

the OECD OBSERVER

Highlights from
OECD's Economic
Outlook - July 1973

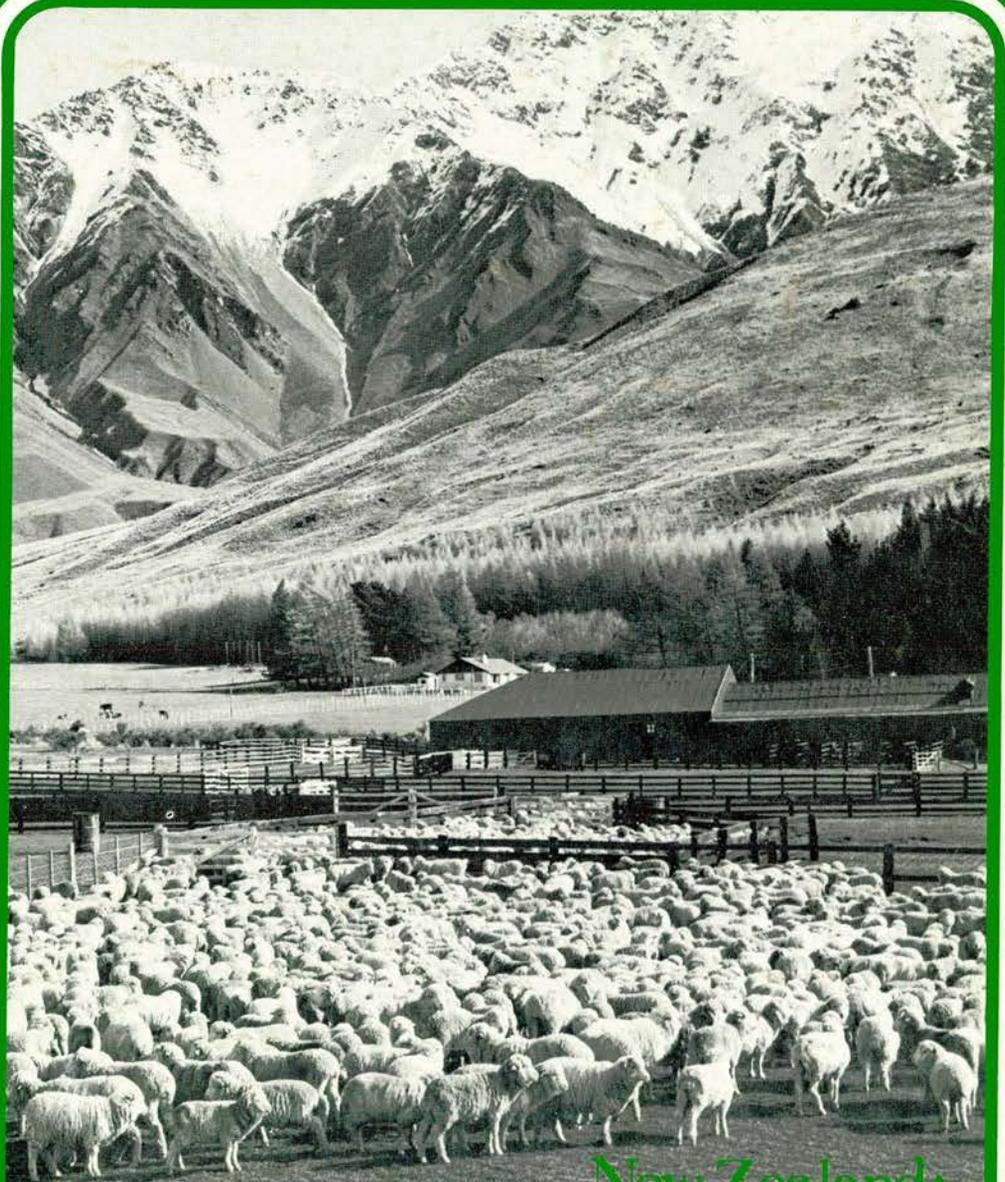
International
Transmission of
Inflation

New Figures on
Development
Assistance

International
Co-operation to
Protect Water
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Measuring
Educational
Performance

OECD Council at
Ministerial Level:
Communique



New Zealand:
OECD's Newest Member Country

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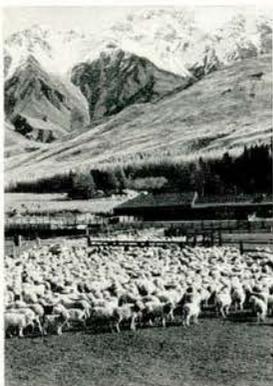
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Cover : New Zealand OECD's 24th Member country. Agriculture is still very important in the New Zealand economy but there is a move away from traditional exports to a more diversified pattern.



Gregorio Lopez Bravo, Chairman of the Ministerial Council meeting; Emile van Lennep, OECD Secretary General.

OECD Council at Ministerial Level: Communique

The Council of the OECD met at Ministerial level in Paris on 6th, 7th and 8th June, 1973, under the Chairmanship of Mr. Gregorio Lopez Bravo, Minister for Foreign Affairs of Spain. Ministers welcomed the accession of New Zealand to the Convention on the Organisation, which took place on 29th May.

International Economic Situation

Ministers welcomed the recovery in the level of economic activity and the expansion of world trade during the past year. However, they expressed their concern at the persistence and accentuation of inflationary pressures and emphasised that under existing conditions their Governments attach high priority in economic policies to reducing the rate of price increases. They noted action already taken to deal with inflation. They agreed on the need to prevent the emergence of excessive demand pressures, and, in the light of their individual situations, to take vigorous anti-inflationary measures in other fields.

Ministers recognised that the rate of price increases and the spread of inflation from country to country make the fight against inflation a matter of common interest and a common obligation. They therefore agreed on the need for Member countries jointly to reinforce their actions in this field, so as to render more effective the measures which they are taking or may introduce.

The Council directed the Organisation to continue to examine the national and international factors supporting inflation, and the effects of inflation on the economies of Member countries; to review the anti-inflationary actions of Member countries; and

to encourage all Member countries to persevere in the policies, individual or concerted, needed to restore suitable price stability.

Despite recent movements in the foreign exchange markets, Ministers took the view that the exchange rate relationships established between Member countries in February and March last are realistic and generally appropriate to achieve a more satisfactory pattern of international payments. They expressed the firm determination of their Governments to follow the policies needed to this end, and will continue to consult each other closely thereon. Member Governments emphasised the need to maintain the orderly functioning of foreign exchange markets during the transitional period before the reform, on a stable and lasting basis, of the international monetary system. Ministers stressed the urgency of completing the work necessary for this reform.

Longer-Term International Monetary, Trade and Investment Issues

Ministers agreed on the urgent need for their Governments to pursue in the appropriate international forums the efforts initiated last year on international monetary reform, multilateral trade negotiations and international investment issues. They recognised that these subjects are interrelated. They look forward to early agreement on major elements of the monetary reform referred to above. They are confident that their Governments' preparations, domestic as well as multilateral, will enable active comprehensive negotiations on trade to be launched at the Tokyo meeting of the GATT. They instructed the Executive Committee in Special Session to press forward with its work on



*Valéry Giscard d'Estaing, France's Minister of Economy and Finance;
Hon. George P. Schultz, US Secretary of the Treasury.*



*Left to right: Marquis de Nerva, Ambassador,
Permanent Representative of Spain to OECD;
Gregorio Lopez Bravo, Spain's Minister of Foreign Affairs,
Chairman of the OECD Council at Ministerial level.*



*Paul Gabites, New Zealand Ambassador to France
and Head of the Permanent Delegation to OECD;
Hon. Warren W. Freer, Minister of Trade and Industry,
and of Energy Resources, New Zealand.*

international investment, including multinational enterprises, and other issues, described by its Chairman in his oral report. Ministers emphasised that all these subjects form part of an overall effort to adapt the international economic system to new needs and opportunities, to the mutual advantage of all. They also reaffirmed the role of the OECD in keeping the overall objectives of this effort in view and in contributing to the understanding and the will necessary to the success of specific negotiations.

Policies for Co-operation with Developing Countries

Ministers reviewed the main aspects of economic co-operation with developing countries. They noted with concern the unevenness in the economic and social development of these countries and, in a number of them, the persistence of widespread unemployment, the inadequate growth of agricultural production, insufficient food supplies and heavy indebtedness. They noted also that the flow of financial resources to developing countries including official development assistance—in spite of substantial progress on the part of some OECD Members—has remained practically stationary in relation to gross national product over recent years.

Ministers expressed their support for the Organisation's efforts to apply increasingly an integrated approach in the work of its various committees on development matters, taking account of the aims of the International Development Strategy for the United Nations Second Development Decade. They noted in particular that the Development Assistance Committee will continue to seek further progress in the volume and quality of aid, including a better adjustment of the terms to the requirements of individual recipients and, as stressed by several Ministers, further measures of untying, as well as in adapting the forms of aid to the need to fight unemployment and poverty. Ministers invited the Trade Committee to pursue its consideration of means to expand the exports of developing countries, in particular through improved commodity trade and the Generalised System of Preferences. Ministers stressed that the need to secure additional benefits for the international trade of these countries would also be an important consideration in the forthcoming multilateral trade negotiations.

Energy policies

Ministers reviewed the progress which has been made in the Organisation's assessment of long-term energy problems. Recognising that adequate energy supplies are of vital importance to Member countries, they stated their determination to intensify co-operation within OECD on energy policies.

