weak, it has been supplemented to a remarkable extent by a favourable swing in the external balance; and vice versa.

In Canada and the United States investment in machinery and equipment has been rising very strongly since the beginning of 1963 at an annual rate of 13-14 per cent and this rate is now expected to be more or less maintained into 1966. In Germany the picture is very much the same, although the rise has been a little less steep and is expected to slacken somewhat in 1966. In the United Kingdom, however, the rapid rise last year is now levelling off and little further rise is expected next year; and in Japan there are indications that there

3. DOMESTIC DEMAND AND INVESTMENT IN MACHINERY AND EQUIPMENT

(Volume, per cent change from previous year)

		1964	1965 est.
INVESTMENT DEMAND STRONG	United States	DD 4.5 ME(1) 13.5	5.25 13
	Canada	DD 6.3 ME(1) 14.3	7.50 14
	Germany	DD 6.8 ME 10.8	6.50 10
INVESTMENT DEMAND SLACKENING	United Kingdom	DD 6.3 ME 12.9	2.25 5
	France	DD 5.9 ME 6.1	1 0
INVESTMENT DEMAND WEAK	Japan	DD 13.2 ME(2) 19.7	- 1.50 1.50
	Italy	DD 0.0 ME - 20.0	0 - 10

Note : DD : domestic demand, i. e. public and private consumption, fixed investment and stock changes.

ME : investment in machinery and equipment.

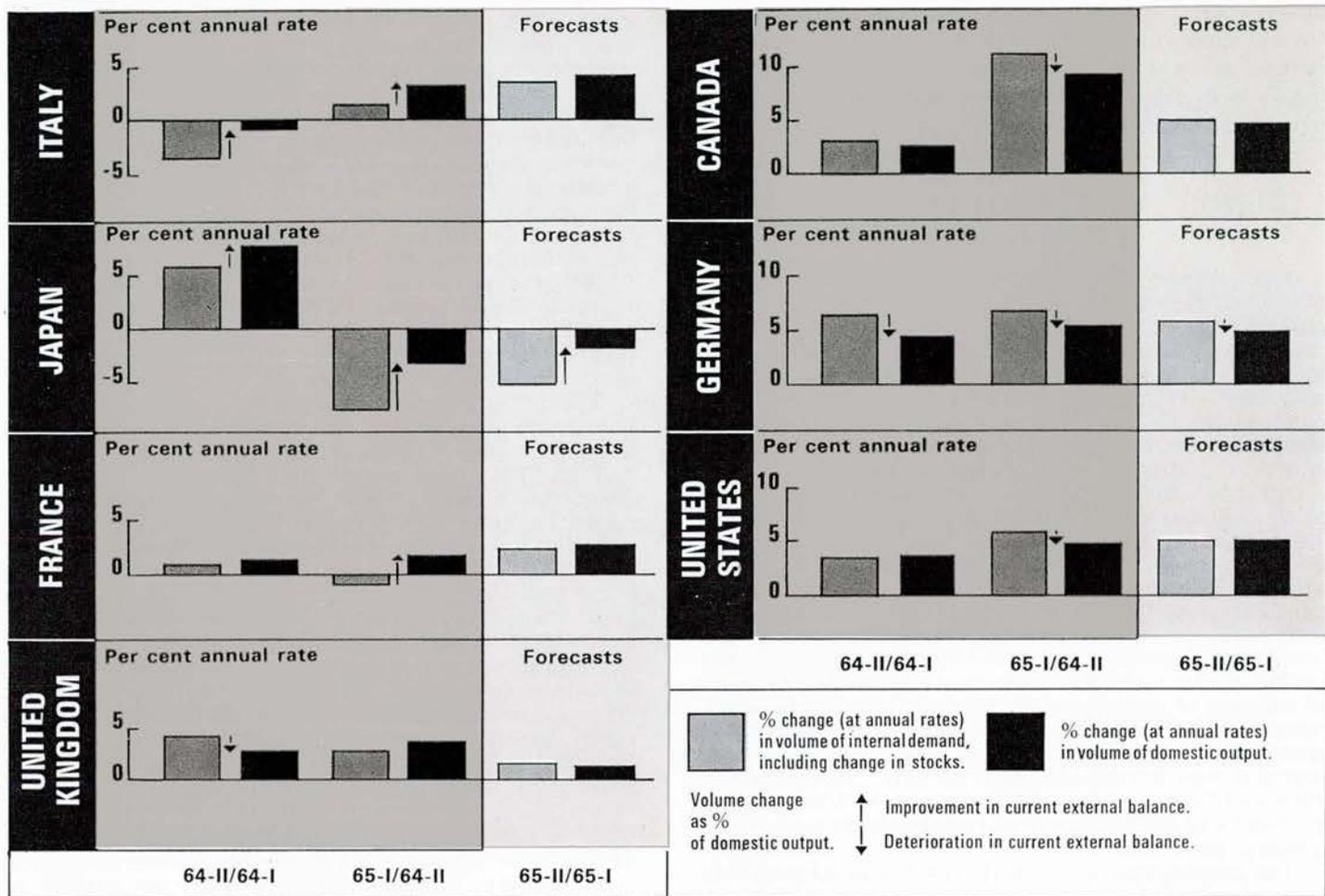
(1) Excludes expenditure by the government and government enterprises).

(2) Total fixed investment, less residential construction.

may be a decline this year. In France, it is expected that 1965 as a whole will show no increase in investment in machinery and equipment; production and trade figures suggest that it reached a peak in the middle of last year and subsequently declined. In Italy, the very sharp decline that set in towards the middle of 1963 has continued until very recently; it may now be levelling out and some recovery is expected next year.

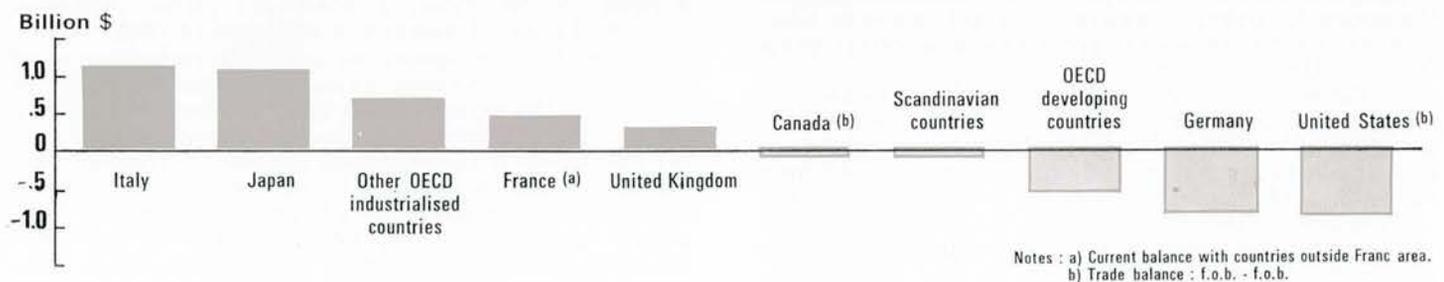
The impact of the big swings in many countries' external accounts on internal supply and demand is illustrated in Diagram 2. The most striking case is Italy, where it is estimated that the 6 per cent rise in real domestic output which is expected to be achieved between 1963 and 1965 will have been almost entirely accounted for by a favourable swing in the external current balance (amounting to as much as \$ 2.7 billion). During the course of 1965, however, domestic demand has begun to revive in Italy and little further stimulus is expected from outside. An equally large swing has been helping to sustain the level of activity in Japan since the middle of last year, and a smaller swing has benefited France during the course of this year. The most notable example of the opposite situation was in Germany, where the deterioration in the external current account since the middle of last year has, in effect, reduced the pressure of demand on domestic resources

2. INTERNAL DEMAND AND DOMESTIC OUTPUT



CHANGES IN TRADE BALANCES

First half 1964 to first half 1965 (\$ billion)



by almost 2 per cent. There was also an unfavourable swing for the United States, but its quantitative impact on the balance of internal supply and demand was inevitably small because foreign trade is low in relation to GNP.

Taking the second half of 1964 and the first half of 1965 together, the foreign trade of Germany and North America each provided expansionary impulses of the order of \$ 1.0 billion (Germany \$ 1.1, United States

\$ 0.6 and Canada \$ 0.2 billion). Further expansionary impulses came from Spain and more recently from the Scandinavian countries. There was also an important contribution (of over \$1.0 billion) from the deterioration in the trade balance of the rest of the world, the effect of which was concentrated in the second half of 1964. On the other side, these impulses helped to sustain demand — or added to demand — in Italy and Japan and, to a lesser extent, in France, the United Kingdom,

Belgium, the Netherlands and Switzerland (1).

The following paragraphs discuss, in a rather selective manner, recent trends in individual countries in more detail, dealing first with the countries where demand is strong; then with the United Kingdom where restrictive policies are now beginning to make themselves felt; and finally with the countries where reflationary measures have been taken.

TRENDS IN INDIVIDUAL COUNTRIES

The prospects for continued strong expansion in the *United States* have improved considerably in recent months, spurred on by heavy investment in plant and machinery. Consumers' expenditure has also been buoyant and is expected to continue to increase in line with GNP. While there may be some slow-down in the coming months as steel stocks are liquidated, this should increasingly be offset by the direct and indirect effects of additional military expenditure.

Although there has been some acceleration in the price rise, it remains modest, and the moderate settlement in the steel industry should help in maintaining the good record in this field. Nevertheless, the current external balance has deteriorated, partly because of special factors (a dock strike and large steel imports in anticipation of a steel strike) but also because of the growing divergence between the rate of expansion in the *United States* and its main trading partners. The overall balance of payments has improved sharply, however, helped mainly by a very large swing in the movement of short-term capital after the voluntary programme of restraint was introduced last February. Direct investment outflows, on the other hand, have continued to increase and the balance of payments deficit may remain a matter for concern.

The developments in the *United States* should help to ensure that the rapid expansion should continue in *Canada*, where there will be an additional boost from the new round of Russian wheat purchases. While unemployment is around 4 per cent and there is still some margin of unused resources, it is possible that some action in addition to that already taken may be needed to keep the growth of demand within reasonable limits; the scope for using monetary policy to this end is, however, limited by the need to avoid an undue capital inflow from the *United States*.

In *Germany*, all major components of domestic demand have been rising rapidly, the slow-down in construction being offset by a particularly strong increase of investment in machinery and equipment. Though little slackening of domestic demand is expected in the second half of 1965, there may be a gradual deceleration in the course of 1966. The degree and timing of this deceleration will depend in part on the outcome of discussions concerning the Federal, regional and local budgets for next year, and also, to an important degree, on the development of investment demand. Despite the high level of capacity utilisation, it is thought that the tight monetary conditions, together with pressure on profit margins, will lead to an easing of investment demand next year. For consumers' expenditure, there may

be a somewhat more moderate rise in incomes; but this may be offset by a slow-down in the secular rise of the savings ratio.

The pressure on prices has remained strong, although it may have eased in recent months — one factor being the surge of competitively-priced imports. For 1965 as a whole, the deterioration in the foreign balance is expected to contribute nearly 2 per cent to total supplies. A significant part of the increment in imports consisted of finished products, both investment and consumer goods, partly because capacity limitations and manpower shortages prevented German industry from increasing its output sufficiently to meet demand in the short run. Since stocks of these goods seem to have risen rapidly in the last few months, imports are unlikely to continue to increase as fast as they have during the last twelve months. Nevertheless, total imports are expected to continue to expand in the coming months at least as fast as exports, and a reduction of the deficit on current account seems unlikely.

The other main expansionary impulse in Western Europe came from the *Scandinavian countries*, where domestic demand continued to grow rapidly in the first half of 1965. Price increases speeded up in 1965 in Sweden and Denmark and the trade deficit rose significantly; between the first halves of 1964 and 1965 the trade deficit of the three Scandinavian countries increased by \$ 0.3 billion, all of which was in fact concentrated in the latter part of the period. In all three countries some slow-down of the growth of demand is expected for the second half of 1965 and the first half of 1966.

Spain stands out among the other countries experiencing strong expansion of demand, and this has been accompanied by clearly inflationary tendencies only partly absorbed by an exceptional surge in imports. Between the first halves of 1964 and 1965 the trade deficit deteriorated by as much as \$760 million; but since much of the additional imports consisted of foodstuffs, the expansionary impact on most industrial countries of Western Europe was not very marked.

In *Belgium*, *Switzerland* and *Austria*, the growth of internal demand has slackened to a range of 2-4 per cent, without resulting in any deceleration of price increases or a significant relaxation of the tensions on the labour market. In the first two of these countries total demand was sustained by a substantial favourable swing in the external current balance, but this was not the case for *Austria*. In all three, a continued rather moderate growth of internal demand is expected in 1966.

In the *United Kingdom* the rate of growth of demand and output has slowed down since the beginning of this year. The slower growth of consumers' expenditure reflects the significant increase in indirect taxation and the tightening of hire purchase conditions; the business investment boom appears to be tapering off, though more slowly than might have been envisaged; and residential construction has been affected by the tight monetary conditions. Labour market conditions may now begin to ease slowly, and the measures taken in July to limit public expenditure should ensure that this trend continues next year. Wage rates, however, have continued to rise rapidly; recent settlements have been in the 5-6 per cent range, and though wage drift may now be declining, the rise in money incomes is likely to continue to exceed the growth of productivity for some time to come.

The balance of payments has improved significantly, both because of an improvement in the current account and, in the second quarter, because of a sharp swing in the capital account following the introduction of the measures announced in the April budget. Exports, after a disappointing performance in the early part of the year, have been doing quite well in recent months; if this is maintained, and the demand for imports eases

(1) This presentation of the interdependence between countries and regions in global terms is, of course, rather arithmetical. But it does reflect some close direct links between, e.g., the surpluses and deficits of France, Italy and Germany, and those of the *United States* and Japan.

off with the slower rate of expansion, there seems good hope that the objective of eliminating the deficit and removing the import surcharge by the end of next year will be achieved.

In *Italy*, the modest recovery during the first half of this year was very largely dependent on external demand. The decline in investment demand continued, there was only a slow and hesitant recovery in consumers' demand, and only a limited impact from increased government expenditure. This last factor is likely to become more important from now on, and there are signs of a stronger rise in consumers' expenditure. But it is not clear when the measures to stimulate residential construction will begin to have some effect, nor when the recovery will gather sufficient momentum to induce a sustained rise in business investment. Although the rapid rise in exports may now slacken, and the gradual recovery of imports is likely to continue, the present very large current external surplus will continue well into next year.

In *France*, the deceleration of domestic demand has been much less marked than in Italy, mainly because of the remarkable rise in residential construction, and the fact that the setback to investment in machinery and equipment was relatively mild. Nevertheless, in the first half of 1965, the contribution of external demand was a major factor supporting the slow rise of domestic output, which was adversely affected by a very low level of investment in stocks. The boom in residential construction may slacken in the second half of 1965, but consumers' demand seems to be picking up, and the negative impulse from the trend in stocks should be wearing off. The French authorities expect that the recovery will accelerate in 1966 and have framed next year's budget on this assumption. Much will depend on the response of private investment to the expected moderate rise in consumers' and government expenditure, and on the continuation of favourable export prospects.