Work on Qualitative Aspects of Economic Growth

Ministers expressed satisfaction with the progress of the Organisation's work on qualitative aspects of economic growth. The OECD has paid increasing attention to this subject since 1970, in order to assist Member countries in formulating policies which give fuller consideration to the various aspects of social well-being. They noted the recent adoption of a list of social concerns common to most Member countries which will serve as a basis for further work on social indicators. Ministers also stressed the need to give environment policies due weight along with other major national objectives, and to propose concrete solutions to environmental problems of common international interest.

NEW FIGURES ON DEVELOPMENT ASSISTANCE

Although the amount of net aid provided by the governments of countries which are members of OECD's Development Assistance Committee (1) rose by 12 per cent in 1972 to \$8.6 billion, GNP expressed in current dollars rose faster with the result that such assistance fell in terms of GNP from 0.35 to 0.34 per cent. This is less than half the target of 0.70 per cent set in the United Nations' International Development Strategy and accepted in principle by a majority of DAC governments.

This result, termed "disappointing" by the DAC, is mainly due to such major donors of official aid as the United States, Germany, Japan and the United Kingdom, all of whose aid declined in terms of GNP despite the fact that in each case the dollar

(1) Official aid or ODA is defined by the DAC as that part of the total flow of resources to developing countries and multilateral institutions which is provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

- it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and

- it is concessional in character and commencing in 1973 will have to contain a grant element of at least 25 per cent.

It excludes resources provided by the private sector as export credits or private investment, and some transactions by the official sector whose main purpose is to foster exports or facilitate management of reserves ("other official flows").

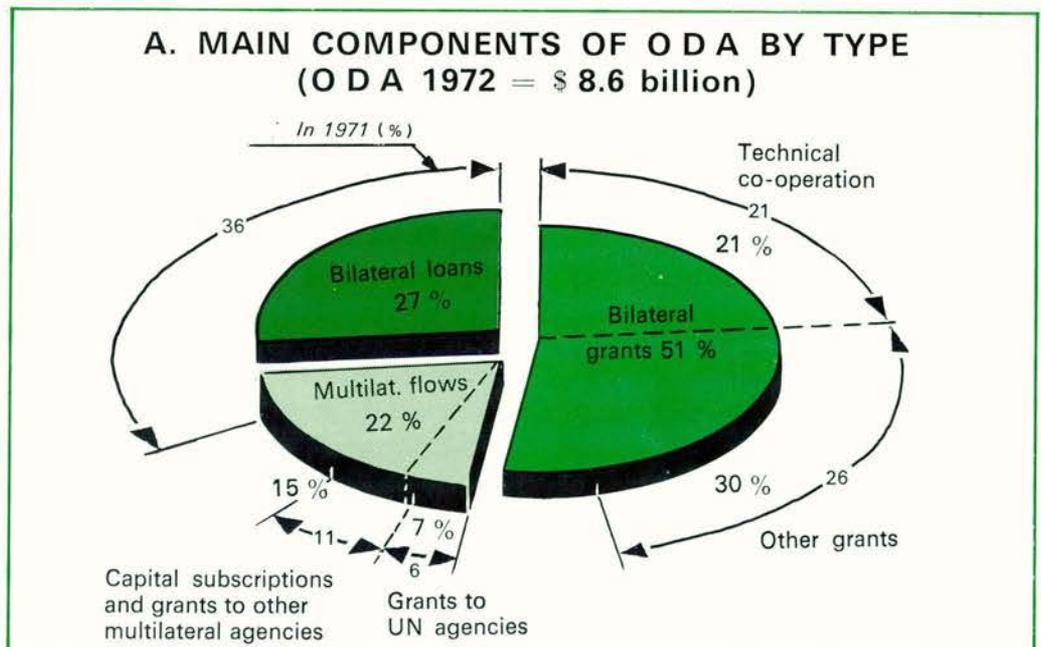
Export credits financed by the official sector are not regarded as ODA even if they are extended at concessional terms. Military transactions are excluded altogether from DAC statistics.

The latest data on development assistance — for the year 1972 — have just been made available by OECD's Development Assistance Committee.

The members of DAC are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Economic Community.

amounts spent actually rose. The increased contributions of small and medium-sized countries, in particular Australia, Belgium, Canada, the Netherlands, Norway, Sweden and Switzerland, though sizeable, could not make up for the performance of the largest donors.

On the basis of current budgetary appropriations for aid and the normal time lag between appropriations and disbursements, the DAC sees little prospect of a significant increase in official aid as a share of the GNP of Member countries combined over the next few years, especially if inflation persists. Belgium, the Netherlands, and Sweden are expected to attain 0.70 per cent in 1975, Denmark hopes to reach this figure shortly afterwards and Norway has stated that it aims to raise its official aid to 0.75 per cent of GNP by 1974. However, these five countries accounted for only 10 per cent of DAC Members' total disbursements of official aid in 1972. The policy of most other members is to raise their ODA substantially



in the near and medium term (although without necessarily reaching 0.70 per cent of GNP), but collective performance is not likely to improve considerably over the next few years, largely owing to the lower disbursements that can be forecast for the United States.

For the Third World this official aid meant receipts of \$4.40 per inhabitant of the developing countries in 1972 as against \$4.10 in 1971 and \$3.60 in 1962. In real terms the total volume of aid has risen since 1962, but, because of the rise in population in the Third World, per capita aid has fallen by about 10 per cent.

Although some components of official aid declined in 1972 there was an increase in grants which was termed by the DAC an "encouraging" sign in that this type of aid has stagnated since the late 1960's. The increase was due to a number of factors including the growth of food aid and forgiveness of debt mainly by France and the United Kingdom. Flows to multilateral institutions also rose sharply, to a record \$1.9 billion, 22 per cent of official aid, also a record figure (2). The main factor was an increase in contributions to the World Bank's International Development Association (IDA) which provides loans on soft terms.

Total Resource Flows

As to other types of resource flows, export credit net flows fell sharply from \$3.4 billion in 1971 to \$2.8 billion (including both official and private loans) and net direct investment and multilateral portfolio investment by lesser amounts, with the result that the overall net flow of resources to developing countries fell from 0.82 per cent to 0.77 per cent of GNP, one of the lowest figures recorded since 1960 (3). This compares with the target of 1 per cent of GNP recommended by the Second UNCTAD Conference and accepted by all DAC Members. To meet the target DAC countries would have had to provide \$6 billion more than they did — one more dollar for every three actually given.

For the United States, whose contribution accounts for 38 per cent of the total flow of resources from DAC Members, the percentage decreased from 0.65 to 0.64. For the other countries, collective performance is termed by the DAC "more disappointing still". As a group these countries have traditionally provided close to 1 per cent of their GNP as resources for development (0.98 in 1971) and in

some individual cases more. But in 1972 there was a sharp drop to 0.88 per cent on average.

Only three countries—Belgium, Canada and France—increased their total resource flow as a percentage of GNP while five—Belgium, France, the Netherlands, Portugal and the United Kingdom—remained above the 1 per cent target level.

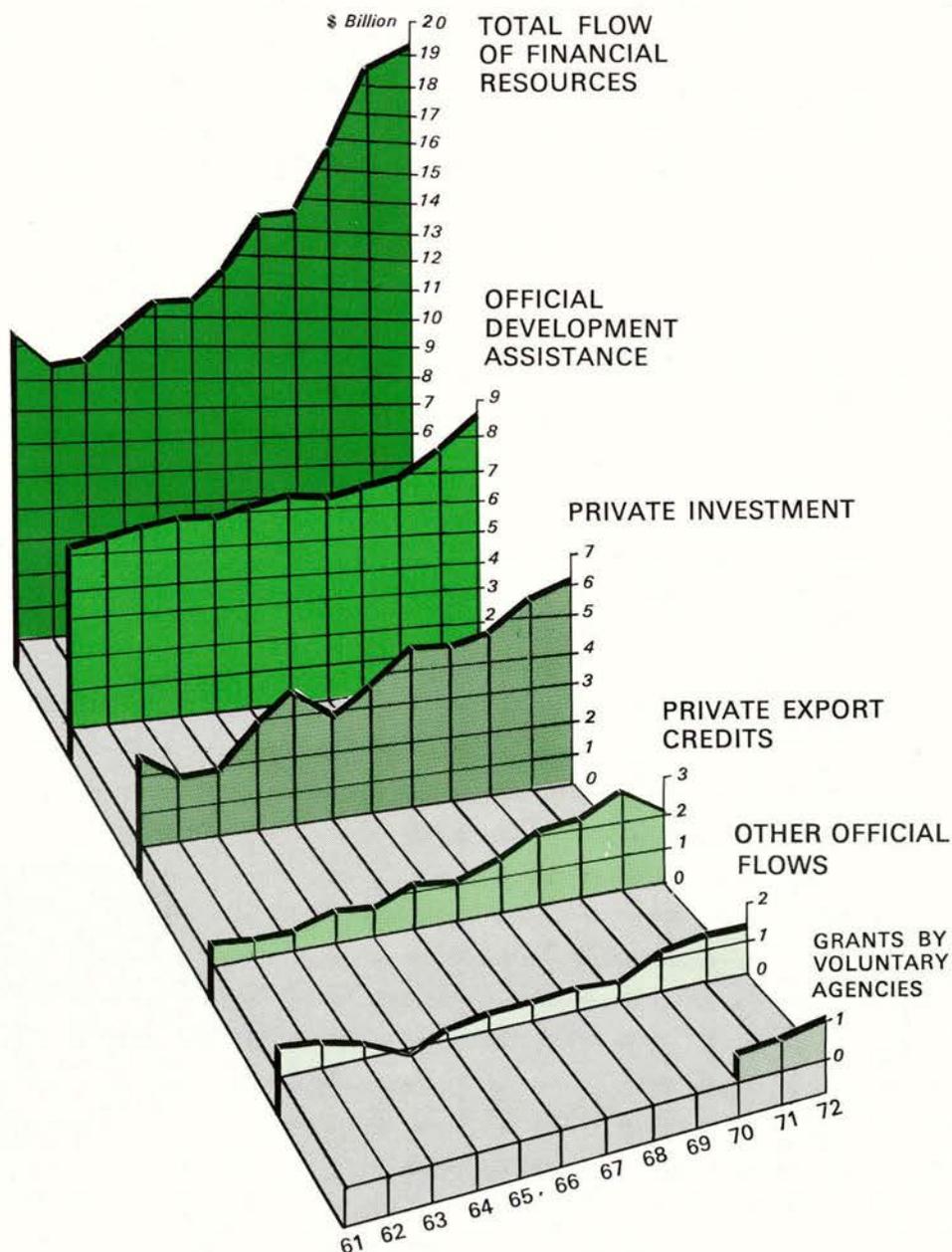
Terms of Aid

There was an overall softening of the terms of aid in 1972 as measured by the

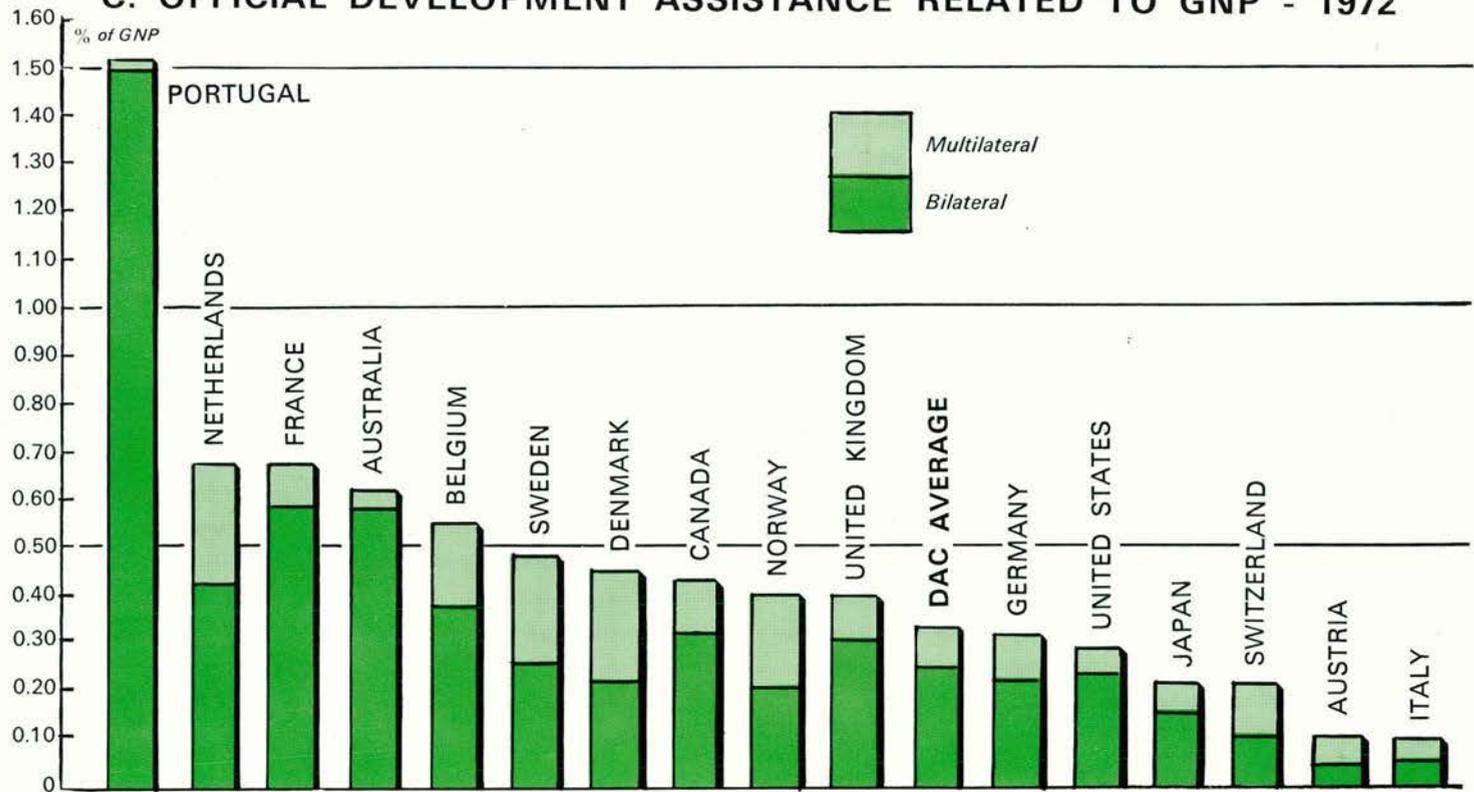
(2) The Pearson Report suggested that 20 per cent would be an appropriate contribution for multilateral institutions but at a level of aid amounting to 0.14 per cent of GNP as against the figure actually recorded in 1972 of 0.07 per cent.

(3) These figures exclude borrowing by the Third World in Euro currencies which is roughly estimated by the DAC to be about \$5 billion. If as little as \$2 billion of this were attributed to DAC countries, individually or collectively, the total flow would amount to 0.84 per cent of GNP.

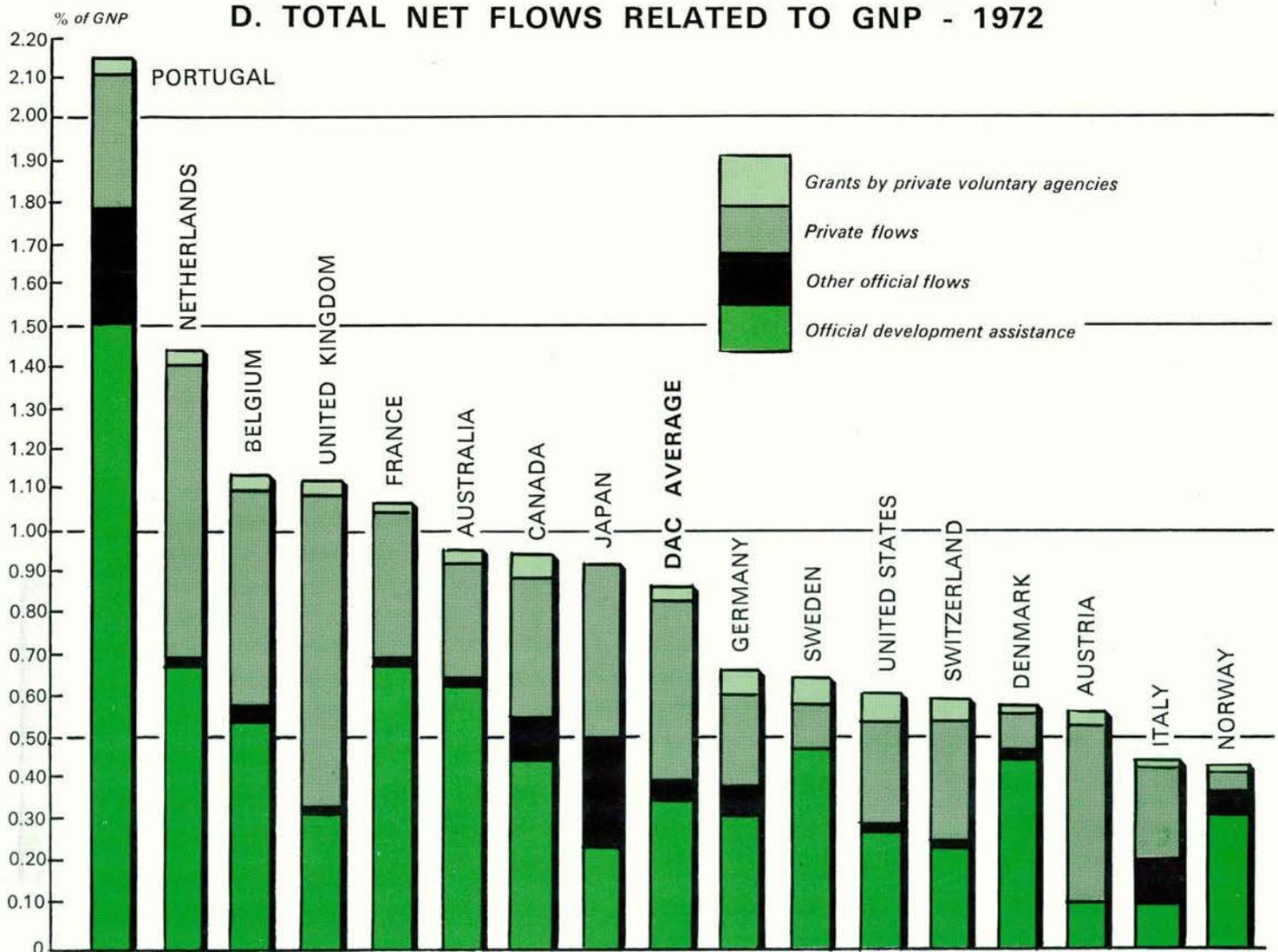
B. THE TOTAL FLOW OF FINANCIAL RESOURCES FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES 1962-1972