Recent information confirms that *Japan* is experiencing a very sharp inventory adjustment which has already had an adverse effect on incomes and consumers'

demand, and is now leading to a decline in business investment demand. The only important supporting feature so far has been the quite exceptional export performance which, in relative terms, contributed more to total demand in the first half of 1965 than in any other country. Although monetary conditions have been eased to a greater extent than at any time since the war, this has not been enough to stem the recession, and the Government has resorted to an expansionary budget policy.

It seems likely that the inventory adjustment is continuing in the second half of 1965, and that it may be some time before the various budgetary measures taken begin to yield results. The very large current external surplus seems, therefore, likely to continue at least at its present level for some time.

OVERALL PROSPECTS FOR 1966

As compared with the outlook a few months ago, the prospects for next year are clearly improved by the stronger picture in North America. There may now be no further slowing down in the aggregate growth rate in 1966; on present trends the year-to-year gain for the OECD area as a whole may be in the 4-4.5 per cent range. But big differences between different countries, and in particular the divergence of trend between North America and the rest of the area, may well continue.

The growth of real GNP in the United States next year seems likely again to be in the 4.5-5 per cent range and Canada may do even better. On the other hand, little growth is to be expected in the United Kingdom in 1966, and in Japan it will be well below the high rates achieved through most of the post-war

4. THE RISE IN CONSUMER PRICES

Changes over the 12 months ending September (a)

JAPAN	64	3.3	FRANCE	64	2.5	AUSTRIA	64	3.9	ICELAND	64	17.8
	65	8.7		65	2.4		65	5.5		65	6.9
UNITED KINGDOM	64	4.3	UNITED STATES	64	1.1	SWITZERLAND	64	3.0	TURKEY	64	0.0
	65	4.8		65	1.6		65	4.0		65	5.3
ITALY	64	6.5	DENMARK	64	3.9	BELGIUM	64	4.7	IRELAND	64	9.1
	65	4.1		65	8.6		65	3.9		65	4.3
GERMANY	64	3.0	NETHERLANDS	64	6.7	NORWAY	64	8.2	GREECE	64	0.8
	65	3.8		65	5.6		65	2.9		65	3.9
CANADA	64	1.6	SWEDEN	64	4.0	SPAIN	64	9.2	PORTUGAL	64	4.6
	65	2.6		65	5.5		65	11.4		65	4.3

Note : Countries ranked in each column according to rise in latest twelve months. The above rates of change were calculated on the basis of the consumer price indices (total) published in the OECD Main Economic Indicators. For detailed definitions see notes to tables in that publication.

(a) Periods ending August for USA, Greece and Ireland and July for Turkey and Denmark.

5. SELECTED COST AND PRICE CHANGES IN MAJOR COUNTRIES

Changes over the 12 months ending September

		United States	Germany	United Kingdom	France	Japan	Italy	Canada
Consumer prices (ex. food)	64	1.2	2.5	3.1	2.2	4.3	6.7	1.9
	65	1.2	3.2	4.5	2.6	6.1	2.9	2.5
Wage rates (manuf.)	64	n.a.	7.0 ^(a)	5.2	6.9 ^(b)	n.a.	14.3	n.a.
	65	n.a.	7.4 ^(a)	7.1	5.7 ^(b)	n.a.	7.1	n.a.
Hourly earnings (manuf.)	64	4.6	8.7 ^(a)	8.2 ^(c)	n.a.	11.2 ^(b)	n.a.	3.6 ^(b)
	65	1.8	9.8 ^(a)	5.8 ^(c)	n.a.	8.4 ^(b)	n.a.	4.9 ^(b)
Import Average Values	64	n.a.	0.5	2.9 ^(c)	4.3 ^(c)	2.6 ^(d)	3.7 ^(b)	n.a.
	65	n.a.	4.2	0.0 ^(c)	0.8 ^(c)	1.4 ^(d)	-0.2 ^(b)	n.a.
Wholesale prices of raw materials or intermediate goods	64	2.3 ^(c)	2.8	4.8	2.7	-0.2	3.9	-1.1
	65	2.2 ^(c)	1.5	1.3	0.0	1.2	1.1	2.8
Wholesale prices of manufactured products	64	0.6	1.4	3.1	n.a.	-0.8	2.3	0.3
	65	2.0	3.0	3.4	n.a.	1.2	0.9	2.7
Export average values	64	n.a.	0.4	2.9 ^(c)	5.9 ^(c)	-3.2 ^(d)	1.4 ^(b)	1.0 ^(d)
	65	n.a.	1.6	1.9 ^(c)	-0.7 ^(c)	-2.0 ^(d)	-1.5 ^(b)	1.7 ^(d)

n. a. Not applicable or not available.

(a) period ending April (b) period ending July (c) period ending August (d) period ending July

period. Growth in Italy and France should be somewhat faster than this year. What is not clear, however, is whether the recoveries in these two countries will gather sufficient momentum to provide the sort of

expansionary impulse which has been coming from Germany and a number of other European countries this year, and which is likely to be much less marked next year.

TRADE AND PAYMENTS

During the first half of this year total OECD exports rose at very nearly the same rate as in the previous half year — at a seasonally adjusted annual rate of around 10 per cent. Within the total, exports to the primary-producing countries slowed down sharply; but trade between OECD countries picked up, mainly because of a moderate recovery of Italian imports and continued strong demand from Germany, Spain and the Scandinavian countries (1).

Earlier this year, it had seemed probable that there

(1) Analysis of trade trends during the course of this year is rendered particularly difficult by an unusual number of exceptional factors, notably those affecting United States trade. Among these the most important have been: the dock and shipping strikes in the United States; the high level of steel imports into the United States in anticipation of a steel strike which eventually did not materialise; and various factors affecting trade in agricultural products, including most recently the large Russian wheat purchases.

(continued on page 31)

HOUSING CONSTRUCTION POLICIES AND TECHNIQUES

By

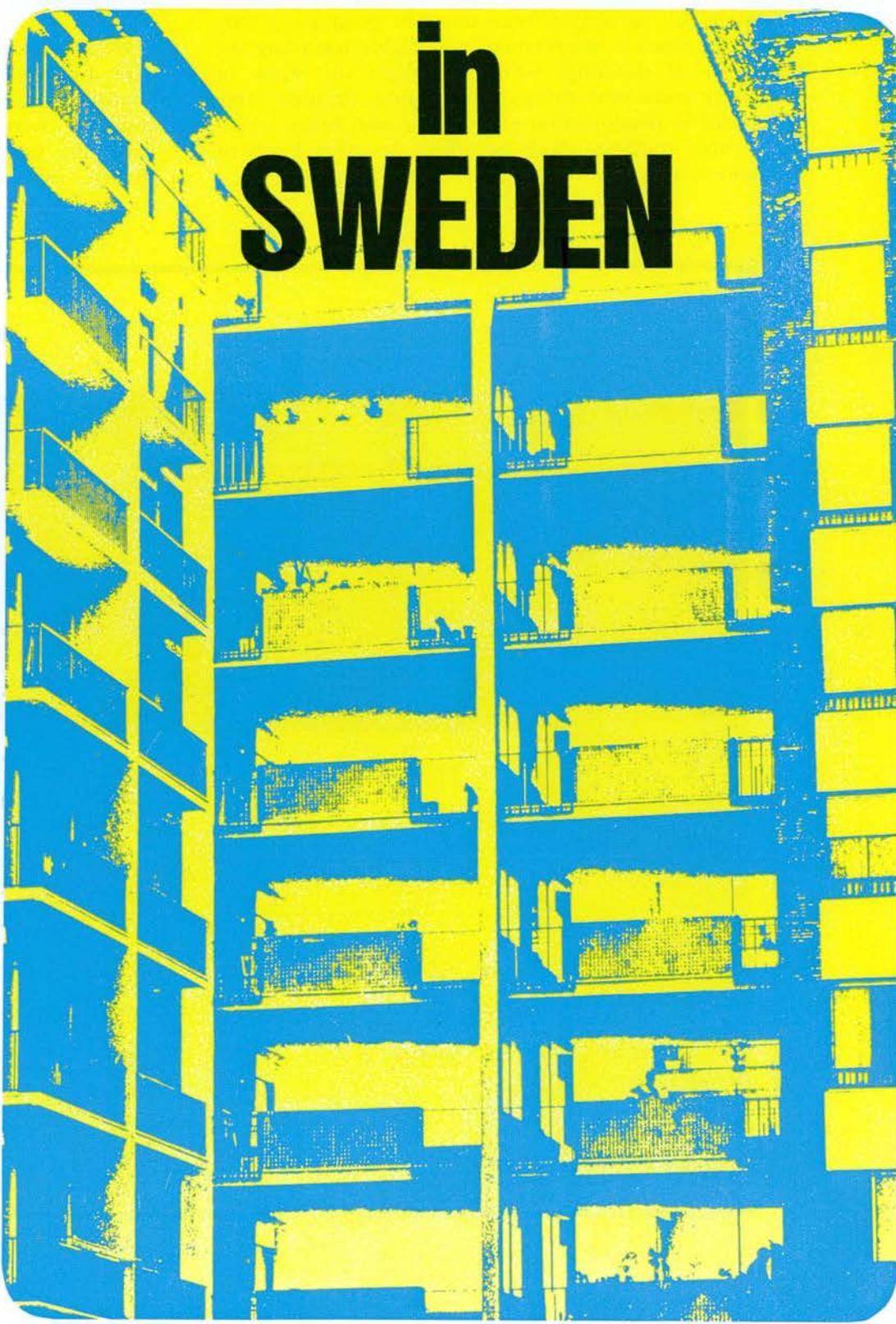
Arne NÄVERFELDT

Associated General Contractors
and House-Builders of Sweden

A problem which has pre-occupied the governments of virtually all OECD countries since the second world war has been the provision of sufficient living accommodation; and three - the Federal Republic of Germany, Sweden and Switzerland - succeeded in the years 1962 and 1963 in constructing ten new housing units per thousand inhabitants, the highest rate among the Member countries. The OECD Observer has therefore invited their respective Delegations to OECD to arrange for the preparation, by national authors, of articles describing their Governments' building policies and techniques.

The second of these articles, provided through the Delegation of Sweden to OECD, appears in this issue. A later issue will contain the article contributed through the good offices of the Federal Republic of Germany's Delegation

in
SWEDEN



The situation of the housing market

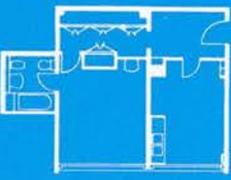
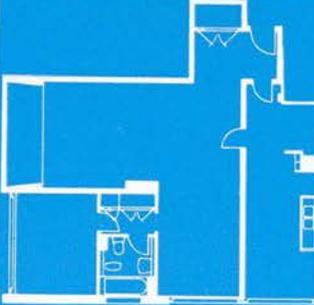
STOCK OF HOUSING

According to the latest housing survey, in 1960, the total number of dwellings in Sweden was 2,675,000; today it is probably slightly more than 2,800,000. No exact figure can be given, since the official statistics contain full particulars regarding new production only and no accurate information is available regarding the number of dwellings withdrawn from the stock of housing every year through demolition, through being deserted in depopulation areas or through being rebuilt for other purposes, such as offices or other kinds of commercial uses.

In 1960, 47 per cent of the total number of dwellings were in one- and two-family houses and 53 per cent in multi-family houses. The number of dwellings in multi-family houses was considerably larger in towns (79 per cent) than in rural areas where the majority of dwellings were in one- and two-family houses.

In 1960, 42 per cent of the total stock of housing were dwellings with 3 or more rooms and kitchen. Important changes in the ratio between small and large dwellings took place in the years 1945 to 1960. Thus, the number of dwellings with one room and kitchen or less decreased by 86,000, while the

1. Number of dwelling

Dwellings					
		Small dwelling without kitchen	1 room and kitchen	2 rooms and kitchen	3 rooms and kitchen
number	1945	256,419	533,855	647,351	342,592
	1960	227,275	470,578	846,504	618,572
Changes 1945 - 1960		- 29,144	- 63,277	+ 199,153	+ 275,980
%	1945	12	26	31	16
	1960	8	18	32	23

number of dwellings with 2-5 rooms and kitchen increased by 648,000.

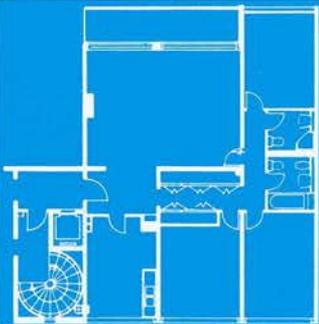
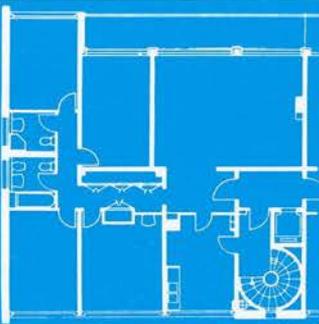
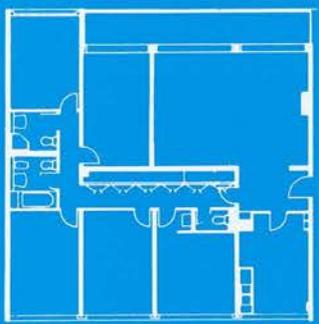
During the period 1945-1960 there was a considerable rise in the standard of equipment of the dwellings. The percentage of dwellings with running water and sewage disposal increased from 66 to 90, of those with indoor toilets from 36 to 70, of those with central heating from 46 to 74 and of those with bathroom or shower from 21 to 53. The standard of equipment is somewhat higher in densely than in sparsely populated areas. Thus, in 1960, almost all dwellings in densely populated areas had running water, while there is still a certain lack of this convenience in sparsely populated areas.

DENSITY OF RESIDENCE

In 1960, the average number of persons per dwelling was 2.7, the number per room 1.1 and per room unit

(including kitchen) 0.8. Although there is a close connection between size of dwelling and size of household, a considerable number of households are overcrowded. In 1960, 62 per cent of the one-person households, 27 per cent of the two-person households and 16 per cent of the three-person households lived in one room and kitchen. On the other hand, only 3 per cent of the one-person households, 8 per cent of the two-person households and 12 per cent of the three-person households lived in 4 rooms and kitchen. If overcrowding is taken to mean that there are more than two persons per room (excluding kitchen), this applied to 8 per cent of the households in 1960. The corresponding figure for 1945 was 21 per cent. Overcrowding is slightly more common in sparsely than in densely populated areas and considerably more common among families with children than among other families. Thus, in 1960, the percentage of overcrowding among families with one child was 15, with two children 13 and with three children 34, while overcrowding in families without children was only 2 per cent.

y size, 1945 and 1960

			Unknown	Total number of dwellings
4 rooms and kitchen	5 rooms and kitchen	6 or more rooms and kitchen		
166,041	77,766	77,766	—	2,101,790
306,598	124,798	75,441	5,329	2,675,095
+ 140,557	+ 47,032	— 2,325	+ 5,329	+ 573,305
8	4	4	—	100
11	5	3	0	100

HOUSING CONSTRUCTION

Housing construction in Sweden has increased gradually since the beginning of the 1950's, from just over 50,000 completed dwellings per year to 87,000 in 1964. During the period 1945 to 1952 production showed strong variations with a relatively high figure for 1946 — approximately 58,000 dwellings, and a minimum figure in 1951 — approximately 40,000 units.

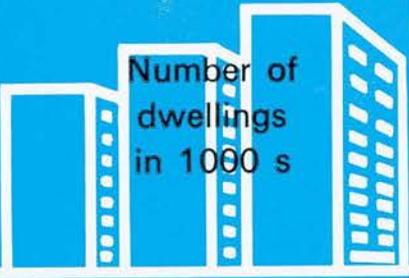
Table 4 shows the housing production in the years 1962-1964, by type of houses and size of dwellings, as well as number of dwellings per 1,000 inhabitants. As will be seen from the table, 75,000 dwellings were built in 1962, which represents 9.9 units per 1,000 inhabitants; in 1963 the corresponding figures were 81,000 and 10.7 and in 1964 87,000 and 11.3 respectively. Approximately 30 per cent of the dwellings are in one-family houses and approximately 65 per cent in multi-family houses. The remainder consist of dwellings in various types of special houses, such as old peoples' homes, students' housing, etc. The share of dwellings in one-family houses is considerably smaller in large towns than in small towns and rural areas. In towns with more than 20,000 inhabitants the percentage of dwellings in one-family houses is approximately 15, the corresponding figure in rural areas being approximately 50.

Approximately 40 per cent of the new dwellings have 2 rooms and kitchen or less. The number of dwellings with 3 rooms and kitchen is approximately 30 per cent, and this also applies to dwellings with 4 rooms and kitchen or more. The average size of dwellings in the total new production is now approximately 72-77 square metres. The corresponding figure for one-family houses is approximately 100-110 square metres and in multi-family houses approximately 62-64 square metres. During the last few years there has been a gradual increase in the average floor area. This is partly the result of an increased share of dwellings with a larger number of rooms, and partly of an increase in the average size of the various types of dwellings (1 room and kitchen, 2 rooms and kitchen, etc.). A striking feature in the last few years has been the increased floor area in one-family houses. During the last ten years the share of the gross national product devoted to housing has been between 5 and 6 per cent, which has tended to increase during the last few years (see Table 5). New investments in other building and construction amount to between 8 and 9.5 per cent of the gross national product, a continuous increase having taken place during the last ten years from 7.9 to 9.6 per cent.

The standard of the present housing construction in Sweden is relatively high. This is partly due to the fact that government loans, granted on favourable terms, can only be obtained for houses with a high standard of equipment. Moreover, the Royal Swedish Housing Board issues general recommendations regarding the

Modern Swedish housing in course of erection.

2. Number of dwellings by standard of equipment, 1945 and 1960

	Densely populated areas		Sparsely populated areas		All Sweden	
	1945	1960	1945	1960	1945	1960
 Number of dwellings in 1000 s	1,357	1,999	745	676	2,102	2,675
 running water and sewage disposal	83	96	33	71	66	90
 indoor toilet	52	81	5	37	36	70
 central heating	59	82	22	49	46	74
 bathroom or shower	31	62	5	28	21	54

Of which per cent

planning of residential areas and the standard of equipment of dwellings. These recommendations are observed in practically all kinds of housing construction and are considered a minimum standard. Thus all new family housing is equipped with central heating, water and sewage disposal, indoor toilet, bathroom, cold storage and other kinds of modern kitchen equipment and, in the case of multi-family houses, modern laundries common to all households in the building.

At present slightly more than 40 per cent of the dwellings in multi-family buildings are built for non-profit housing companies, approximately 35 per cent for co-operatives and slightly more than 20 per cent for private builders. Approximately 90 per cent of the one-family houses are built for private builders and approximately 10 per cent for the public and co-operative sectors. The latter are normally let either on a tenant-owner basis or as ordinarily rented dwellings.

SUPPLY OF HOUSING

At present there is a considerable over-demand for dwellings in Sweden. This is connected with several factors. For one thing there has been, during the entire post-war period, an extensive population movement from sparsely to densely populated areas, and for another the gradual rise in household income has resulted in an increased demand for larger and better equipped dwellings. The rent control surviving from the war has also resulted in rents in the old stock of housing not having been brought in line, relatively speaking, with the price level in new production, nor with the changed consumer attitude as regards advantages and disadvantages of different kinds of dwellings. To some extent the different rent levels have been evened out through the general increases in rent due to increased maintenance costs and the gradual removal of government financial aids in houses built during the 1940's and 1950's. Although, as stated above, housing production is relatively high, there is still a housing shortage in Sweden. This is especially marked in the large cities and in certain other heavily expanding areas, the main reason being high rates of immigration.

In most large places there are local housing authorities where applicants for housing may register. At the beginning of 1964 altogether 405,000 applicants were registered by these housing authorities. Approximately 141,000 of them were without a rented dwelling of their own, while 205,000 wished to change flats and 60,000 lived in a place other than the one in which they had applied for housing. For several reasons, however, this information from the local housing authorities is unreliable as an indicator of the housing shortage. It is not certain that all those who seek a dwelling have registered with the local housing authority, and for another thing, all registered applicants might not represent an immediate demand. For instance, young people register in order to get a dwelling

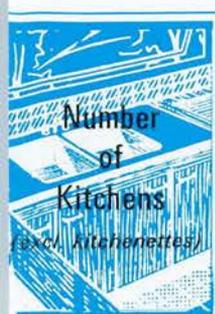
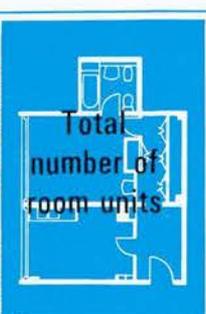
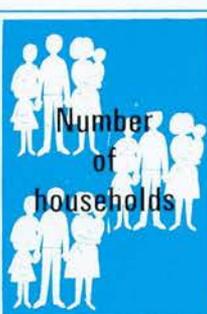
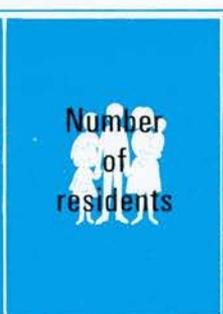
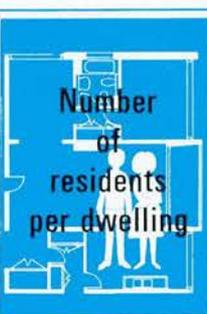
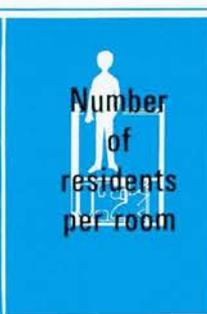
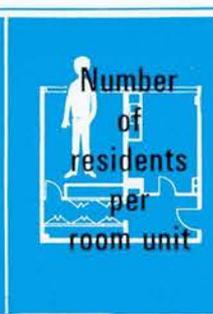
3. Stock of housing 1960 - N

	Number of dwellings	Number of rooms
One- and two-family houses	1,258,055	3,782,87
Multi-family houses	1,417,040	2,876,39
TOTAL	2 675 095	6 659 27

at some future date, and the demands of some applicants as to location and rent of housing are quite unrealistic. Thus there is reason to believe that the number of housing applicants in the actual sense of the word gives an exaggerated picture of the de facto housing shortage and that it is partly an expression of an over-demand of the kind that always arises in a situation of shortage.

Of the 141,000 applicants without a dwelling of their own no less than 105,000 are to be found in the cities of Stockholm, Göteborg and Malmö and their suburbs. The number of housing applicants in these three cities represents 15 per cent of the total number of households within the areas. For the whole country the number of housing applicants without a dwelling of their own is 5 per cent of the total number of households. Since approximately 90,000 dwellings are being built per year, it would seem as if the housing shortage might be got rid of within a relatively short period. However, in view of the fact that the nominal income

Number of residents per dwelling and per room by type of house

 Number of Kitchens <small>(excl. Kitchenerettes)</small>	 Total number of room units	 Number of households	 Number of residents	 Number of residents per dwelling	 Number of residents per room	 Number of residents per room unit
1,239,949	5,022,827	1,215,791	3,817,862	3.0	1.0	0.8
1,218,523	4,094,920	1,366,410	3,523,609	2.5	1.2	0.9
2 458 472	9 117 747	2 582 201	7 341 471	2,7	1,1	0,8

of the households shows a relatively rapid growth from one year to another and that the average rent costs do not keep pace, the situation of shortage is likely to remain for some time — at least in the large cities.

PRODUCTIVE RESOURCES

As stated above, there has been a relatively sharp increase in housing construction during the last ten years. At present there is a shortage of labour as well as of capital because of the great demand for investments in building and other construction in all sectors. In housing construction the rate of increase in recent years is not likely to continue during the next few years to come. There will be no increase in the total labour force in Sweden in the years 1965-1970. Admittedly, the growth of population in the ages 16-66 years will be approximately 100,000 and there is also reason to believe that the number of married women

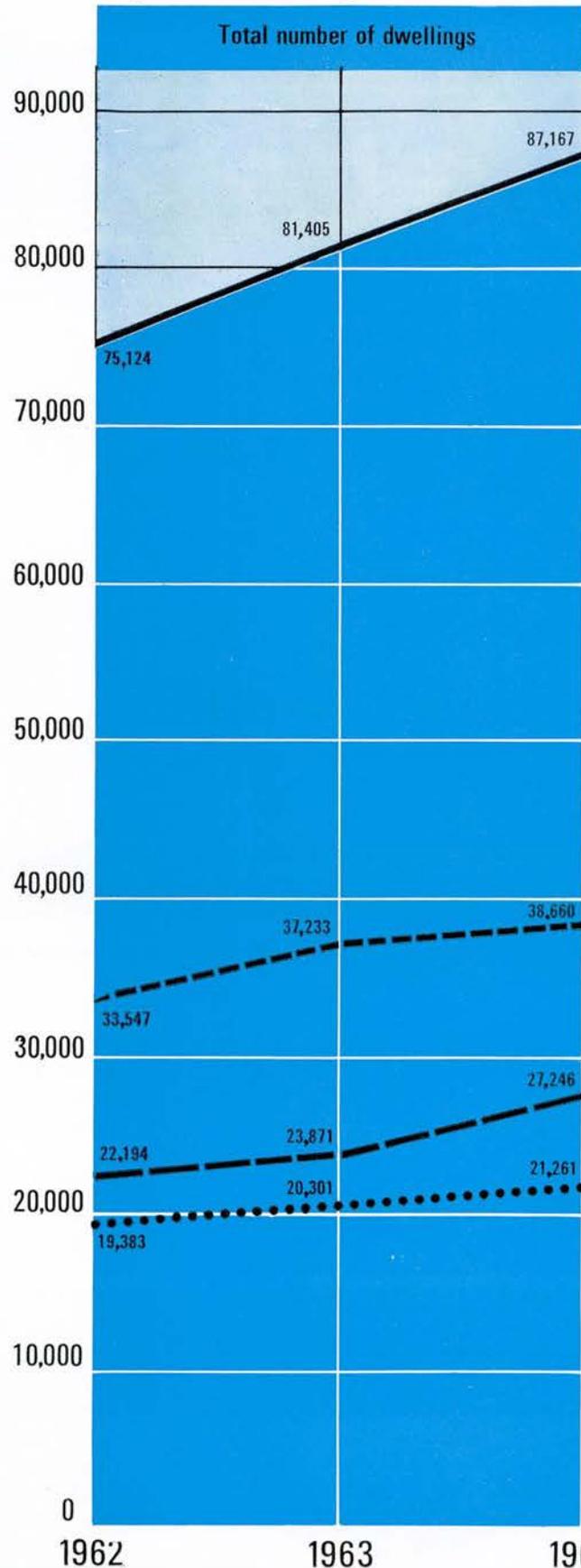
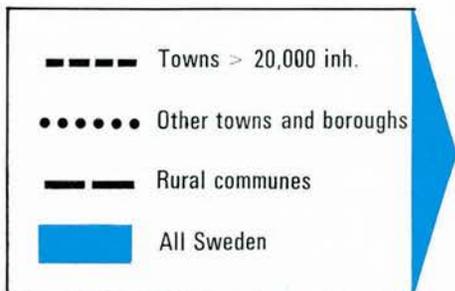
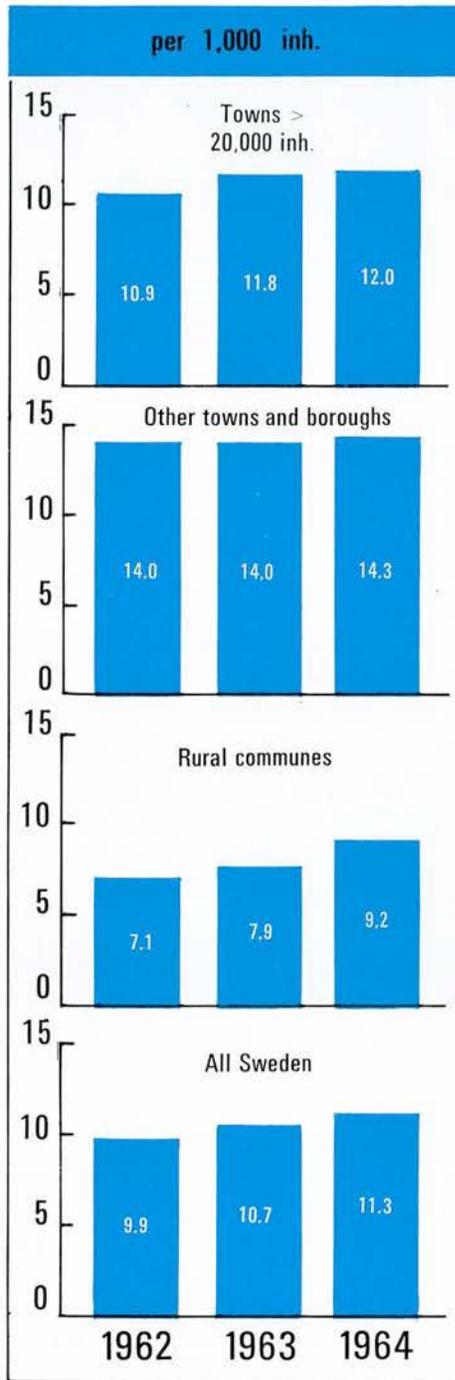
gainfully employed will increase. On the other hand, the school reform recently effected will result in a considerable increase in the number of students and, furthermore, a certain reduction in working hours is to be expected.

Altogether, these factors are likely to result in a reduction of the total supply of labour, in terms of working hours, during the period 1965-1970.

The supply of labour for housing construction has increased by approximately 2 per cent per year during the last five years, which, together with the rise in productivity, has made the big expansion in investments in housing and other construction possible. In view of the trend on the labour market and increased demands from other sectors, it is not realistic — notwithstanding increased industrialisation and the rise in productivity — to expect as rapid an expansion in the house building sector over the next few years as has been the case during the last five years.