C. OFFICIAL DEVELOPMENT ASSISTANCE RELATED TO GNP - 1972



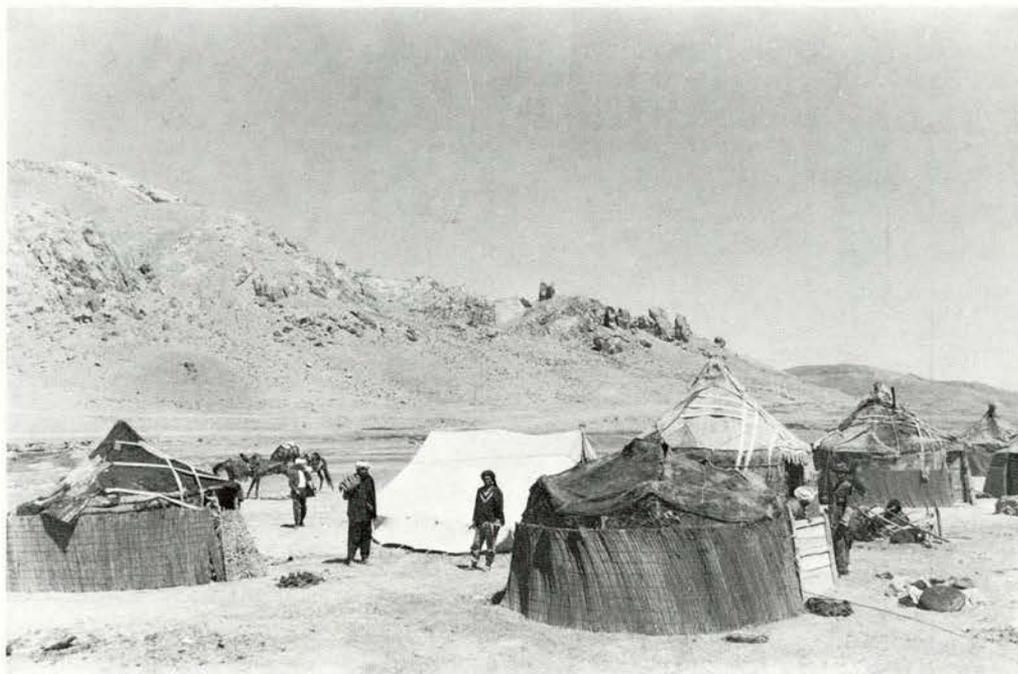
D. TOTAL NET FLOWS RELATED TO GNP - 1972



overall grant element (4) in official aid commitments which, for the DAC countries as a group, amounted to more than 84 per cent as against 82.6 per cent for 1971. This was largely because of the increasing importance of grants, the grant element of loans having increased only slightly.

A particularly substantial softening of terms in 1972 was reported by Austria, Canada, France, the United Kingdom and the United States. The programmes of Australia, Belgium, Denmark, Norway and Sweden had a grant element of above 90 per cent, as they did in 1971.

A new recommendation on terms and conditions of aid was adopted by the DAC in October 1972, with effect from January 1973, calling for members to reach an average grant element in their official aid commitments of at least 84 per cent, or a higher figure if one has already

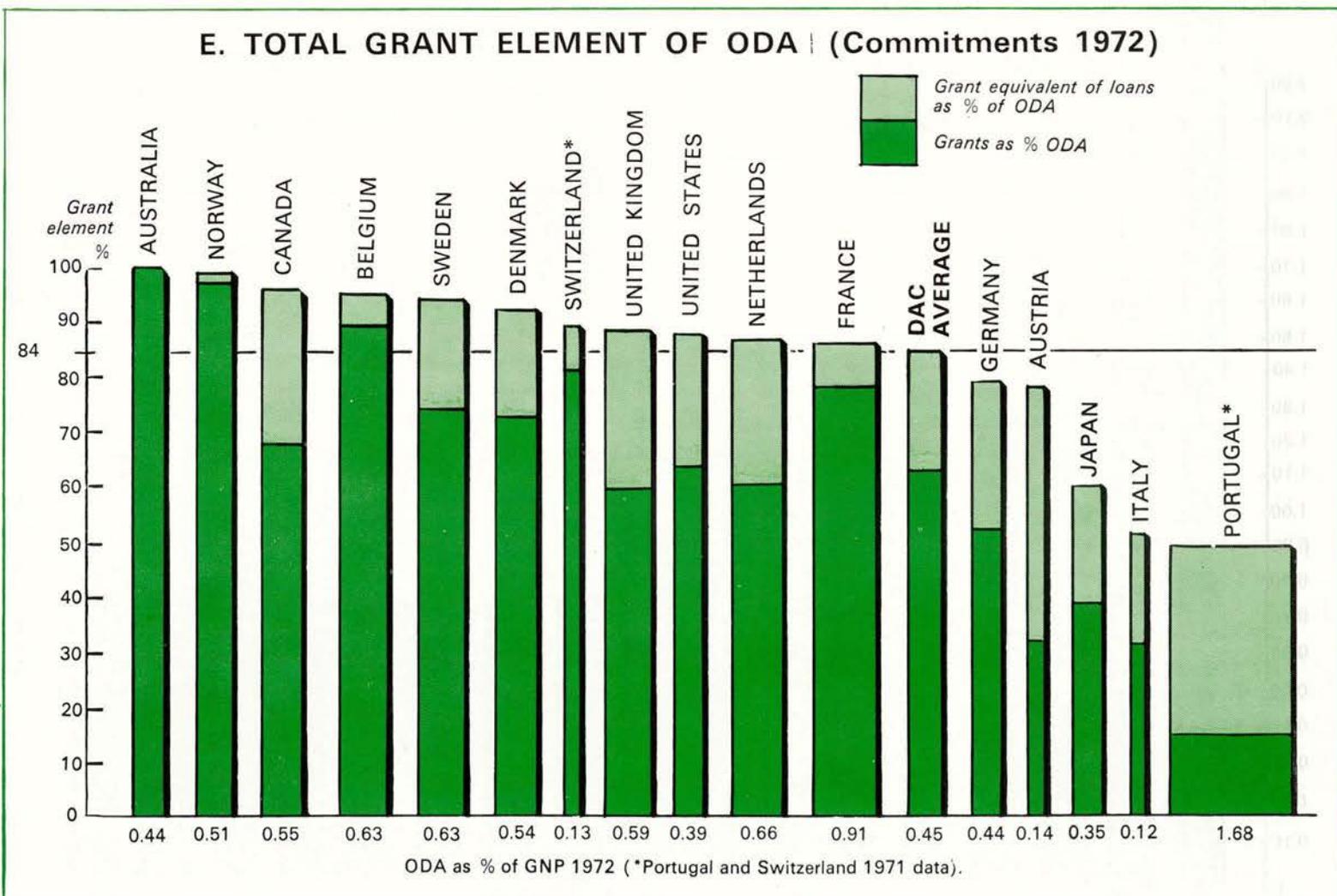


A nomad camp in Afghanistan.

(4) The grant element takes account of the maturity, grace period and interest of a loan. It is the difference between the face value of a loan and the discounted present value of the stream of repayments, including interest, to which it will give rise.

been reached. (For least developed countries a higher figure is recommended and the desirability of grants is especially noted.) As previously, countries whose

commitments as a percentage of GNP are significantly below the DAC average will not be considered as having met this new terms target.



GOVERNMENT ACTION TO REDUCE ROAD ACCIDENTS



An Eighteen-Country Recommendation on Safety-Belts

Permanent policy action is undertaken by the European Conference of Ministers of Transport (ECMT) to improve road safety; a programme to this end was drawn up at the end of 1972. Within this framework ECMT has carried out a study of various matters relating to seat-belts. This is aimed at ascertaining, on the basis of information provided by Member countries, the attitude adopted by these countries on technical as well as on educational aspects of this problem, together with the putting into operation of measures at the national level. In the light of this information, the eighteen ECMT countries (1) have set out a Recommendation whose text follows.

From the technical point of view, the information received has shown the situation in the different countries as concerns standards applying to seat-belts and their anchorages, strength tests, scientific research on the safety effectiveness of seat-belts, types of belt available on the market, and the obligation to fit seat-belts on private cars at least in front.

Laboratory tests and careful analysis of a whole series of accidents in several countries have clearly proved the usefulness of seat belts; the available data show that their use can very substantially mitigate the effects of accidents (i.e. appreciably reduce the number of fatal or serious injuries).

Costs involved are moreover relatively low; seat-belts constitute one of the most cost-effective means of improving road safety. But it is important to point out that they are all the more effective as the speed of impact, and hence the road speeds actually practised, are low. Conversely, belts inevitably lose some of their effectiveness when the speed of impact comes somewhere near or exceeds a certain threshold which lies in the region of 100 km per hour. A link therefore exists between the use of seat-belts and the putting into operation of a speed-limit policy already advocated by the ECMT Council. It must also be borne in mind that ease of use is in fact of vital importance if the wearing of seat-belts is to be voluntarily adopted as common practice.

The results of road-user information and education campaigns conducted by Member countries show that, despite the differences from country to country, the more or less common feature which emerges from the figures available is that, in present circumstances, it seems difficult to raise the percentages of seat-belt wearers beyond certain levels: 10 per cent in towns, and with few exceptions, 30 per cent outside built-up areas.

Generally speaking, the information and education campaigns so far conducted on this topic have been largely successful in convincing drivers and passengers of the usefulness of seat-belts and is dispelling some of their objections. But they have had only limited success in inducing users actually to wear their belts, doubtless because of insufficiently strong motivation. It follows that once the effectiveness of seat-belts is generally recognised, educational campaigns should be more particularly directed to persuading the motoring public to wear them in actual practice. With this in view ECMT is organising for 1974 a widespread European campaign on the subject in collaboration with *Prévention Routière Internationale*.