The supply of capital for housing construction pur-

4. Number of dwellings completed in the years 1962 and size of dwellings in towns, boroughs and



Of which in per cent	1964	
	Towns > 20,000 inh.	Other towns
1 and 2 fam. houses	16.0	26.0
Multi-family houses	78.4	72.0
Spec. houses	5.6	1.0
1 room and kitch.	21.0	16.0
2 rooms and kitch.	23.4	26.0
3 rooms and kitch.	29.4	30.0
4 rooms and kitch.	17.1	20.0
5 and more rooms and kitch.	9.2	7.0

* incl. other small dwellings a

1964 by type of house rural communes

2	1963				1964				
	All Sweden	Towns > 20 000 inh.	Other towns and boroughs	Rural communes	All Sweden	Towns > 20 000 inh.	Other towns and boroughs	Rural communes	All Sweden
10.0	28.7	14.3	28.1	50.8	28.5	16.4	31.0	50.7	30.7
15.9	67.1	76.6	69.5	44.4	65.4	79.3	64.2	43.7	64.5
4.2	4.1	9.0	2.5	4.8	6.1	4.2	4.8	5.6	4.8
17.7	18.8	23.0	18.3	18.3	20.4	16.9	19.2	19.0	18.1
16.8	22.2	19.3	22.6	15.8	19.1	19.3	21.2	15.2	18.5
17.2	29.0	32.4	29.7	25.7	29.8	35.1	26.5	23.0	29.2
18.3	21.2	16.0	20.3	28.8	20.8	18.5	23.5	29.5	23.1
19.9	8.9	9.3	9.1	11.4	9.9	10.2	9.6	13.3	11.0

vellings in special houses.

poses is almost entirely controlled through the government financial aids. For each budget period loans are granted by the Riksdag, and the Government controls — by means of its monetary policy — the lending possibilities of the credit institutions. In view of the heavy demand for capital from various sectors of society, not least from local authorities and industry, there will no doubt be a tightness of money which, quite naturally, will also influence housing production.

BUILDING COSTS

From the time immediately before the Second World War building costs, expressed in price per square metre floor area, have risen to approximately the same extent as the general level of consumer prices; at the same time there has been a considerable improvement in the quality of dwellings. During the last five years, however, increases in costs seem to have been more rapid; this is connected with over-full employment in the building sector and heavily increased demands for improvements in quality, primarily as regards the standard of equipment of dwellings and the planning of residential areas. During the period 1954 to 1964 prices of productive factors have risen by 65 per cent, while the consumer price index has risen by 40 per cent. As an example it may be mentioned that the prices of materials for construction work increased by 42 per cent, for painting work by 44 per cent and for heating and sanitary installations by 61 per cent. Hourly earnings for building workers increased by 94 per cent and the trend of salaries for employees in the building industry is also characterised by a relatively rapid increase.

On the whole, it may be said that the increase in prices of productive factors in the building industry has been sharper than in most other sectors of society. Notwithstanding the big rise in the productivity of labour — it is estimated that there has been an average decrease in the number of working hours per cubic metre of building volume from 6.6 hours in 1950 to 3.3 hours in 1964 — it has not been possible to prevent a relatively heavy increase in the price of the finished product. The cost per square metre floor area in multi-family houses, excluding cost of site, is estimated to have increased from approximately 600 kronor in 1958 to 750 kronor in 1964, or by 25 per cent; the corresponding increase in one-family houses has been slightly larger, viz. 30 per cent. During the same period there has been an increase in consumer prices of 19 per cent.

AMOUNT IN CASH ON PURCHASE OF HOUSES

The acquisition of private dwellings (not rented ones) is generally made in the form of the purchase of a one-family house or of a tenant-owner's dwelling in a

multi-family house (the buyer becomes a member of a co-operative association which owns the house and is entitled to dispose of a certain dwelling).

The prices and, accordingly, the amounts in cash on the purchase of one-family houses vary considerably with regard to the size and standard of the house and to varying building costs in different parts of the country. In the Stockholm area an ordinary one-family house, with government financial aid, of approximately 120 square metres costs about 130,000 kronor. To finance the purchase the buyer may obtain loans on the regular credit market at an interest subsidised by the Government as well as Government financial aid at an interest rate below that of the open market. The size of the loans is fixed on the basis of standard estimates, in this case 100,000 kronor. The loans amount to 90,000 kronor of which the Government aid is 20,000 kronor. In addition to these loans a special final loan — which in this case may amount to approximately 15,000 kronor — is generally obtainable, e.g. from a savings bank. Thus, the total loan amount would be 105,000 kronor and the cash amount to be paid by the buyer 25,000 kronor, or approximately 20 per cent of the total purchase sum. The annual costs, excluding costs for paid-up capital but including financial amortisations, may be estimated at approximately 9,000 kronor. Since, according to the tax laws in force, interest paid is deductible on calculation of taxable income, in a case like this there would be a certain tax relief. For a family with an average income this would mean approximately 700 kronor.

As mentioned above, the prices of one-family houses

vary considerably in different parts of the country. For instance, in places with relatively low building costs, a house of approximately 85 square metres may be bought at a price of some 70,000 kronor. The amount to be paid in cash may be estimated at approximately 6,000 kronor and the annual costs — without taking into account tax relief — at approximately 5,500 kronor.

The cost of a tenant-owner's dwelling in a multi-family house varies with regard to the size of the dwelling. In the following example approximate figures are given for a dwelling of 3 rooms and kitchen with an estimated floor area of approximately 75 square metres. The figures indicated refer to places with an average level of costs. Since building costs vary in different parts of the country, there may be deviations from these figures of up to plus or minus 20 per cent. The total cost of production for such a dwelling may be estimated at 65,000 kronor. The amount to be paid in cash by the tenant-owner would be approximately 11,000 kronor. If the house is financed by government housing aids and enjoys subsidised interest on loans raised on the credit market, the annual costs for such a dwelling may be estimated at approximately 4,000 kronor. Regular amortisations are then included as well.

It is very difficult to indicate what share of the income is taken by the annual cost of a new one-family house or a tenant-owner's dwelling. The annual income of workers varies from 12,000 to 35,000 kronor and, for natural reasons, variations in employee income are still larger. Besides, the wife or a grown-up child in the family may be gainfully employed, which has an influence on the total income of the household.

5. New investments in housing and other construction as per cent of the gross national product, 1954 - 1965 (at current prices; according to UN definitions)

	Gross national product in million kronor	Of which in million kronor		Of which in per cent*	
		housing	other construction	housing	other construction
1954	42,153	2,262	3,326	5.4	7.9
1955	45,324	2,359	3,565	5.2	7.9
1956	49,161	2,570	3,840	5.2	7.8
1957	52,906	2,727	4,134	5.2	7.8
1958	55,227	2,952	4,579	5.3	8.3
1959	58,786	3,110	5,264	5.3	9.0
1960	63,814	3,247	5,833	5.1	9.1
1961	69,578	3,607	6,322	5.2	9.1
1962	75,413	4,092	6,799	5.4	9.0
1963	81,867	4,597	7,863	5.6	9.6
1964	90,395	5,427	8,715	6.0	9.6

6. *Number of dwellings completed in the years 1962 - 1964 by type of builder, etc.*

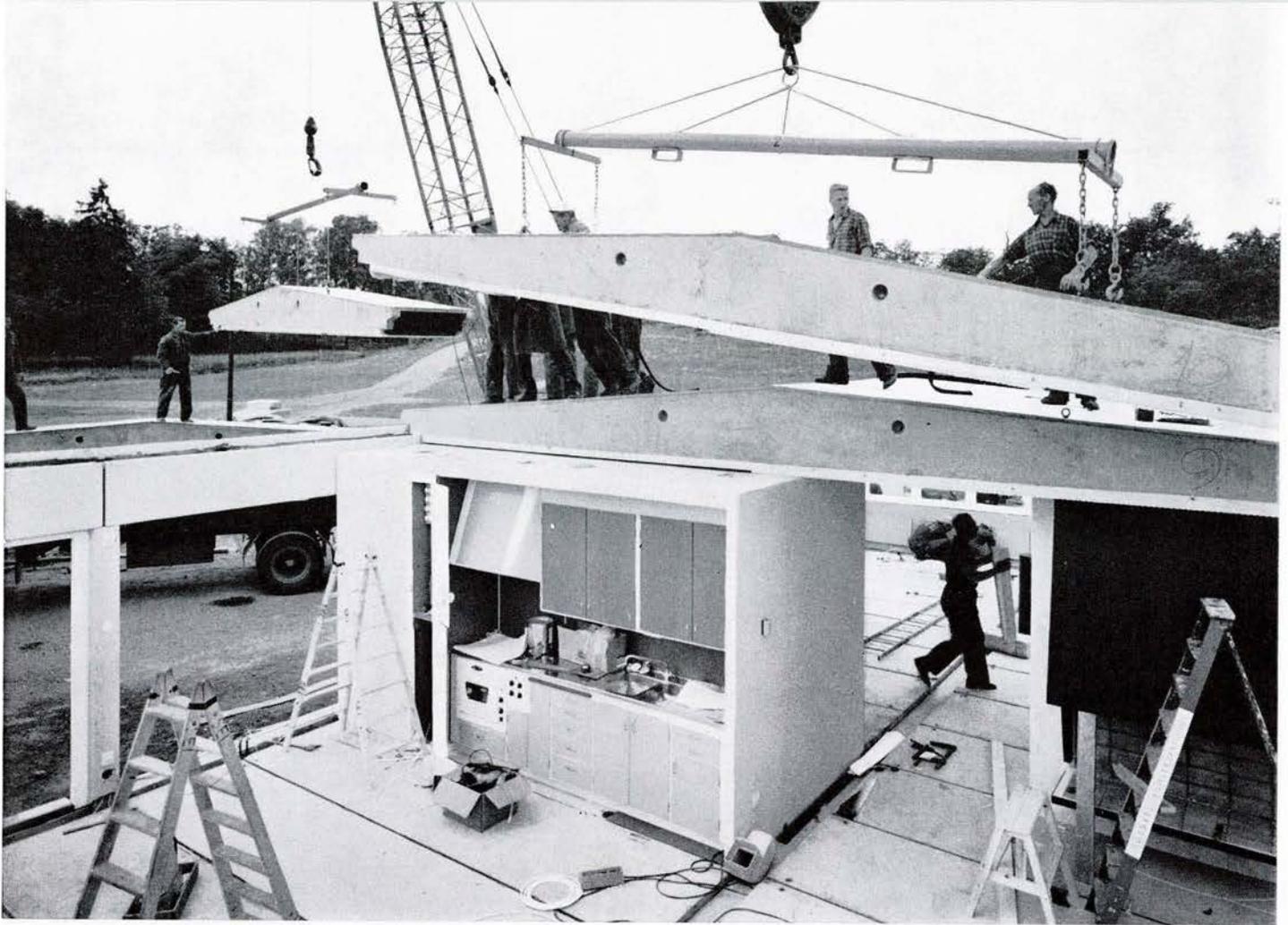
	1962		1963		1964	
	number	per cent	number	per cent	number	per cent
NUMBER OF DWELLINGS BY TYPE OF BUILDING :						
national and local governments, non-profit companies	24,015	32.0	28,523	35.0	31,459	36.1
co-operatives	18,219	24.3	20,208	24.8	21,148	24.3
private	32,890	43.8	32,674	40.1	34,560	39.6
ONE- AND TWO-FAMILY HOUSES						
with government financial aid	19,575	90.8	21,109	91.1	23,526	87.9
without government financial aid	1,984	9.2	2,073	8.9	3,225	12.1
TOTAL	21,559	100.0	23,182	100.0	26,751	100.0
MULTI-FAMILY HOUSES						
with government financial aid	48,452	96.0	51,595	96.9	54,880	97.6
without government financial aid	2,014	4.0	1,639	3.1	1,340	2.4
TOTAL	50,466	100.0	53,234	100.0	56,220	100.0
SPECIAL HOUSES						
with government financial aid	1,340	43.2	2,664	53.4	823	19.6
without government financial aid	1,759	56.8	2,325	46.6	3,373	80.4
TOTAL	3,099	100.0	4,989	100.0	4,196	100.0
ALL TYPES OF HOUSES						
with government financial aid	69,367	92.3	75,368	92.6	79,229	90.9
without government financial aid	5,757	7.7	6,037	7.4	7,938	9.1
TOTAL	75,124	100.0	81,405	100.0	87,167	100.0

Present-day problems in the building market

TECHNICAL DEVELOPMENT

One of the striking features of technical development during the 1950's was mechanisation. Cranes, hoists and other mechanical equipment, such as pumps, compressed air units, high-pressure boilers, mechanically operated hand tools etc. have become indispensable on all building sites.

To an ever-increasing extent factory-made elements are being used : stock items such as staircases, refuse-chutes, kitchen equipment, wall and floor elements. Large " custom-made " framework elements are manufactured by the building companies in factories of their own. Even complete room units are pre-fabricated. Practically all traditional materials are now being used in pre-fabrication : reinforced brick courses, fibre planking, prestressed concrete, etc.



To an ever-increasing extent factory-made elements, including complete kitchen equipment, are being used.

The labour force is also being used in a more efficient way. During the last 15 years work time per cubic metre of building volume has fallen by approximately half. The more industrialised construction becomes, the more urgent becomes standardisation. Within the Swedish organisation for standardisation there is a special committee representing all interested parties in the building sector. The committee has been working for 20 years and has issued 200 new standards. Approximately one-third of all building materials is standardised. In principle, work is divided into basic standardisation and production standardisation. Examples of the former are modular co-ordination, tolerances and heights of stories. Production standardisation comprises measurements and, to a certain extent, quality of building products, building components, places of storage and aids on the building site. The guiding principle is that a standard shall be a voluntary agreement between the parties concerned.

The development in materials is characterised by improved qualities, an increasing relative number of catalogue goods, greater choice, progress in synthetic and compound materials, and a desire to call attention to demands on materials in influencing the environment as well as an expansion and unification of the description of goods by means of standardised testing methods, in order to create better possibilities for

choosing the right material for the right purpose.

In the case of heavy frame work materials the trend is towards reinforcing steel ready for erecting.

An even and undisturbed production is likely to have a greater influence on building costs than anything else. This is true of the individual building objective, the building company and construction in general. The watchword is planning. This problem is being tackled from many angles within the building companies.

Furthermore, it is essential that the entire process of production be co-ordinated, so that the planning work and the work of the specialist contractors are brought together under one single management, responsible for the entire execution of the project.

Long-term planning, in the first place on the part of the clients, is a fundamental condition for continuity in building activities and for repetition of different operations on the site. This facilitates an accelerated technical development, but it also entails an adjustment on the part of all those participating in the building process: clients, consultants, contractors and labour. At the same time complicated operations must, to a greater extent, be transferred from building sites to factories. A rapid development is under way and the next ten years will no doubt see important changes in Swedish housing production.

would be a significant slow-down in the growth of OECD exports in the second half of 1965. This now seems not to have been taking place. The main reason is the stronger picture in the United States, where import demand is showing a further substantial rise despite the fact that steel imports are falling sharply from the swollen level of the first eight months of the year. In addition, the reserve position of the primary-producing countries has deteriorated rather less than expected, so that the prospects for OECD exports to these markets look somewhat better than they did earlier in the year. With the first instalment of the Canadian wheat sales included, it is probable that total exports will have shown a further substantial rise between the two halves of the year.

Recent trends in both import demand and export performance have very clearly been influenced by conditions on the respective home markets :

per cent change, first half 1964 to first half 1965

	Imports	Exports		Imports	Exports
Japan	3	36	United Kingdom	—	4
Italy	—11	24	United States (1)	12.5	5
France	—	8	Germany	24	9.5

(1) Adjusted for the dock strike, and excluding wheat exports to the Soviet Union.

The direct consequence of this has been some very big swings in trade balances — reinforced in some cases by similar changes in invisible transactions — leading to the emergence of an unusual and striking pattern of current surpluses and deficits. In recent months Italy has been running a current surplus at a seasonally adjusted rate of around \$ 2.0 billion, Japan one of well over \$ 1.0 billion, and France of around \$ 0.5 billion; Germany's current deficit, on the other hand, has been not far short of \$ 2.0 billion on the same basis. These swings in the current account have been partly matched by offsetting changes in capital flows, resulting both from the measures taken to stem the capital outflows from the United States and the United Kingdom, and from the natural tendency for credit demand to be slack in those countries with weak internal demand — and big current surpluses — and vice versa.

Assessment of internal developments suggests that the movement in current accounts may be reaching a turning point and that a swing back towards a more normal pattern should soon be getting under way. Nevertheless, on present trends and policies, this process may only take place fairly gradually. In the interval, the financing of that part of those surpluses and deficits which is not covered by private capital flows could create certain problems.

(continued on page 32)

6. FOREIGN TRADE OF OECD AREA ⁽¹⁾

Estimates and forecasts by the Secretariat (values, seasonally adjusted, per cent change)

	1964 \$ billion	Year-to-year changes				Change from previous half-year (2)				
		1960-62	1963	1964	1965	1964	1965	1965	1966	
		Aver- ages			Forecast	II	I	II	I	
								Forecast		
EXCLUDING WHEAT SALES TO THE SOVIET UNION										
Total	Imports	113.3	7.0	9.9	12.1	8	2.9	4.3	4.5-5	3.5
	Exports	108.9	5.4	8.7	12.8	9.5	5.1	4.8	4.5	3
Intra-OECD	Exports	73.5	7.8	10.3	13.7	9.5	3.7	5.1	5-5.5	3.5
	Imports	36.5	4.0	9.5	9.5	5.5	1.2	3.5	3-3.5	3
Extra-OECD	Exports	33.0	0.4	5.7	12.1	9.5	7.9	4.4	3	2-2.5
	Imports									
INCLUDING WHEAT SALES TO THE SOVIET UNION										
Total	Exports	109.4	5.4	8.7	13.3	9-9.5	4.5	4.5	4.5-5	3
Extra-OECD	Exports	33.6	0.4	6.0	13.7	8.5	6.3	3.5	4	2.5

(1) Adjusted for the estimated shift of exports between early 1965 and end-1964, figures due to the U. S. dock strike and for changes in the secrecy regulations concerning U. S. special category commodities.

(2) Not at annual rates.

RELATIONS WITH THE REST OF THE WORLD

OECD exports to the rest of the world rose at an annual rate of around 8-9 per cent in the first half of this year, compared with an annual rate of as much as 16 per cent in the previous half-year. Thus, the expected slow-down of exports seems to have followed, with a delay of about six months, the slow-down in OECD imports from the rest of the world which became marked after the middle of 1964. As a result, the steady rise in the OECD area's trade surplus with the rest of the world, which has lasted since the middle of 1963, seems to have come to a halt during the first half of this year.

Exports to the *industrialised primary producers* (Australia, New Zealand, South Africa and Finland — which took 16 per cent of OECD exports to the rest of the world in 1964) followed a sharply rising trend until the early months of 1965, but now show signs of tailing off. The external position of these countries has been adversely affected by the decline of commodity prices and, in the case of Australia, by the effect of drought conditions on exports of agricultural products. The resulting loss of reserves — \$760 million in the first nine months of this year for these countries as a group — has

8. CHANGES IN RESERVES OF PRIMARY PRODUCERS

	\$ million			
	1963	1964	1st half 1965	3rd qtr. 1965
LESS DEVELOPED COUNTRIES	840	140	560	..
of which : high reserve countries (1)	640	300	290	..
other countries	200	-160	270	..
INDUSTRIALISED COUNTRIES (2)	600	120	-530	-230
TOTAL	1 440	260	30	..

(1) See footnote (2), preceding table (2) Australia, New Zealand, South Africa, Finland

led, or should lead, to the adoption of stabilisation measures which are likely to bring about a fairly sharp deceleration in the growth of demand for OECD exports.

Among the *less developed primary producers* it is useful to single out a small group of *high reserve countries* which hold big reserves in relation to their trade and to the size of their economies. Taken as a group, these

7. OECD TRADE WITH THE REST OF THE WORLD (Values, seasonally adjusted, per cent change)

	\$ Billion 1964	Change from previous half-year			
		1963 II	1964 I	1964 II	1965 I
Exports to :					
Industrialised primary producers (1)	5.5	6.3	11.3	12.1	8.1
Less developed countries	24.4	6.0	3.1	6.2	3.6
of which : High reserve countries (2)	3.6	7.7	9.8	—	9.3
Other countries	20.8	5.7	1.9	7.4	2.7
Sino-Soviet countries (3)	3.1	-5.6	3.0	15.6	4.6
Total (3)	33.0	4.9	4.3	8.0	4.5
Data including wheat sales to the Soviet-Union					
Sino-Soviet countries	3.7	-0.8	24.2	-0.7	-3.9
Total	33.6	5.3	6.4	6.3	3.5
Imports from :					
Industrialised primary producers	5.5	17.1	3.9	-2.5	0.3
Less developed countries	27.5	6.8	4.7	1.4	3.2
of which : High reserve countries	7.0	3.5	4.2	3.5	2.0
Other countries	20.5	8.0	4.9	0.6	3.6
Sino-Soviet countries	3.5	7.5	4.0	3.9	13.0
Total	36.5	8.3	4.5	1.0	3.7

(1) Australia, New Zealand, South Africa and Finland.

(2) Iraq, Israel, Kuwait, Lebanon, Libya, Malaya, Saudi-Arabia and Venezuela.

(3) Excluding US and Canadian wheat sales to the Soviet Union.

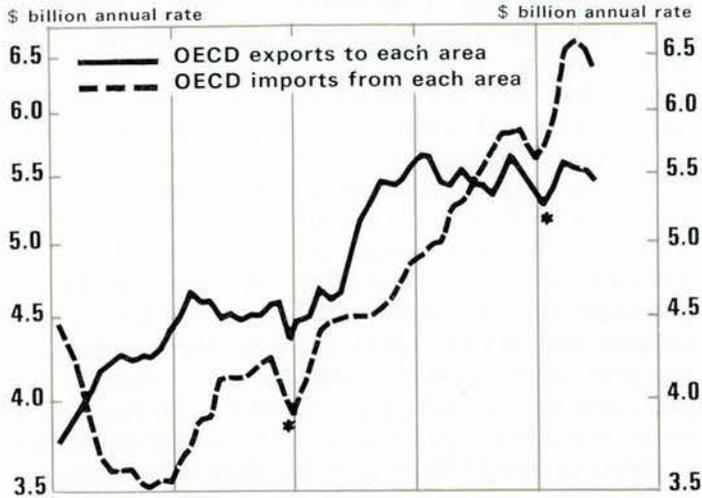
3. TRADE OF OECD COUNTRIES WITH PRIMARY PRODUCERS

3 - month moving averages

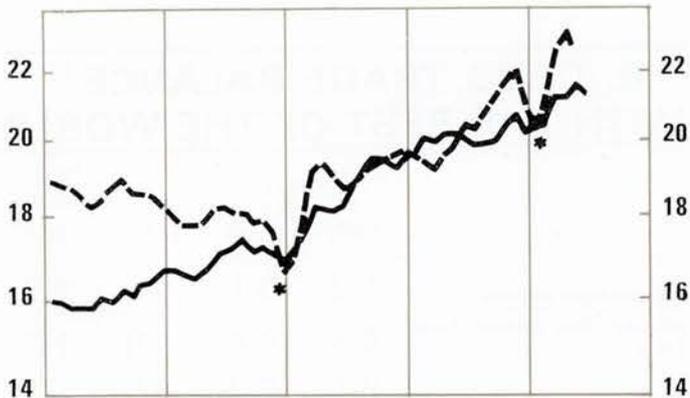
OECD RELATIONS WITH THE REST OF THE WORLD

adjusted for seasonal variations

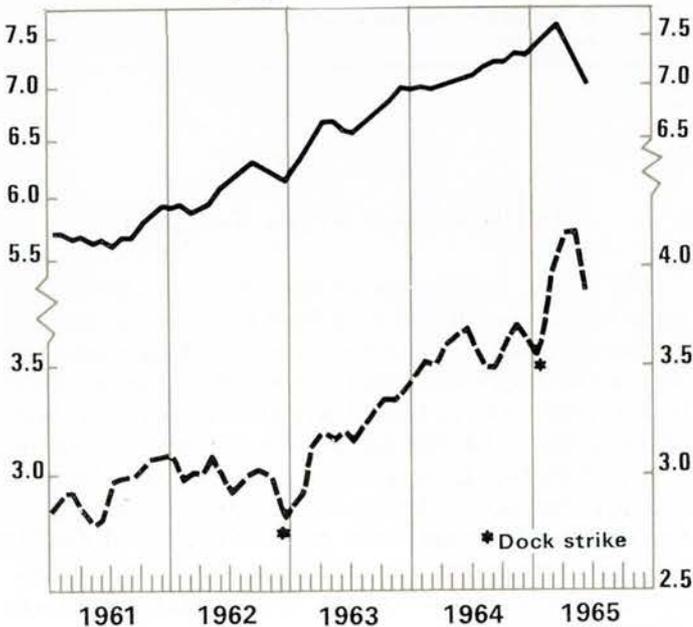
Developed countries, Australia - New Zealand - South Africa
Finland



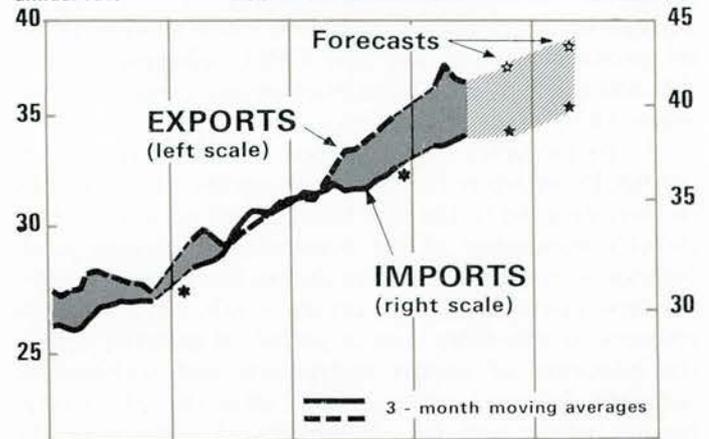
Less developed primary producers (excluding high reserve countries)



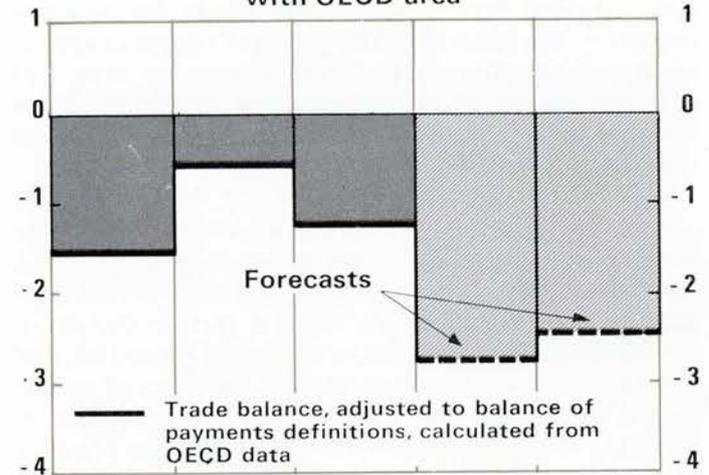
Less developed primary producers (high reserve countries)



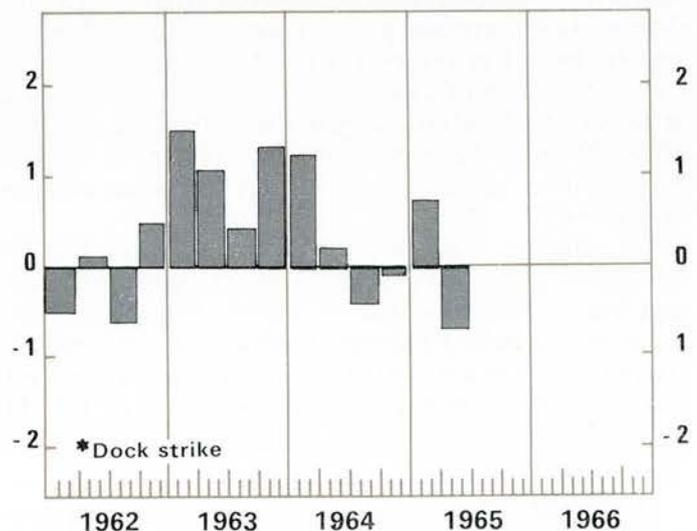
Trade of OECD with the rest of the world



Trade deficit of primary producers with OECD area



Changes in reserves of primary producers



countries' export earnings tend to fluctuate less widely, and at the same time the high level of their reserves renders them less dependent on such fluctuations as do occur. Exports to these countries (11 per cent of OECD exports to the rest of the world) rose sharply in the first half of this year after a temporary slow-down in the latter part of last year. Despite this, the reserves of this group rose strongly in the first half of this year, mainly because of the large cash payments made to most of the oil producers under the new OPEC agreement. For this and other reasons, continued strong export demand seems likely in these markets.

As to the *other less-developed countries* (62 per cent of OECD exports to the rest of the world), the slackening of their demand in the first half of 1965 appears to be a direct consequence of the deterioration of their trade balance with the OECD area during the course of 1964. As these countries do not, on the whole, have sufficient reserves to tide them over a period of external deficit, the adoption of import restrictions and stabilisation measures followed rather quickly after the fall of commodity prices and the subsequent slow-down in the growth of their export earnings in the second half of last year. With little further fall of commodity prices, their export earnings did rather better in the first half of this year. At the same time — and partly for seasonal reasons — the reserves of this group of countries appear to have risen quite sharply from January to June. In part this reflects additional financial assistance in the form of debt-servicing waivers, etc., and drawings on the IMF.

For all the primary producers the development of commodity prices is of crucial importance. In some ways the prospects are rather better than they were a few months ago. On the supply side there is reason to hope that recent efforts to avoid a further decline of agricultural commodity prices will prove successful, and that there will not be a repetition of the series of special factors which played a large part in the price decline in 1964 (1). On the demand side there is now the prospect of continued strong demand from North America. On the other hand, the present pattern of growth within the OECD area is intrinsically unfavourable to the primary-producing countries, since Europe and Japan, which are showing below-average gains in output, are much more heavily dependent on imported raw materials than the United States and Canada. This seems to be reflected in recent trends which suggest that, after allowing for price changes, the growth in the volume of OECD imports from the primary producers is continuing to slow down.

On balance, therefore, there may be some further slow-down in OECD exports to the primary producers next year. This should result mainly from the action taken by developed primary producers to re-establish external equilibrium, but would also reflect the fact that the growth in the volume and value of OECD

imports of primary products may only be fairly modest.

OECD exports to the *Sino-Soviet countries* (11 per cent of OECD exports to the rest of the world) have been rising rapidly. In view of the present trend towards larger sales of industrial plant on favourable credit terms, OECD exports to these countries may well make a further significant contribution to the expansion of exports to the rest of the world through the middle of next year. The resumption of wheat purchases by the Soviet Union — which are expected to amount to \$0.5 billion in the case of Canada alone — may, however, cause financing difficulties which could have some dampening effect on other exports.

Putting together developments in the different markets, the OECD area's trade surplus with the rest of the world may be of the order of \$2.7 billion in 1965, or \$0.9 billion higher than in 1964. As far as the primary producers are concerned, almost all of the year-to-year increase had already taken place by the beginning of this year; after a period of stability during most of this year some decline seems likely in 1966 — perhaps of the order of \$0.25 to \$0.5 billion. The total trade surplus is currently being bolstered by the large wheat sales and its level next year will depend a good deal on whether these continue.