Opinion polls on whether the wearing of seat-belts should be compulsory have shown high percentages in favour in a number of countries: for example, 45 per cent in the Netherlands, 63 per cent in Denmark. Information has also been collected on the attitude of governments and insurance companies and on the views expressed by the courts.

The Attitude of Governments

Present attitudes of governments on the question of whether legislation or regulations should provide for compulsory wearing of seat-belts may be summed up as follows.

- In France, the Government has decided to make the wearing of seat-belts outside built-up areas mandatory as from 1st July 1973 in vehicles fitted with them (all French cars leaving the production lines since 1st April 1970 are required to be so fitted). This is the first time a European country has taken such a decision; Australia and New Zealand have already adopted this measure.
- In Germany and Belgium, the matter is under consideration; the German authorities are wondering whether the wearing of

(1) European Member countries of OECD with the exception of Finland and Iceland and the addition of Yugoslavia. ECMT has its headquarters at OECD, to which its Secretariat is attached.



seat-belts could perhaps be indirectly encouraged by amending the terms of insurance policies accordingly.

- In Austria and the United Kingdom, the use of persuasion is preferred but, in this latter country, should persuasion not succeed, compulsion would be envisaged.
- Spain, Luxembourg, Portugal and Switzerland are in favour of compulsion.

- Luxembourg would not consider such a solution unless the two following conditions were fulfilled :
 - that other European countries did likewise ;
 - that all vehicles had been already fitted with seat-belts, say, by about 1st January, 1978.
- In the Netherlands, the Government is envisaging such action, the Netherlands Parliament having already decided in favour.
- In Portugal regulations adopted on 4th September, 1970 enable the wearing of seat-belts to be made compulsory when required.
- In Switzerland, the federal authorities have already drafted regulations to this effect and submitted them to the Cantonal authorities and other bodies concerned.
- The Scandinavian countries are studying the question jointly and are preparing a draft containing uniform rules. This work is expected to be completed by 1st July, 1973.

Bearing on Compensation Awarded

In most countries, whether the seat-belt was fastened or not at the time of the accident has no bearing on the amount paid by insurance companies in settlement of claims.

- In Belgium ordinary compulsory third party policies are not affected, but some companies take the wearing of seat-belts into account when settling claims under supplementary policies covering drivers and passengers.
- In Sweden, one insurance company pays higher benefits for death or disablement if the seat-belt was fastened at the time of the accident.
- In Switzerland, benefits are not reduced if the seat-belt was not fastened, but some companies pay higher benefits on an ex-gratia basis, in the opposite case.

So far as known at present, in no country is there any established case law to the effect that failure to fasten one's seat-belt amounts to contributory negligence.

- The German Court of Appeal (Oberlandesgericht) did indeed decide that this was so, but its judgment has not been upheld by the Federal High Court.
- In the United Kingdom, the damages awarded by the court were reduced by 5 per cent (and by 15 per cent in another case) on the grounds that the injured party was not wearing a seat-belt. Recent court decisions may perhaps affect the general conditions of insurance policies.

RECOMMENDATION OF THE EUROPEAN CONFERENCE OF MINISTERS OF TRANSPORT

The Council of Ministers of Transport, meeting at The Hague on 14th June 1973, recommends the Member countries of the ECMT:

1. to do their utmost to increase the actual wearing of seat-belts, these being the most effective safeguard for vehicle drivers and passengers both inside and outside built-up areas;

2. to prescribe the compulsory fitting of 3 point seat-belts to the front seats of new vehicles, and to encourage the adoption of

types that are more convenient in actual use, notably those comprising an inertia reel and a simple buckling and unbuckling device;

3. to conduct active research on other devices capable of providing equivalent or better protection with a view to their possible adoption at a later stage;

*4. to step up the information campaigns on seat-belts, to evaluate their results and effectiveness, and to take an active share in the international campaign to be organised in co-operation with the *Prévention Routière Inter-**

nationale in 1974, whilst always having an eye for new publicity methods capable of modifying passenger and driver behaviour;

5. to make it compulsory, at the earliest possible date, for seat-belts to be worn in the course of driving lessons and driving tests;

6. to envisage, with due regard to each country's own particular circumstances, notably the proportion of vehicles fitted with seat-belts, to make the wearing of seat-belts in such vehicles generally compulsory subject to such exceptions as may be found necessary.

Highlights from

OECD ECONOMIC OUTLOOK

JULY 1973

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The most serious problem at the present time is the rate of inflation, which in many Member countries is approaching double figures. Against this, however, most governments have secured a remarkable and welcome expansion of output, with high employment conditions restored or now in sight in the great majority of countries. To have eliminated the stagnation—in circumstances which were not entirely conducive to business confidence—is in itself an achievement, and there seems no ineluctable reason why governments should prove incapable of meeting the challenge of maintaining suitable growth rates after the exceptional recovery period comes to an end. So far as international payments are concerned, the events of last February and March at least produced an exchange rate relationship between the dollar and other currencies from which, given appropriate policies, a sustainable pattern of balances on current and long-term capital account can gradually be approached.

DEMAND MANAGEMENT

Real GNP in the seven major OECD countries combined (See table 1 and table 2 for other countries) probably rose by some 7 - 8 per cent during the year ending mid-1973—considerably outstripping the 6¼ per cent forecast a year ago and exceeding the rate achieved over any period of similar length since the early 1950's. Expansive fiscal and monetary policies, and the improvement of business confidence after the Smithsonian Agreement, both played a role, and developments in most countries were mutually reinforcing. The autumn saw a remarkably fast—and widely-spread—acceleration: indeed, in the three quarters to

Table 1
Growth of real GNP in seven major countries

Percentage changes
Seasonally adjusted
at annual rates
Estimates and forecasts

a) GDP.
b) The figures for GNP in 1971-72 have been partly estimated by the Secretariat.
c) 1970 weights and exchange rates.
d) Influenced by strikes in the first four months of 1973.

| | Average 1959-60 to 1970-71 | From previous year | | | From previous half-year | | | | |
|---------------------------------------|-------------------------------------|-----------------------|------|------------------|----------------------------|------|------------------------------|------------------------------|------------------|
| | | 1971 | 1972 | 1973 | 1972 | | 1973 | | 1974 |
| | | | | | I | II | I | II | I |
| Canada | 4.9 | 5.8 | 5.8 | 7 $\frac{1}{4}$ | 4.9 | 5.3 | 9 | 6 | 5 $\frac{3}{4}$ |
| United States | 3.9 | 2.7 | 6.4 | 7 $\frac{1}{4}$ | 7.3 | 7.5 | 7 $\frac{3}{4}$ | 5 $\frac{3}{4}$ | 4 $\frac{1}{2}$ |
| Japan | 11.1 | 6.4 | 9.2 | 13 $\frac{1}{2}$ | 9.0 | 14.0 | 14 $\frac{1}{2}$ | 11 $\frac{3}{4}$ | 10 $\frac{1}{2}$ |
| France ^a | 5.8 | 5.5 | 5.5 | 6 | 4.9 | 5.8 | 6 | 6 | 6 |
| Germany | 4.9 | 2.7 | 2.9 | 6 $\frac{1}{4}$ | 5.8 | 1.3 | 8 $\frac{1}{4}$ | 7 $\frac{1}{2}$ | 5 $\frac{1}{2}$ |
| Italy ^b | 5.5 | 1.6 | 3.4 | 4 $\frac{1}{2}$ | 2.2 | 4.2 | 3 $\frac{1}{4}$ ^d | 7 $\frac{1}{4}$ ^d | 5 $\frac{1}{4}$ |
| United Kingdom ^a | 2.9 | 1.7 | 3.4 | 6 $\frac{1}{4}$ | 1.3 | 6.1 | 7 $\frac{1}{2}$ | 3 $\frac{3}{4}$ | 4 $\frac{1}{2}$ |
| Total of above countries ^c | 5.0 | 3.3 | 5.9 | 7 $\frac{1}{2}$ | 6.4 | 7.1 | 8 $\frac{1}{4}$ | 6 $\frac{1}{2}$ | 5 $\frac{1}{2}$ |

mid-1973 the seven largest countries may have experienced an increase of industrial output that amounted to some 12 per cent at an annual rate. The substantial economic slack that existed in early 1972 has been absorbed rapidly, and most countries have been able to reduce unemployment (see table 3). The fact that unemployment is still, in many cases, rather high in relation to other indicators of slack (estimates of gaps between actual and potential output, see Chart A) may partly be due to the very speed of the upswing but is also suggestive of structural imbalances in the labour market. In the United States for example, seasonally-adjusted unemployment remained around the 5 per cent mark

throughout the highly expansionary period from November to May. This problem of structural imbalances has been examined in a number of the Economic Surveys recently published by OECD (1).

The speed at which demand has been growing is not an unmixed blessing. While the renewed acceleration of inflation over the past twelve months cannot, in its entirety, be ascribed to the general strengthening of demand pressure, this has certainly been an exacerbating factor and has contributed to the steep rise in world primary commodity prices. The problem for most governments now is to moderate the growth of demand, bringing it down to the rate at which capacity can, over the medium term, be expected to expand. This is obviously important if the present problem of rising prices is not to be made even worse by the emergence of general excessive demand. Equally, a slowing down over the coming year would avert the danger of a violent boom followed by a sharp reversal of economic growth.