9. OECD TRADE BALANCE ⁽¹⁾ WITH THE REST OF THE WORLD

	\$ billion			fore- cast 1965
	1962	1963	1964	
Less developed countries	1.2	0.1	0.4	1.0
Australia, New Zealand, South Africa (2)	0.3	0.4	0.8	1.7
Sino-Soviet countries	0.4	0.2	0.6	—
TOTAL	1.9	0.7	1.8	2.7

(1) F. o. b., balance of payments basis.
(2) Including Finland.

INTRA-OECD TRADE AND TOTAL EXPORTS

The main factors underlying the development of trade within the OECD area have been strong demand in Germany and North America and weak or weakening demand in Italy, France and Japan. With the surcharge in force, the trend in United Kingdom imports has been virtually flat. Among the smaller industrialised countries in Europe, strong demand from the Scandinavian countries has been offset by slacker demand in some of the others. Demand from the less-developed OECD countries, while not very important in absolute terms, has been rising very sharply because of the rapid growth of Spanish imports.

(1) Possible effects on prices of the Rhodesian crisis have not been taken into consideration.

In both Germany and the United States, the strong expansion of imports was temporarily enhanced by special factors in the course of 1965. The investment boom in Germany led to a sharp rise in imports of equipment goods (26 per cent in the first eight months of 1965 compared with a year earlier) and there was also an upsurge of imports of consumer goods (29 per cent over the same period). This appears particularly to have benefited France and Italy, where the consumer goods industries were strongly induced to seek foreign outlets, given the state of domestic demand. In the case of the United States, additional imports of steel in anticipation of a strike may have contributed as much as \$ 250 million to the rise in 1965. These purchases were also partly responsible for the unusually large share of manufactures in the rise of US imports between the first half of 1964 and the first half of 1965. In addition, imports of machinery and transport equipment, which normally account for only 11 per cent of total United States imports, accounted for more than one quarter of the total increase through the first half of 1965. Both developments were of considerable advantage to the industrialised countries of the OECD area, and particularly to Japan which secured a very sizeable proportion of the additional orders for iron and steel products.

The outlook for total OECD exports next year depends a good deal on the rate at which import demand picks up in those countries where it is hoped that domestic demand will strengthen. On present trends and policies it seems likely that import demand within the OECD area may rise at an annual rate of around

10 CONTRIBUTION OF SELECTED MARKETS TO TOTAL DEMAND FOR OECD EXPORTS (1)

Market	Average share in 1st half 1964	Share in growth 1st half 1964 to 1st half 1965
US and Canada	15	24
Germany	9	18
United Kingdom	7	-1
France, Italy, Japan	13	-3
Other OECD industrialised	21	21
Other OECD less developed	4	7
Rest of world	31	34
Total OECD exports	100	100

(1) Excluding US and Canadian wheat exports to the Soviet Union and adjusted for changes in the coverage of US special categories and for end-year effects of the dock strike.

11. RELATIVE EXPORT PERFORMANCE FIRST HALF 1964 TO FIRST HALF 1965 (percentage changes)

Exporting Countries	Growth of Country's Export Markets (1)	Actual Growth of Country's Exports	Differences
Japan	12.4	36.1	+23.7
Italy	11.7	24.1	+12.4
Germany	8.4	9.4	+1.0
Other OECD Industrialised	10.2	11.0	+0.8
France	7.7	7.9	+0.2
United States (2)	8.4	5.1	-3.3
Canada (2)	11.3	7.8	-3.5
Other OECD Less Developed	8.0	0.9	-7.1
United Kingdom	12.0	3.9	-8.1
Total OECD	9.9	9.9	—

(1) The growth which would have occurred in a country's exports if it had exactly maintained its share in OECD exports to each market.

(2) Excluding US and Canadian wheat exports to the Soviet Union and adjusted for changes in the coverage of US special categories and for end-year effects of the dock strike.

8 per cent — perhaps rather less than this during the first part of the year, but accelerating later. Total export demand may rise somewhat less fast — maybe at an annual rate of around 7 per cent — if, as suggested above, there is some decline in the OECD's trade surplus with the rest of the world.

INDIVIDUAL EXPORT PERFORMANCE

Different countries' export performances have been very strongly influenced by the conditions prevailing on foreign and domestic markets during this period. On balance, conditions in home markets seem to have had the strongest influence.

As regards developments in foreign markets, the rather uneven pattern of the growth of total export demand inevitably favoured some countries at the expense of others. Countries heavily dependent on the United States market such as Canada and, to a smaller extent, Japan, or those which held a relatively large share of the German market, such as Italy, enjoyed an advantage of up to three percentage points above the OECD average. On the other hand, countries with an above-average share of the Italian and French markets, such as Germany, or of the Japanese market (the United States) were at a disadvantage. The United Kingdom enjoyed comparatively favourable markets, because of its high share of exports to the developed non-OECD countries and its below-average dependence on the Italian and French markets.

Much more important, however, were the marked

differences in export performance in individual markets. Japan and Italy stand out in this respect; there has been a long-term rising trend in their share of world trade, but it seems clear that the striking gains they made in this period were closely connected with the slack conditions prevailing on their own home markets. Italy's biggest gains were in Germany (where the share of the United States fell notably) and in the smaller OECD countries. Japanese gains were heavily concentrated on the U.S. market (where Canada's share fell) and in the less-developed non-OECD countries (here again there was a fall in the United States' share).

France, Germany and the smaller industrialised countries of Europe as a group showed little change in their competitive performances. In the case of France this was true despite slack conditions on the home market, although this factor may have been reflected to some extent in the strong performance of French exports in recent months. Germany was still increasing its export shares through most of 1964, but since the beginning of this year German exports have levelled out, which may be connected with the very rapid increase in domestic demand in the first half of this year. The poor export performance of the less-developed OECD countries in Europe was due to poor crops.

After good results in 1964, United States export performance appears to have been less strong in the first half of this year. This was partly due to the special factors already mentioned, affecting United States trade in this period and to heavy dependence on developments in world trade in agricultural products which, on balance, were unfavourable over the period covered. But it is also possible that the rapid rate of domestic expansion played a part. The biggest losses were in non-OECD markets, where U.S. exports were meeting strong competition from Japan, Italy and Germany.

The decline observed in the United Kingdom's share of most markets represents the continuation of a long-standing trend. The biggest losses continued to be in traditional sterling area markets, but there were also losses in other non-OECD markets and in virtually all the industrialised countries. Home demand was at a high level during the period covered and there may have been supply bottlenecks; after levelling out in the middle of 1964 and again in the early months of this year, United Kingdom exports, have, however, recently picked up quite strongly.

TRADE BALANCES AND CURRENT BALANCES

The main benefit from the rise in the OECD area's trade balance with the rest of the world seems to have accrued to Japan, Italy, the United Kingdom and some of the smaller industrialised countries in Europe. Within the area the main feature has been the big swings in the bilateral trading relationships between Italy and Germany, and between Japan and the United States. Among the smaller industrialised countries in Europe the deterioration in the trade balances of the Scandinavian countries was more than offset by an improvement for Belgium, the Netherlands and Switzerland.

Movements in current balances have generally mirrored those in trade balances. In the cases of Germany and Italy the swings in the trade balance were accentuated by similar movements in the balances on invisible transac-

tions, while the reverse was true for the United States.

These swings in payments positions seem generally to be closely linked to trends in internal demand, which in several cases seem now to be in the process of being modified. This is already true for Italy and should become true for France and Japan during the course of 1966. At the same time, the United Kingdom's current balance should continue to improve as demand pressures ease, though here the trend depends partly on how long the surcharge is retained. It is less certain that there will be any further marked increase in the current surplus of the United States in 1966, given the high rate of domestic expansion.

12. CHANGES IN TRADE BALANCES (1) [\$ billion]

	1st half 1964 to 1st half 1965	Forecast 1st half 1965 to 1st half 1966
Germany, United States (1), Canada	-1.8	+0.1
France (2), Italy, Japan, United Kingdom	+2.7	+0.5
Other OECD industrialised	+0.5	-0.4
Other OECD less developed	-0.5	
Total of above (1)	+0.9	+0.2
Adjustments (3)	+0.1	-0.1
Balance with the rest of the world (1)	+1.0	+0.1
primary producers	+1.4	-0.1
Sino-Soviet countries	-0.4	+0.2

(1) Adjusted for the effects on the end-1964 figures of the United States dock strike. (2) Excluding French trade with the Overseas Franc area. (3) For inconsistent recording and French trade with the Overseas Franc area.

But while the marked discrepancies in the pressure of demand which characterised the period from mid-1964 to mid-1965 are likely to become attenuated during 1966, the movement towards a more normal pattern of surpluses and deficits may take place only fairly gradually, particularly during the first half of the year. If this proves correct, surpluses and deficits in the period from mid-1965 to mid-1966 will be large and, in several cases, more than usually out of line with the typical post-war pattern of international capital flows.

CAPITAL MOVEMENTS

In the event, the pattern of international capital movements in the first half of this year differed in several important respects from that prevailing in recent years.

And on balance the net effect of these changes was to offset, partly or completely, the swings in current balances. The main factors underlying these large and complex changes in capital flows were :

- the measures taken in the United States and the United Kingdom to stem the outflow of capital;
- significant changes in domestic monetary conditions : a further marked easing in Japan, Italy and, to a lesser extent, France; steadily increasing pressure in money and capital markets in Germany, and somewhat tighter conditions in the United States;
- speculation against sterling combined with strong demand for credit in the United Kingdom (which has now begun to ease).

Uncertainty concerning the impact of the United States' February measures, and successive waves of speculation against sterling, led to unsettled conditions on international money markets from the spring to early summer. In the initial phases Eurodollar rates rose sharply, there were some big movements of short-term funds within Europe, and the repatriation of United States funds was accompanied by some withdrawal of foreign short-term assets from the United States. More recently, however, conditions have returned more nearly to normal and Eurodollar rates have fallen back to the level prevailing a year ago. Apart from the stronger position of sterling, a major factor has been the easing of monetary conditions in Italy, Japan and France. In the long-term field, while the outflow of United States direct investment capital showed a considerable rise, the total net outflow of funds from the traditional capital suppliers — the United Kingdom and the United States — rose little over the high level recorded in the previous half year; there were, however, significant shifts in the net position of other major OECD countries.

Under present conditions, separate analysis of the different types of capital transactions may tend to obscure the general picture since, to an even greater extent than usual, capital leaving one country in one form may have been recorded as entering another in an entirely different category. This applies both to the distinction between short-term and long-term capital, and to that between "non-monetary" and "monetary" short-term movements. In addition, as noted above, there have been complex movements between the major financial centres, with the United Kingdom and Canada acting as intermediaries between the United States and Continental Europe.

A summary of the changes in *total net capital flows* other than those involving transactions between national monetary authorities suggests that there may not have been any significant change in the total net outflow of capital from the seven major countries between the first halves of 1964 and 1965. In other words, the big changes in the flows for individual countries seem to have been largely offsetting. The favourable swing for the United States was entirely due to a change in short-term flows; for Germany it reflects both a much larger inflow of unidentified funds in the first half of 1965 and a swing on long-term capital account from a large out-

13. CURRENT BALANCES OF MAJOR OECD COUNTRIES

($\$$ billion)

	July 1964- June 1965 Estimates	July 1965-June 1966 Forecasts
United Kingdom	-0.91	-0.1 to 0.1
United States	5.26	5.1 to 5.5
Canada	-0.66	-0.9 to -1.1 (1)
France (2)	0.22	0.4 to 0.6
Italy	1.92	1.8 to 2.0
Germany	-0.97	-2.0 to -2.2
Japan	0.45	1.4 to 1.6
TOTAL	5.32	5.8 to 6.3

Note : Detail may not add, due to rounding. (1) Including $\$$ 450 million wheat exports to the Soviet Union. (2) Balance with non-franc countries, on a transactions basis.

flow in the first half of 1964 to a small net inflow this year. In the United Kingdom, the main factor was the change from a substantial inflow of short-term funds in the first half of 1964 to a small outflow in the first half of this year, which more than offset a significant reduction in the long-term capital outflow. For France, the change was in the short-term accounts, while the inflow of long-term capital continued, although at a somewhat reduced rate. In Italy and Japan it reflects the cessation of long-term capital inflows as well as movements of banking funds and trade credits, both long-term and short-term.

Available information suggests that the picture may not have changed very much in the second half of this year. United States direct investment is expected to fall from the exceptional first half level, but this may be offset by some renewed extension of bank lending. Canada's capital requirements will be reduced in the period immediately ahead by the large current receipts from wheat sales. The large net inflow of capital into Germany may well continue given the present extremely tight monetary conditions. The United Kingdom's capital accounts actually showed a small surplus in the second quarter; the measures taken by the Government, and the improved confidence in sterling, should make it possible to maintain the improvement in the second half of the year.

OFFICIAL SETTLEMENTS

The changes in the volume and direction of capital

flows in the first half of 1965 tended, by and large, to offset trends in the current account positions of the major countries. In addition, seasonal movements in current accounts were, on the whole, equilibrating in the first half of the year, inasmuch as they eased the positions of the United Kingdom and the United States, and appreciably reduced the surpluses of Italy and Japan. As a result, the balances remaining to be settled by official transactions were generally rather small.

\$ 86 million elsewhere). For France, on the other hand, the surplus on transactions with non-franc countries was supplemented by substantial net receipts from the overseas franc area's transactions with non-franc countries.

Other movements of official assets and liabilities reflect in part the support operations for sterling. Following the United Kingdom's second drawing from the IMF in May (\$1.4 billion), all of the central bank assistance given in the first half of 1965 and part of

14. CURRENT AND CAPITAL BALANCES OF MAJOR OECD COUNTRIES, 1st HALF 1965 ⁽¹⁾ (\$ million)

	CURRENT BALANCE		Net capital movements (2)	Balance of official settlements (3)
	Seasonally adjusted	Not seasonally adjusted		
United States	2,130	2,520	-2,380	140
United Kingdom	-220	-40	-280	-320
France (4)	(240)	(180)	70	250
Germany	-730	-700	260	-440
Italy	1,110	800	-530	270
Canada	-460	-700	620	-80
Japan	450	120	-120	—
TOTAL	2,520	2,180	-2,360	-180

(1) Partly estimated by the Secretariat. (2) Net long and short-term capital movements, including changes in net position of commercial banks after adjustment to exclude United States' and United Kingdom banks' liabilities to monetary authorities. (3) The sum of the second and third columns. (4) Balance with non-franc countries on a transactions basis.

For the major countries as a group, the balance of official settlements was roughly in equilibrium. There were, however, important shifts in official assets and liabilities between individual countries. The two reserve currency countries had to finance substantial reductions in other countries' official holdings of dollars and sterling. Thus, despite a small overall surplus on official transactions, the United States' gold stock declined by \$ 1.4 billion, of which \$ 1.1 billion reflected sales to foreign central banks. In the case of the United Kingdom, the deficit on official transactions of \$ 320 million was augmented by a continued running down of official sterling balances (\$ 356 million in the sterling area and

that extended in the last months of 1964 was repaid. This funding operation led to an improvement in the IMF reserve positions of those countries whose currencies were used in the drawing. Their official holdings of gold and foreign exchange therefore tended to rise less or decline more than would otherwise have been the case. For this and other reasons, Italian official gold and foreign holdings actually fell in the first half of the year, despite the fact that the overall balance of official settlements was in surplus to the extent of \$ 275 million. Similarly, Japanese reserves also showed a small decline, although the overall balances on official settlements was approximately in equilibrium.

VALUE-ADDED TAX

The Minister of Finance of Denmark has put a proposal before the Danish Parliament for the institution of a value-added tax.

Announcing his proposal the Minister stated : "Personally, I am of the opinion that the value-added system has such important advantages, compared with forms of general indirect taxes applied so far, that we should, as soon as possible, change the general sales tax to a value-added tax. For the sake of Danish ability to compete, it would no doubt be to our advantage if we could act as pioneers in this field instead of waiting for experience to be gained by foreign countries in the years to come".

The OECD Observer has invited Mr. Paul Gersmann, head of the Finance Ministry department concerned, to explain the contents of the new bill and the effects which the reform is expected to have.

Under the provisions of the value-added tax bill, tax will be payable on all goods, without exemptions, and on certain services. The tax will apply to all transactions affecting the goods and services concerned, and will be charged at successive stages of production and distribution, and not just at a single stage as is the case with the present Danish General Sales Tax. It is proposed that the tax should extend to the retail stage of distribution.

Although the tax, at a proposed rate of 10 per cent, may be charged several times on the same product, depending on how many stages it has passed through before reaching the consumer, multiple taxation is not in fact involved. Business firms will be taxed according to the total value of their sales, but before settling with the Treasury, they will be entitled to deduct from their total tax the amounts which have been paid for the purchases of services, raw materials, semi-processed goods and capital goods during the same period.

The system is called value-added tax because the tax at each stage of production and distribution is related to the value added at that stage. It is a method by which a multi-stage tax can be made to apply to privately-consumed products without the effects of multiple taxation. The tax is collected in successive instalments, but the total tax is the same as would be payable if it were collected as a single payment on the value of the final product as paid by the consumer.

In practice, each company involved at the production, finishing and distribution stages will calculate the full tax on the total selling price of the goods. Limitation of tax to comprise the added value only is to be done in such a way that the individual companies involved will, at the end of each three months' taxation period, sum up the tax arising from sales and posted to a separate account in their books (the "exit-tax"), and deduct the tax amounts that they have paid to their suppliers (the

VALUE-ADDED TAX

“entry-tax”) during the same period. These tax amounts, as shown in the suppliers' invoices, will also be separately accounted for in the books of the companies concerned.

The deductible tax amount—the “entry-tax”—for a period, is to be calculated on the basis of purchases made during the same period, even if the goods involved are still in hand at the end of the period, or have been used in production or resold. So exit-and entry-taxes over a fixed period need not pertain to the same goods.

If the company concerned, over a taxation period, has had a total sale of, say, 100,000, the exit-tax—the tax amount demanded from the buyers—will be 10,000 in all, if the tax rate, as proposed, is fixed at 10 per cent. If the company during the same period has purchased raw materials, fuel, semi-manufactured articles, capital goods, finished goods and services to an amount of 60,000, the entry-tax will be 6,000. So the amount to be paid to the Treasury will stand at 4,000. If the company has invested so much during the period that the entry-tax exceeds the exit-tax, the difference is to be refunded to the company by the Treasury. Repayment may also be necessary in case of export, where tax liability is reduced automatically. If 40,000 out of total sales of 100,000 go for export, exit-tax is to be 6,000 (10 per cent of 60,000 sold on the home market). As the entry-tax in the case of these figures is also 6,000, the tax liability is zero. If all sales are exports, then the company is entitled to have the whole entry-tax, i.e. 6,000 (10 per cent of 60,000), refunded.

A value-added tax is said to be neutral in various important respects as compared with other indirect taxes.

It is neutral with regard to business organisation, since the final tax amount is independent of the number of transactions through which the goods pass; this means that there is no difference in the amount of taxation as between different forms of organisation—for example, between firms that are vertically integrated and firms that specialise. Expressed in percentages of the price of a product, the tax is the same, no matter where the buyer makes his purchases. The Commission of the European Economic Community has recommended the adoption by 1970 of a value-added tax system throughout the Common Market, in order to remove the incentive to integration of undertakings provided by the present cascade (multiple-stage tax) system of member countries.

The value-added tax is also neutral with regard to investment because it produces no difference in costs between relatively capital-intensive and relatively labour-intensive methods of production. Under the provisions of the Danish bill the tax on all purchases made over a three month period, including capital goods, is to be fully deductible immediately, and not, as in a German bill, in accordance with the principle of depreciation.

Most important of all, a value-added tax is neutral with regard to international trade, and this is probably the main reason why the Common Market has decided to harmonise its statutory and administrative provisions regarding general sales taxes on the basis of the system of a value-added tax. Such a tax is neutral in this respect because the tax on imports is the same as on similar home-produced goods of equal value, and because the export rebates are equal to the tax levied on the exported goods directly as well as indirectly. So the deflection of trade resulting from many sales taxes which is reflected in provisions for subsidising export rebates and protective countervailing duties (or lack of such provisions), is completely avoided.

Under the Danish bill, all commodities, new and used, are to be taxable without exception. Furthermore, certain services are taxable. These are: all services on goods (production, preparation, fitting, alteration, mending, maintenance, testing, analyses and cleaning); leasing of commodities; services on land, buildings and other real property (construction, rebuilding, repair, maintenance and cleaning); planning work on buildings and other real property; transportation and storing of commodities, and conveyance of passengers; telephone, telegraph and other tele-services; advertising; type-

writing; punchcard services and electronic data-processing; hairdressing and beauty treatment; hiring out of hotel rooms and service in restaurants, etc.; entertainment (theatrical performances, films, concerts, music-hall performances, etc.); radio and television broadcasting.

The advantage of a tax system with this scope, and with only one rate of tax, is a very practical one as far as the companies involved are concerned, compared with a single stage tax and a system with different rates—namely that the companies will deal with all their sales in exactly the same way. They are to impose a tax of 10 per cent on every sale of commodities (and the services to which the tax applies) regardless of the buyer.

All the firms within the system will have to calculate tax on sales and show this tax as a separate item on their invoices to trade customers. The burden of clerical work for business and for the authorities is, to a certain degree, compensated for by the fact that there is no doubt about the liabilities, either as far as the commodities and the services or tax rates are concerned.

The spreading of tax payments over all stages of production and distribution, including the retail stage, which is a feature of the value-added system of the Danish proposal, works to the advantage of the trade sectors which would be solely responsible for the collection of taxes, on behalf of the government, under a single tax system extending to the retail stage. The fractional amounts which these businesses will have to pay to the Treasury are smaller than under the single stage tax.

These fractional payments will also have the effect of reducing the risk borne by the Treasury. "No firm is accountable for tax on the whole of its turnover, but only for the difference between the tax on its sales and tax on its purchases. The scale upon which a fraudulent operator can work is limited". (1)

To a certain degree the system is self-controlling. This is due to the fact that "when a transaction takes place between two businesses within the tax system, the purchaser has a lively interest in receiving an invoice which accurately records both the goods supplied and the tax charged on them—for the invoice will be required to support a deduction in the purchaser's tax account. If the supplier has given such an invoice, it will require some hardihood on his part to falsify the record in his own books, for the transaction will be traceable back to him" (1).

As a general rule, the invoice must show the price of the commodity or service and the tax amount. Most sales from retailers to consumers are not accompanied by invoices, however, and it would mean an enormous burden both for the retailer and for the consumer to demand invoices. Retailers' sales may be settled without invoices under the provisions of the Danish bill. In cases where a firm (as in the case of an individual craftsman) is buying from a retailer, it is up to the buyer to demand an invoice in order to be able to take advantage of the deduction provision.

In principle, taxable sales over a given period comprise all commodities delivered and taxable services rendered over the period—a quarter. In practice, however, it is often difficult to decide what is the exact date of delivery. A practical rule for trade would be to consider the date of invoice as the date of delivery in cases where invoices are issued. This is called the invoice method.

The other possibility (the payment method) requires that firms should calculate sales on the basis of payments which they have received over the period for commodities delivered and services rendered, irrespective of the time of delivery.

As far as cash sales are concerned, it is without real importance which of these two methods is used by the firm to make up its taxable sales account, since payment and delivery in this case take place simultaneously. The difference appears where goods are sold on credit (including the instalment system).

Under the Danish bill a firm has free choice as to which of the two methods it prefers. But having chosen one of the methods for the exit-tax they are obliged to use the same method for the entry-tax. Most small firms will choose the payment method, because the book-keeping is easier, whereas larger firms will prefer the invoice method, unless they find that the payment method affords them better conditions of tax financing.

Any person or firm, who commercially produces or sells taxable goods or renders taxable services, must register with the Customs Authorities. Taxable sales by registered firms are to include all goods delivered and taxable services rendered by the firm, or put to use by the firm or by its owner.

Taxable sales are not to include goods exported to a foreign country or services rendered in a foreign country, nor transportation of commodities within Denmark when the final destination is a foreign country.

(1) *Report of the British Committee on the Turnover Taxation.*

MEASURES EMPLOYED BY OECD GOVERNMENTS

Mechanisms for influencing industrial investment are becoming increasingly important to OECD Member governments both as an instrument of counter-cyclical policy and as a method of stimulating economic growth. The information submitted by these governments in reply to a recent Industry Committee survey gives an idea of the range and diversity of the techniques employed in various countries for this purpose. The results of the survey, collated and commented upon by Mr. Yves Demonteix of the University of Clermont-Ferrand (France), are available in a report entitled "Industrial Investment Policies". Examples of some of the techniques that have been used in recent years are presented below. The Industry Committee is now directing its attention to certain questions raised by the survey, for example, the effectiveness of the techniques in achieving a higher overall level of investment, and in directing the funds to a specific sector or region.

FISCAL POLICIES

● *Measures concerning depreciation*

The rapid pace of current technological progress makes it necessary for firms in many industries to replace capital equipment more frequently than ever before. To facilitate this renewal of capital some OECD governments have adopted methods of taxing corporate profits which allow firms to write off their new equipment more rapidly than has traditionally been the case. Firms are permitted, for example, to depreciate a considerable portion of the cost of their assets during the early years of the investment and thus pay lower taxes during these years, postponing the heavier payments for a later date (1). This is in effect an interest-free loan to the firms of an amount equal to the deferred taxes.

Among OECD Member countries *Canada* was the first to introduce a system of accelerated depreciation — in 1944 — the purpose being to encourage reconversion and expansion of industry. Since then similar procedures have been adopted by almost all countries — in *Germany* for certain key industries such as coal and iron mining; in *Austria* for investment intended to rationalise production so as to meet foreign competition. In the *United Kingdom* a "free depreciation" system for investments in regions designated for development enables industrialists themselves to determine the rhythm and periods of depreciation of their assets; they may even choose to have the whole expenditure on plant and equipment written off during the first year.

The way in which the concept of accelerated depreciation is elaborated varies from country to country, but one formula that has been widely adopted is a so-called *declining-balance depreciation* procedure, according to

which ordinarily 50 per cent of the value of the investment may be written off during the first third of the asset's useful life, 66 per cent during the first half.

The *United Kingdom* introduced this general type of declining balance method in 1946, *Canada* in 1949, *Germany* in 1962, *Denmark* in 1957, *France* in 1959 and *Belgium* in 1963.

The rise in the price of capital goods and the need for constant adjustment to technical advances has induced some governments to permit companies to make depreciation allowances whose total over the years exceeds the amount of the initial investment. Thus, for example :

In *Austria*, a 1953 law authorised exceptional depreciation equivalent to four times the normal depreciation rate, calculated on the book value of fixed assets.

In the *United States* there is a special initial provision for depreciation reserves for small firms. The Small Business Tax Act of 1958 permits these firms to write off a 20 per cent first-year depreciation allowance on costs of property up to \$ 10,000 in addition to the write-offs allowed all corporations under other tax laws.

● *Investment reserves*

This method of stimulating (or, in a period of inflation, discouraging) investment is similar to depreciation allowances but differs from them in that it is explicitly connected with future investment rather than with capital equipment already purchased. The *Norwegian* example illustrates the technique which is also used in *Sweden* and elements of which are to be found in the legislation of other countries such as *Denmark*, *France* and *Spain*.

Under *Norwegian* law firms may deduct up to 20 per cent of their taxable profits to be set aside for subsequent capital investment. These reserves must be deposited in a special account at the Central Bank, which pays 2 per

WAYS TO INFLUENCE INDUSTRIAL INVESTMENT

cent tax-free interest. Unless there is a special dispensation, the funds deposited in this way are frozen for four years. When the funds are finally spent, the goods acquired with them are assumed to have been depreciated to 85 per cent of their value and subsequent allowances are reduced accordingly.

Similar, but not identical, provisions apply to reserves set aside for future research aimed at developing new products or production techniques or expenditure on sales promotion abroad; for investment in the three Northern provinces or in other districts designated for development. Mining companies may build up investment reserves equal to 30 per cent of their taxable income.

A 1960 law in *Spain* authorised joint stock companies to set aside as reserves, not subject to tax, 75 per cent of their profits providing that if share capital is increased, at least 10 per cent of the shares issued are reserved for employees, the latter having agreed to purchase the additional shares.

In *Switzerland*, a policy of counter-cyclical compensation allows firms in times of expansion to build up "work reserves". (These are funds coming from deferred investments and placed in the form of a "recognition of nominative debts of the Confederation".) A tax rebate is granted for these reserves, and the enterprises commit themselves to make appropriate use of them in case of under-employment.

● *Other measures affecting income tax*

In addition to depreciation allowances, OECD Member countries encourage investment in specific industries by permitting other kinds of special deductions. In *Canada*, for instance, income from new mines is exempt from tax for three years after they come into operation. Furthermore, operating companies are allowed to deduct expenditure on prospecting and drilling of mineral deposits.

Tax rates are also varied for this purpose. Several countries have given special treatment to profits, distributed and undistributed, so as to increase (or restrict) the possibilities for self-finance or to augment (or reduce) the resources of capital markets. In some cases a distinction has been made between industries: in *Austria*, profits of electricity companies are taxed at only half the normal rate; and in the *United States*, some of the profits of forestry plantations and a few other activities are treated as capital appreciation, at a lower rate. Finally, in a number of countries, certain capital gains (appreciation or realisation of assets) which in fact represent profits may, under certain conditions (rationalisation, reinvestment within a given period), be taxed at a reduced rate or exempted from taxation.

● *Encouragement of savings of sufficient duration to finance investment*

In the *Federal Republic of Germany*, in accordance

with a 1952 law designed to encourage development of the capital market, interest on securities issued by the Federal and Länder governments, and on bonds issued to finance homebuilding, is tax free. Similarly, deposits paid into certain "Building-Savings" banks are deductible from taxable income.

In *Austria*, legislation to encourage savings permits firms (and self-employed persons) to offset their taxable profits, up to 10 per cent of their total, to buy securities issued by local bodies, by the state and by electricity companies. Wage and salary earners may deduct up to 15 per cent of the nominal value of such securities with an upper limit of 50,000 schillings (\$ 1,935). In order to take advantage of these concessions, the securities must be kept until their redemption. Income from them is exempt from tax.