It can probably be claimed that many governments should have begun to moderate the stimulus to demand as far back as the second half of last year. One reason why, in many cases, action was not taken may have been that it was not entirely clear that unemployment had begun a firm downward trend from its high starting-point. Moreover, the acceleration of activity was so sudden that forward-looking indicators did not always provide such warning. And in many countries the inevitable "special factors" made interpretation of the situation difficult. Thus—apart from certain steps to moderate the growth of monetary aggregates—little was done at that time to change the course of demand-management. Indeed, some countries took measures to stimulate demand. Over the past six months, however, there has been a fairly general change of emphasis, with policies moving somewhat towards restraint in most countries. Particularly important measures have been applied in Germany and Japan.

On the basis of the policies currently in force, and of the observable trends, expansion in the OECD area as a whole is likely to remain generally strong over the next twelve months, making further inroads into unemployment in most countries, but showing some slow-down from the recent exceptionally high rates. The evidence that growth is returning to a more normal rate is stronger in North America and Japan than in Europe. Even in the former, however, the recent behaviour of forward-looking indicators such as new capital appropriations, new

Table 2
Growth of real GNP in other Member countries
Percentages changes; estimates and forecasts

| | Average 1959-60 to 1970-71 | From previous year | | |
|---------------------------------|-------------------------------------|-----------------------|------|-----------------|
| | | 1971 | 1972 | 1973 |
| Major seven countries | 5.0 | 3.3 | 5.9 | 7 $\frac{1}{2}$ |
| Australia ^a | 5.0 | 4.1 | 2.0 | 7 |
| Belgium | 4.9 | 3.7 | 4.9 | 5 $\frac{1}{2}$ |
| Netherlands ^a | 5.3 | 4.5 | 4.5 | 5 $\frac{1}{2}$ |
| Denmark ^a | 4.8 | 3.8 | 4.6 | 5 $\frac{1}{2}$ |
| Ireland | 4.0 | 3.1 | 4.4 | 5 |
| Other OECD North ^{b c} | 4.7 | 2.9 | 4.2 | 4 $\frac{3}{4}$ |
| Austria | 4.9 | 5.6 | 6.4 | 6 |
| Finland ^a | 5.2 | 2.5 | 5.6 | 6 $\frac{1}{2}$ |
| Norway ^a | 5.0 | 5.5 | 4.3 | 4 $\frac{1}{2}$ |
| Sweden ^a | 4.3 | 0 | 2.2 | 5 |
| Switzerland ^a | 4.6 | 3.9 | 4.8 | 4 |
| Other OCDE South ^b | 6.8 | 6.2 | 7.5 | 7 $\frac{1}{4}$ |
| Of which: | | | | |
| Spain | 7.2 | 4.6 | 7.5 | 7 |
| Total OECD ^b | 5.0 | 3.4 | 5.8 | 7 $\frac{1}{4}$ |
| Of which: | | | | |
| Europe ^b | 4.9 | 3.4 | 4.3 | 6 |
| EEC ^{b d} | 4.8 | 3.2 | 3.9 | 6 |

a) GDP.
b) 1970 weights and exchange rates.
c) Including Iceland.
d) Including Luxembourg.

(1) Cf. Economic Survey of Canada (December 1972), the United Kingdom (January 1973), France (February 1973), Ireland (March 1973) and the United States (June 1973).

A. GAPS BETWEEN ACTUAL AND POTENTIAL GNP

In percent of potential GNP; seasonally adjusted

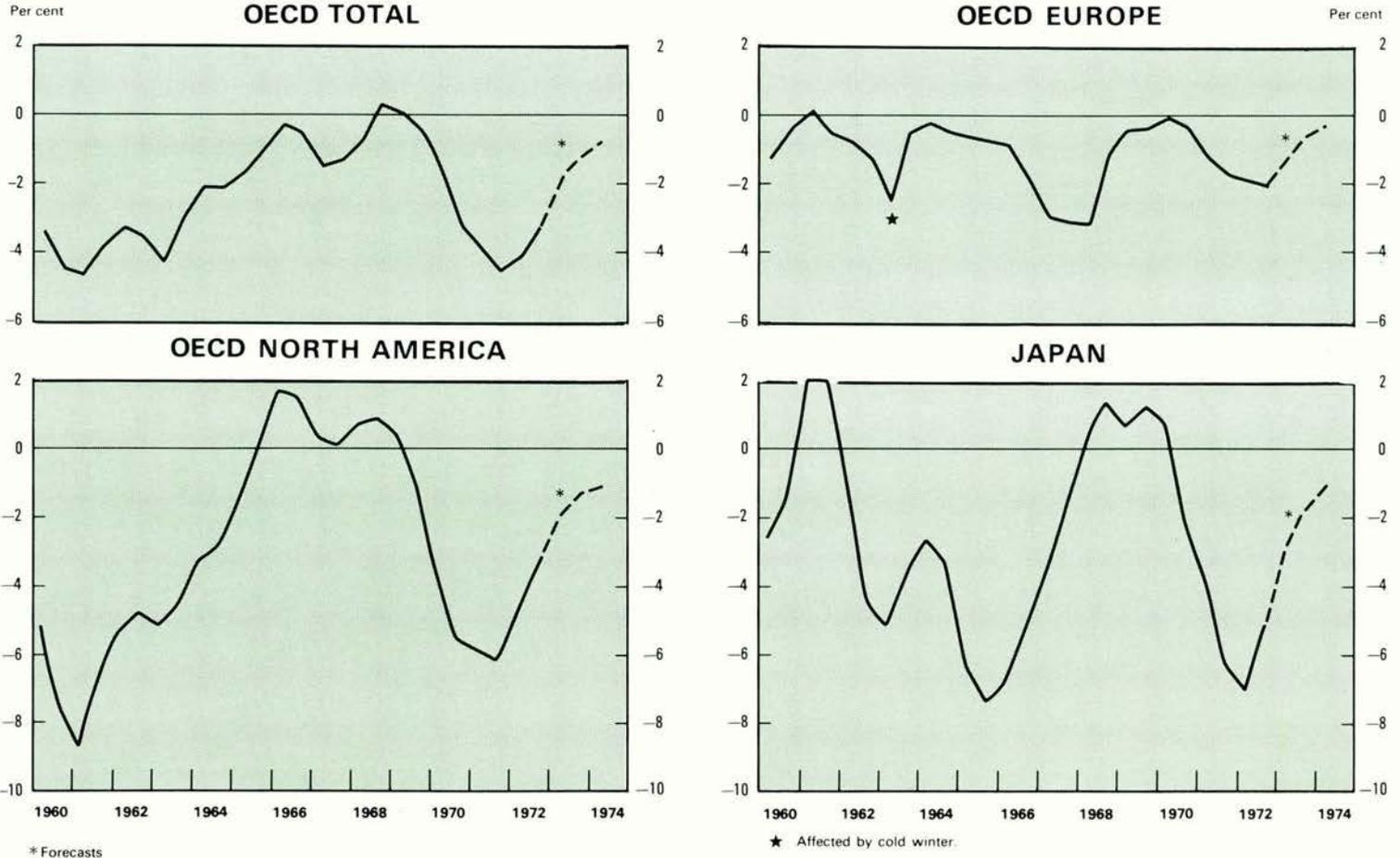


Table 3

Unemployment indicators in selected OECD countries

Per cent of civilian labour force, seasonally adjusted

| | 1970 | 1971 | 1972 | 1971 | | 1972 | | | | Average of latest three months ending in: |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|---|
| | | | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| <i>Unemployment rates</i> | | | | | | | | | | |
| Canada | 5.9 | 6.4 | 6.4 | 6.4 | 6.4 | 6.1 | 6.1 | 6.7 | 6.7 | 5.4 May |
| United States | 4.9 | 6.0 | 5.6 | 6.0 | 6.0 | 5.9 | 5.7 | 5.6 | 5.3 | 5.0 May |
| Japan | 1.3 | 1.3 | 1.4 | 1.3 | 1.6 | 1.3 | 1.3 | 1.5 | 1.7 | 1.4 Feb. |
| Australia | 1.1 | 1.3 | 1.9 | 1.4 | 1.6 | 1.7 | 1.8 | 2.1 | 1.9 | 1.6 Mar. |
| France | 1.7 | 2.1 | 2.3 | 2.1 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 | 2.1 Mar. |
| Germany | 0.5 | 0.7 | 1.0 | 0.8 | 0.8 | 0.8 | 1.0 | 1.0 | 1.0 | 0.9 Apr. |
| Italy | 3.1 | 3.1 | 3.6 | 3.1 | 3.2 | 3.4 | 3.6 | 3.8 | 3.7 | 3.5 Mar. |
| United Kingdom ^a | 2.3 | 3.0 | 3.4 | 3.2 | 3.4 | 3.5 | 3.4 | 3.3 | 3.1 | 2.5 May |
| Belgium | 1.9 | 1.8 | 2.3 | 1.9 | 2.0 | 2.1 | 2.2 | 2.3 | 2.4 | 2.2 Mar. |
| Netherlands ^b | 1.4 | 1.8 | 3.0 | 1.8 | 2.3 | 2.8 | 2.9 | 3.2 | 3.0 | 3.1 May |
| Finland | 1.9 | 2.2 | 2.6 | 2.4 | 2.4 | 2.5 | 2.5 | 2.8 | 2.6 | 2.5 May |
| Sweden | 0.9 | 1.5 | 1.7 | 1.6 | 1.8 | 1.8 | 1.7 | 1.7 | 1.8 | 1.7 Mar. |
| <i>Ratio: unemployed-unfilled vacancies</i> | | | | | | | | | | |
| Japan | 0.7 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 Mar. |
| Germany | 0.2 | 0.3 | 0.5 | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 Mar. |
| United Kingdom | 2.2 | 4.2 | 4.3 | 4.6 | 5.2 | 5.5 | 4.7 | 4.2 | 3.2 | 2.3 Mar. |
| <i>Numbers unemployed (thousands)</i> | | | | | | | | | | |
| Total OECD ^c | 7 279 | 8 664 | 8 933 | 8 799 | 9 023 | 9 006 | 9 052 | 9 089 | 8 682 | 7 912 Mar. |
| OECD Europe ^c | 2 149 | 2 498 | 2 843 | 2 577 | 2 731 | 2 783 | 2 907 | 2 944 | 2 793 | 2 349 Mar. |

a) Great Britain.
b) Including employed on special Government schemes; in percent of employees.

c) Excluding Iceland, Luxembourg, Switzerland, Portugal and Turkey.

Sources: For sources and methods see Technical Annex.

orders and weekly working hours suggests that at least until the end of 1973 the deceleration will not be marked; and the existing policy-stance makes it likely that, on balance, American and Japanese expansion will remain relatively strong in the first half of next year. In Europe, the main risk still seems to be on the side of too strong an expansion of demand, and several countries may have to take further action to prevent this. The major exception to this generalisation is Italy, where the apparent recent revival of expansion is to be welcomed. Otherwise, by mid-1974 little if any economic slack is likely to remain in OECD countries: hence the importance of securing a reasonably smooth reversion to *sustainable* growth rates during the course of the next 12 months.

The ability of governments to ensure, through timely adjustments of demand-management policy (fine-tuning), a reasonably smooth path of economic growth has recently been increasingly doubted. Such scepticism, a reaction from an earlier tendency to oversell the potentialities of fine-tuning in general and the flexible use of fiscal policy in particular, is understandable and may well be salutary, but should not be carried to the extreme. It is certainly true that the political problems of restraining pro-cyclical public expenditure by junior governments remain important in many countries; and at all levels of government pressure for better public services limits flexibility on the expenditure side. Moreover, in many countries the use of the revenue weapon for dampening demand is constrained by the inflationary results of tax-push: higher indirect

taxes on consumer goods force up the cost of living and wage claims: and in certain countries personal income tax increases may also be shifted to wage and prices. Social and institutional conditions vary so widely between individual countries that general prescriptions for counter-cyclical fiscal policy risk being of limited validity. Nonetheless, it is probably fair to say that, on the expenditure side, there is scope for some adjustment of the precise timing of increases (the scope for increasing the actual efficiency of a given level of government expenditure, though surely considerable, falls outside the immediate field of stabilisation policy). And where, on the revenue side, measures affecting consumption are judged inappropriate, there may be possibilities for action to moderate the growth of investment (e.g. by raising corporate taxes or levying limited-duration taxes on investment goods). This might be held unfortunate where the aim is to raise investment ratios. But temporary measures can be expected to have temporary effects, and steps to postpone investment decisions may well represent the smaller evil where higher taxes on consumers are likely to be counter-productive. Indeed, given the tendency for fixed capital expenditure to be particularly buoyant in the later stages of a boom, and for strains in the construction industry to spill over into other sectors of the economy, action to smooth out the course of investment might well be an appropriate means of stabilising certain economies at the present stage of the cycle.

There are also possibilities for demand-management on the side

Table 4
Consumer prices

Percentage changes
from previous period
at annual rates

| | Average 1959-60 to 1970-71 | 1971 | 1972 | 1972 | | Three months ending April 1973 | |
|--------------------------|-------------------------------------|------|------|-----------|------------|--------------------------------------|-------------------|
| | | | | I s.a. | II s.a. | s.a. | n.s.a. |
| Canada | 2.6 | 2.9 | 4.8 | 4.4 | 5.6 | 7.6 | 7.8 |
| United States | 2.8 | 4.3 | 3.3 | 3.2 | 3.4 | 7.9 | 7.8 |
| Japan | 5.7 | 6.1 | 4.5 | 3.2 | 5.9 | 16.4 | 17.6 |
| Australia | 2.7 | 6.1 | 5.8 | 5.5 | 4.9 | 9.6 ^b | 8.7 ^b |
| France | 4.1 | 5.5 | 5.9 | 5.1 | 7.8 | 4.0 | 4.1 |
| Germany | 2.8 | 5.2 | 5.8 | 4.9 | 7.5 | 6.8 | 9.4 |
| Italy | 3.9 | 4.8 | 5.7 | 5.0 | 8.2 | 12.7 | 12.8 |
| United Kingdom | 4.2 | 9.4 | 7.1 | 5.4 | 8.9 | 7.4 | 9.5 |
| Belgium | 3.0 | 4.3 | 5.5 | 4.9 | 6.8 | 6.5 | 7.1 |
| Netherlands | 4.4 | 7.6 | 7.8 | 7.5 | 7.6 | 5.1 | 9.4 |
| Denmark | 5.7 | 5.8 | 6.6 | 7.0 | 6.5 | 9.4 ^c | 6.6 ^c |
| Ireland | 4.7 | 8.9 | 8.7 | 8.2 | 8.9 | 18.2 ^b | 16.8 ^b |
| Austria | 3.6 | 4.7 | 6.3 | 6.0 | 8.0 | 7.9 | 7.0 |
| Finland | 5.0 | 6.1 | 7.4 | 5.4 | 8.8 | 10.7 | 11.3 |
| Greece | 2.1 | 3.0 | 4.4 | 5.5 | 4.4 | 11.0 | 10.8 |
| Norway | 4.4 | 6.2 | 7.2 | 7.0 | 8.6 | 7.6 | 9.8 |
| Spain | 5.9 | 8.3 | 8.3 | 8.1 | 9.1 | 10.0 | 8.1 |
| Sweden | 4.2 | 7.4 | 6.0 | 5.8 | 6.7 | 5.0 | 8.4 |
| Switzerland | 3.4 | 6.6 | 6.7 | 6.7 | 6.9 | 10.9 | 9.2 |
| OECD total ^a | 3.4 | 5.3 | 4.7 | 4.2 | 5.5 | 8.5 | 9.0 |
| Of which: | | | | | | | |
| Food ^a | 3.3 | 4.3 | 5.4 | 4.7 | 6.9 | 17.4 | 19.3 |
| Non-food ^a | 3.5 | 5.6 | 4.5 | 4.2 | 4.9 | 5.9 | 5.6 |
| OECD Europe ^a | 3.9 | 6.6 | 6.5 | 5.7 | 8.1 | 7.8 | 8.9 |
| Of which: | | | | | | | |
| Food ^a | 3.7 | 6.0 | 7.1 | 5.9 | 9.6 | 9.8 | 11.4 |
| Non-food ^a | 4.1 | 6.9 | 6.2 | 5.6 | 7.1 | 6.7 | 7.3 |

a) 1970 private consumption weights and exchange rates.

b) February 1973 over November 1972.

c) 1973 Q1 over 1972 Q4.

Note: s.a.: seasonally adjusted; n.s.a.: not seasonally adjusted.

Table 5

GNP deflators

Percentage changes
Seasonally adjusted
at annual rates
Estimates and forecasts

| | Average 1959-60 to 1970-71 | From previous year | | | From previous half-year | | | | |
|---|-------------------------------------|-----------------------|------|------|----------------------------|-----|------|----|------|
| | | 1971 | 1972 | 1973 | 1972 | | 1973 | | 1974 |
| | | | | | I | II | I | II | I |
| Canada | 3.0 | 3.1 | 4.6 | 5½ | 5.0 | 4.7 | 6 | 5¾ | 5¾ |
| United States | 2.8 | 4.7 | 3.0 | .. | 3.4 | 2.4 | 5¼ | .. | .. |
| Japan ^a | 4.8 | 4.6 | 4.9 | 7½ | 3.4 | 7.3 | 6¾ | 9¼ | 4¾ |
| France ^b | 4.4 | 5.4 | 5.7 | 6¼ | 5.0 | 7.5 | 5½ | 6½ | 6¼ |
| Germany | 3.6 | 7.7 | 6.1 | 6¾ | 5.1 | 5.4 | 7¼ | 7¼ | 7¼ |
| Italy | 4.4 | 6.5 | 6.0 | 11 | 6.0 | 7.8 | 13¼ | 9½ | 7 |
| United Kingdom ^b | 4.2 | 8.9 | 6.7 | 6½ | 5.5 | 7.9 | 6¼ | 6 | 5 |
| Total of above countries ^{c d} | 4.2 | 6.2 | 5.7 | 7¼ | 4.8 | 6.8 | 7¼ | 7½ | 6 |
| Other OECD ^c | 4.3 | 7.5 | 7.9 | 8 | .. | .. | .. | .. | .. |
| Total OECD ^{c d} | 4.2 | 6.5 | 6.2 | 7¼ | .. | .. | .. | .. | .. |
| Of which: Europe ^c | 4.3 | 7.3 | 6.7 | 7½ | .. | .. | .. | .. | .. |

a) Not seasonally adjusted.

b) GDP deflator.

c) 1970 weights and exchange rates.

d) Excluding the United States.

of monetary policy. The scope for moving towards greater monetary restraint has been somewhat enlarged by the present regime of more flexible exchange rates. Effective monetary restraint will, however, require that the present highly liquid position of both banks and non-banks in many countries should be reduced. And so long as price movements—and expected movements—are as steep as at present, it will probably be necessary for nominal interest rates in many countries to rise substantially above their traditional levels. This, naturally, provokes a certain reluctance, particularly where sensitive sectors such as housing may bear a heavy part of the burden of restraint. However, adequate control of monetary expansion is unlikely to be achieved when real interest rates are very low, and this is still the case in many countries.