In *France*, sums saved in the form of savings credit, to be invested in construction, are initially deductible from taxable income. Similarly, premiums on certain types of life assurance contracts (2) may be deducted up to 10 per cent of taxable income, with a maximum of F 2,000 (\$ 400) plus F 400 for each dependent child. In the 1966 French budget provision is made for the creation of savings contracts in which private parties agree to save by depositing a fixed sum (up to a given ceiling) in a depository institution every month or every quarter over a period of ten years. Neither these funds nor the interest which accrues will be subject to tax unless the money is withdrawn before the end of the contract period.

● *Measures to stimulate use of the capital market*

The most usual means of making the capital market attractive is to exempt all or part of distributed dividends from taxation so as to avoid the double taxation of dividends as a profit of the company and as individual income. The methods used are very similar in all countries and are usually of a temporary nature. For example, a Norwegian law of June 1963, intended to encourage the use of securities as a means of finance, exempts from taxation distributed dividends on securities issued between 3rd March, 1961 and 31st December, 1967, including those issued by new companies.

● *Other types of taxation*

Austrian legislation provides for partial or total exemption from taxes on imported capital equipment if domestic production is inadequate or non-existent.

In *Greece*, reductions of 20-40 per cent are granted

(1) With the traditional straight-line method of depreciation, the capital equipment is written off in equal instalments over the course of its estimated useful life.

(2) A widening of the coverage of this provision is envisaged.

to firms, depending on their location and date of establishment. Electricity supply companies are completely exempt.

CREDIT POLICIES

● *Establishment of new credit institutions*

New units have been incorporated into the credit system in nearly every country since the end of World War II in order to help firms that were previously unable to find the capital they required — small companies in particular. In *France*, several institutions have been created recently : Regional Development Societies (a kind of regional commercial bank which can acquire holdings in concerns, grant loans or issue inter-industrial collective loans); sociétés conventionnées, set up in 1959, group a number of small and medium-sized firms and benefit from various fiscal advantages in accordance with a convention made with the public authorities; sociétés de caution mutuelle are entrusted, together with the Caisse Nationale des Marchés de l'Etat, with guaranteeing equipment loans granted to small and medium-sized firms; Investment Companies with variable capital were created by a 1963 Decree. In *Italy* regional institutes specialise in medium-term credit to small and medium-sized firms. "The Central Institute for Medium Term Credit" co-ordinates, controls and re-discounts credits granted by the regional institutes.

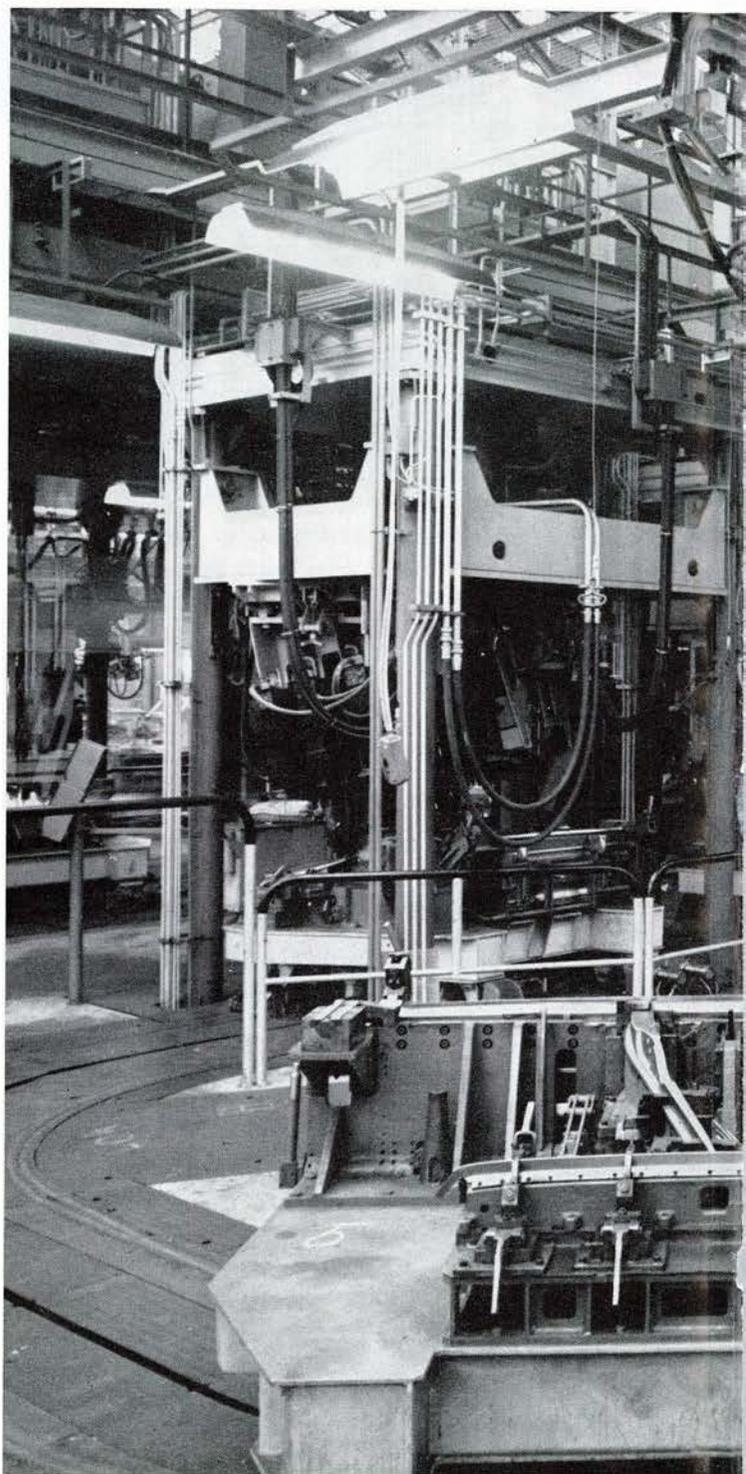
A large proportion of the new organisations do not merely extend loans; they are also entitled to participate in capitalisation, particularly when it is required to finance initial investment.

Permission to issue securities, granted either by the Central Bank or Treasury, is sometimes intended to encourage a particular type of loan (mortgages in *Sweden*, for example), but also to spread out demand so as to avoid the tensions which would otherwise arise, and to influence the interest rate.

● *Government loans*

Direct loans are made by governments or by funds directly under their control, which also provide subsidies. Examples are to be found in the Economic and Social Development Fund in *France*, the Regional Development Fund in *Norway*, and the ERP Fund in *Austria*. Loans are also given indirectly through specialised financial institutions having some degree of autonomy, although their funds are wholly or partly of government origin; e.g. the Crédit Foncier, Crédit National, and Caisse Nationale de Crédit Agricole in *France*; the State Banks and Norwegian Bank for Industry in *Norway*; administrative bodies controlled by the Länder and public corporations in *Austria*; and the Industrial Commodity Credit Corporation in *Ireland*.

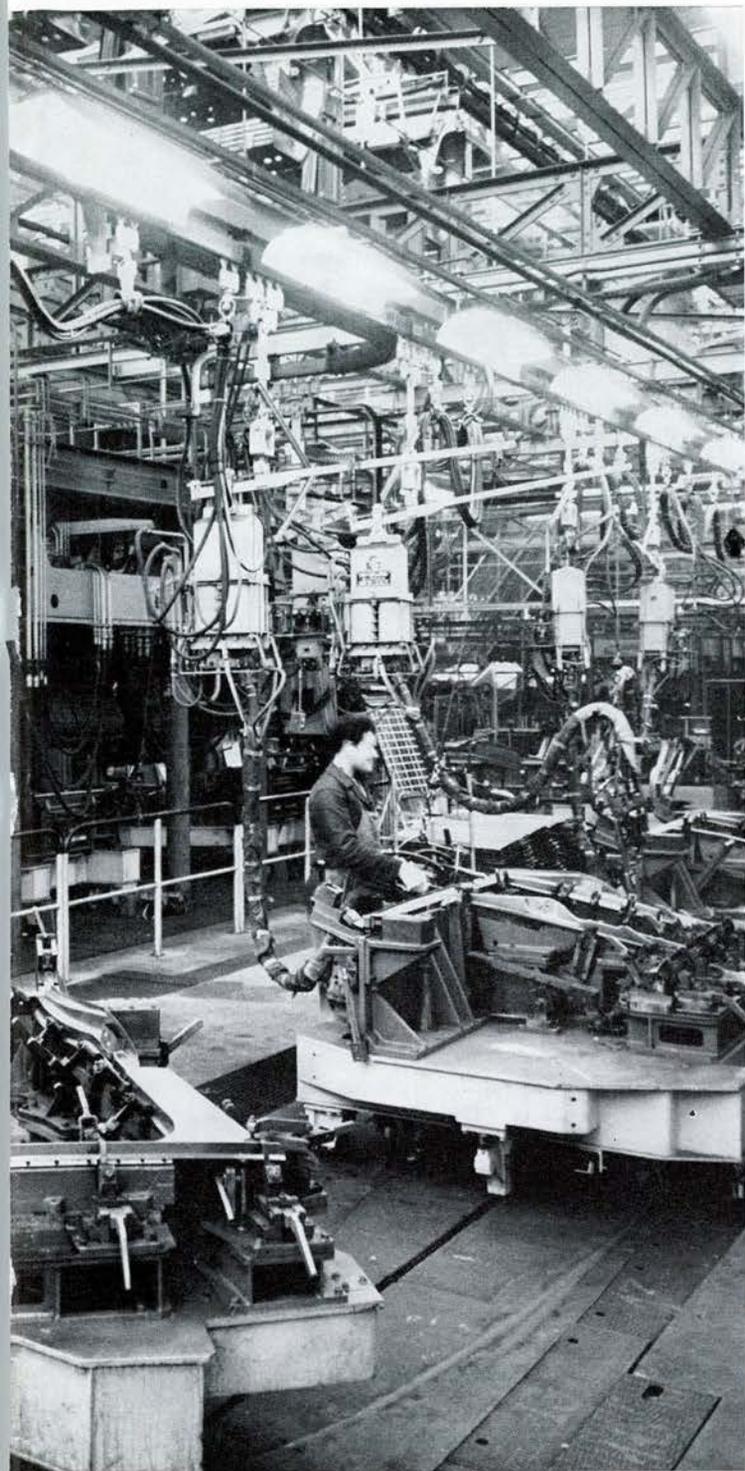
These loans generally bear a rate of interest not exceeding 5 per cent (or the best terms available for bank loans). Sometimes the rates are very low : a rate of 2 per cent is mentioned in OECD's survey for loans to local authorities in *Germany*. A law of July, 1959, established an interest-free loan in *Belgium* in the form of advances for the creation of prototypes. These loans are generally long-term — 15 to 20 years. The first reimbursement of prin-



cipal is often postponed until the new installations financed in this way have begun operations (e.g. loans granted under the Local Employment Act of 1960 in the United Kingdom).

GRANTS

In *Ireland*, a government institution, "An Foras Tion-scal", founded in 1952, is empowered to subsidise various forms of capital expenditure connected with the



establishment of new firms, privileged treatment being given to those which are established in areas selected for development. In such cases, An Foras Tionscal may provide grants covering up to 100 per cent of the cost of sites, site development and factory building, 50 per cent of the cost of machinery and equipment, and its installation; grants are also available for up to 100 per cent of the capital cost of the provision of electricity. When the new industry is essential to the development of the national economy, but cannot, for sound reasons, be established in an underdeveloped area, similar grants are awarded at lower rates, i.e. 66 per cent, 33 per cent and 50 per cent respectively.

In the *United Kingdom*, the Local Employment Acts of 1960 and 1963 contain provisions to encourage the building of factories in development districts. Under the 1963 Act, standard building grants of 25 per cent of cost can be given in suitable cases to firms providing their own factories, and grants of 10 per cent of the cost of acquiring and installing plant and machinery. Grants may also be given toward working capital and general purposes.

In *Italy*, the "Casa del Mezzogiorno" gives to new small and medium-sized industries in the South capital grants which can reach a maximum of 25 per cent.

OTHER MEASURES

- *Indemnities for the scrapping of obsolete or surplus assets*

In *Austria*, indemnities are paid to firms which undertake to close down their flour mills and in *France* to firms which give up industrial and commercial premises in the Paris region.

- *Complementary investments*

Investments in infrastructure and in nationalised industries such as steel in *Austria*, aircraft in *France*, aluminium in *Norway* are included in this category.

- *Policies with regard to foreign investment and loans*

For reasons of regional development policy, the *Norwegian* Government has taken steps to attract from abroad the capital required for building hydro-electric power stations and ancillary factories.

In *Ireland*, the Industrial Development Authority, which was set up in 1950, helps foreign industrialists who might be prepared to establish factories in the country.

- *Government contracts*

These are an indirect but effective way of shaping the course of investment and financing it, insofar as the fulfilment of such a contract yields an economic return. They also constitute one of the levers of regional development policy, as witness the legislation applied in the *United Kingdom* at the moment. Under the General Contracts Preference Scheme, Government Purchasing Departments, when awarding contracts by open competitive tender, give preference when other things, including price, quality and delivery date, are equal, to tenders from firms in development districts. Most nationalised industries also use the Scheme as far as possible. Under a Special Contracts Preference Scheme, operated by Government Departments only, unsuccessful bidders in development districts are given the opportunity of supplying a proportion of a contract.

- *Regulations regarding building permits*

In *Norway* an annual industrial building programme serves as a guide to the Ministry of Industry which grants (or refuses) building permits.

NEW OECD PUBLICATIONS

Agriculture and economic growth

A report by a group of experts.

This report is published under the responsibility of six distinguished independent economists, appointed to study the adjustments needed to increase farm incomes while maximising productivity in the economy as a whole, and to examine the rate at which manpower should move from agriculture to other sectors of the economy.

Main headings of the report are :

- Agriculture's role in economic growth.
- Recent developments in OECD Member countries.
- Future prospects.
- Policy issues and possible lines of action.

The report concludes that policies must increasingly recognise the needs for adaptation of agriculture to current and future economic conditions, and indicates measures which could help this adaptation both at national and international level.

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The situation in the shipbuilding industry

OECD, whose Member countries account for over 90 per cent of world shipbuilding production, has made a detailed examination of the difficulties with which the shipbuilding industry has been faced for some years. This report contains the factual data collected by the Industry Committee during its survey of the sector.

After briefly reviewing developments in production and employment and world market trends, the Report analyses in detail the measures taken by producer countries to assist the sector, measures which tend to widen the existing gulf between world production capacity and demand for ships. For the first time, therefore, a complete survey is available of the situation of an industry whose market is essentially international and whose difficulties are causing concern to governments.

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Interrelationships between income and supply problems in agriculture

This report was prepared by the OECD's Working Party on Agricultural Policies. It analyses the ways in which the efforts of farmers to raise their incomes, together with the trend to fewer but larger farms, may affect the pattern and volume of agricultural output. It concludes that improvements in farm structure should make it easier to adjust supply to demand.

The report also examines the various possible means of controlling supply, including price policy, quotas, land retirement, etc.

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The report on the 18th Survey gives a general picture of achievements in 1964 and prospects up to 1968 in the United States, Japan and Europe. It makes a detailed study of trends in European Member countries based on numerous statistics including, for the first time, new series of figures which bring out more clearly than before the technological improvements achieved in recent years in this sector.

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Annexes contain detailed statistics for production and international trade for various categories of products in 1963 and 1964.

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