INFLATION

Inflation as measured by the movement of consumers' prices was running at an annual rate of around 8 per cent in the three months ending in April (see table 4) and the figures so far available for May give no grounds for encouragement. Most OECD countries are clustered around this average rate, and there has been little to choose recently between inflation in North America and Europe.

Japan's record has been distinctly worse than the average and so, within Europe, have been those of Italy, Ireland, Finland, Greece, Spain and Switzerland. The rate of inflation would have been even higher had some countries not been benefiting from very exceptional temporary measures to keep the price indices down—e.g. the price freeze in the United Kingdom and the reduction of the value-added tax in France. The Secretariat's forecasts (table 5) suggest that policies as at present known are unlikely to produce any widespread deceleration of prices before next year, and that even in the first half of 1974 the price rise in most countries will be at least half as high again as the longer-term average. In making these forecasts the Secretariat assumes some easing of the upward trend of food and raw material prices. It is also assumed that, as discussed above, there is some slowing-down of the growth of demand from its present rate and that countries do not run into severe general demand pressures. If the latter assumption proves false, even the present forecasts will err on the side of optimism.

There is, thus, the prospect that the higher rate of inflation which set in during 1969-70 will have stretched out—with further acceleration in many cases—over a period of four years or more. Whatever allowance it may be right to make for the successive special (and supposedly non-recurring) factors that have forced up the rate of price increase over this period, it is difficult not to suspect that without very vigorous action—and covering a wide range of countries—something like the recent rate of inflation may last for some time. It has been suggested that most governments have reconciled themselves to acceptance of higher inflation rates than were considered tolerable in the past. On the contrary, by their own pronouncements governments attach high priority to reducing the rate of price increases and are not resigned to the continuation of inflation on anything like its recent scale (2).

A more valid fear may be that governments are becoming increasingly handicapped in the adoption of stabilisation policies because their own constituents—consumers, blue and white collar workers and companies alike—are growing weary of the subject, on which so many words have been poured out and so little seems effectively to have been done. Familiarity can breed indifference, and lead the public to decide that instead of supporting government policies that they suspect to be inadequate, they are better advised to concentrate on the (ultimately self-defeating) game of trying to keep one move ahead of the neighbours. The consequences of such attitudes, for advanced democratic societies, could be unfortunate. There must be a serious risk that when, in such societies, the rate of inflation advances towards double figures, a progressive acceleration will set in, because anticipatory action by various economic groups becomes too strong and too widespread for effective control. And high inflation rates (probably even where they are not accelerating) entail distortions of income and wealth patterns which are not only unfair but produce continuous social strains of a type that OECD countries are ill-equipped to counter.

Another valid fear could be that even if governments are not reconciled in advance to accepting higher rates of inflation than in the past, they are uncertain as to how to proceed. In a number of countries the restrictive demand management policies of 1970-71

(2) Cf. *Communiqué approved by OECD Council meeting at Ministerial level, 8th June, 1973.*

Table 6

I. IN BILLIONS OF SDR UNITS

Current balances

Seasonally adjusted

| | 1971 | 1972 | 1973 | 1972 | | 1973 | | 1974 |
|---------------------------------|-------|-------|-------|-------|-------|-----------------|-----------------|-----------------|
| | | | | I | II | I | II | I |
| Canada | 0.40 | -0.54 | -0.50 | -0.30 | -0.23 | -0.15 | -0.35 | -0.30 |
| United States | -2.75 | -7.35 | -4.60 | -4.25 | -3.11 | -1.95 | -2.65 | -1.90 |
| Japan | 5.68 | 6.13 | 4.00 | 2.84 | 3.29 | 1.75 | 2.25 | 1.70 |
| Australia | -0.88 | 0.31 | 0.40 | 0.02 | 0.29 | 0.30 | 0.10 | -0.05 |
| France ^a | 0.51 | 0.25 | 0.80 | 0.15 | 0.10 | 0.35 | 0.45 | 0.60 |
| Germany | 0.17 | 0.38 | 0.75 | 0.01 | 0.37 | 0.40 | 0.35 | 0.15 |
| Italy ^b | 1.98 | 2.36 | 1.65 | 1.63 | 0.73 | 0.55 | 1.10 | 1.45 |
| United Kingdom | 2.51 | 0.07 | -1.40 | 0.42 | -0.35 | -0.75 | -0.65 | -0.60 |
| Belgium-Luxembourg ^c | 0.45 | 1.20 | 1.40 | 0.40 | 0.80 | 0.65 | 0.75 | 0.75 |
| Netherlands | -0.17 | 0.97 | 0.90 | 0.46 | 0.51 | 0.40 | 0.50 | 0.55 |
| Other EEC | -0.62 | -0.15 | -0.30 | 0 | -0.15 | -0.20 | -0.10 | -0.20 |
| Other OECD North | -0.71 | -0.05 | 0.15 | 0 | -0.05 | 0.05 | 0.10 | -0.05 |
| Other OECD South | 0.66 | 0.85 | 0.80 | 0.52 | 0.33 | 0.40 | 0.40 | 0.40 |
| Total OECD | 7.25 | 4.40 | 4 | 1.90 | 2.50 | 1 $\frac{3}{4}$ | 2 $\frac{1}{4}$ | 2 $\frac{1}{2}$ |
| <i>Memorandum item:</i> | | | | | | | | |
| Enlarged EEC | 4.85 | 5.05 | 3.85 | 3.05 | 2.00 | 1.45 | 2.40 | 2.70 |

were followed by recessions which went beyond the "cooling-off" period they were designed to produce. The trade-off between inflation and unemployment proved more unfavourable than previously envisaged and the price relief was in most cases small and in virtually all cases short-lived. While demand-management is likely to—and indeed must—remain an important weapon for achieving reasonable price stability in the sense that when demand becomes excessive the battle is lost, governments will probably be searching, with increasing urgency, for effective complementary policies. They will no doubt seek to press ahead with steps to increase internal and external competition, to moderate inflationary trends emanating from the sheltered sectors, and to develop what has been called supply-management policies. Efforts in these directions will no doubt be rewarding, but the effects will almost certainly be slow. It may well prove that, in addition, governments increasingly turn to—or return to—more direct methods of moderating cost and price trends.

None of the known variants of these methods are costless. But costs have to be weighed against each other, so that the lesser evil may be chosen. Measures of detaxation or subsidisation, to reduce price pressures on food and other sensitive commodities which weigh heavily in the cost of living and therefore in wage-bargaining attitudes are very expensive: adopted, they are hard to remove, and in high-employment conditions they need to be accompanied by other measures to restrain demand if overheating is to be avoided. Compulsory price and wage controls also have their costs in terms of reduced economic efficiency. Nonetheless, the experiments currently being made in this field will be watched with interest, and although experience to date is limited, certain conditions for their success are already becoming clear.

One lesson from past experience of prices and incomes policy is that over-ambitious targets are counter-productive: to aim, in too short a time, to reduce the price rise from very high rates to very low ones, or to bring money wage increases sharply back into line with a productivity norm when they have gone well beyond it, risks

throwing the whole strategy into disrepute. Another lesson may be that removal of control is a critical step and needs very cautious management *cf.* the United States' transition to Phase III and subsequent temporary withdrawal to a new Phase I. A third lesson, applicable to all but the very biggest countries, is that unless exchange rates are to be sufficiently flexible, it is difficult for a single open economy to do much better than the general trend. A fourth is that the success of price-income policy depends on the strength of public acceptance of the need for it.

INTERNATIONAL MONETARY PROBLEMS

Strategies to achieve a more stable pattern of payments balances are now being pursued in a changed international monetary setting. In March, 19 months after the formal suspension of gold convertibility, many countries abandoned the attempt to maintain fixed exchange rates against the dollar. A number of members of the EEC, together with Norway and Sweden, are floating jointly against the dollar but are maintaining fixed rates between themselves; after three months it was found necessary for Germany's currency to be revalued against those of the other participants in the scheme. Most other important rates are floating more or less freely.

When the exchange markets reopened on March 19th, the cumulative effective devaluation of the (US) dollar from pre-Smithsonian parities was about 15 per cent, and sterling and the lira had, on this basis, been effectively devalued by some 12 per cent and 7 per cent, respectively. On the other side, the cumulative effective revaluation of the yen then amounted to about 24 per cent, and those of Switzerland and Germany to respectively 13 and 11 per cent. Effective changes for Canada and other members of the European snake were small.

Exchange rate changes of this order should be sufficient, over time, to remove the most important imbalances in major countries' current accounts. In the latter part of 1972 there were already signs that the Smithsonian realignment was beginning to affect the trade balances, in real terms, of the three major participants—the United States, Japan and Germany. The changes of February/March broadly doubled the effective changes for all three countries. In recent months, there have been encouraging movements towards equilibrium in both the United States and Japan. The United States' trade deficit, which was still at an annual rate of \$6 $\frac{3}{4}$ billion in the fourth quarter of 1972, was almost halved in the first quarter of this year, and April and May combined showed a virtual balance. The Japanese trade surplus was cut from an annual rate of \$9 billion in the fourth quarter to \$6 billion in the first five months of this year. In each case, special factors were at work—very strong agricultural exports by the United States and exceptional imports of primary products by Japan—and progress cannot be expected to continue at such rapid rates. Making allowance for these, however, the forecasts in table 6 suggest steady progress towards a better pattern of current accounts.

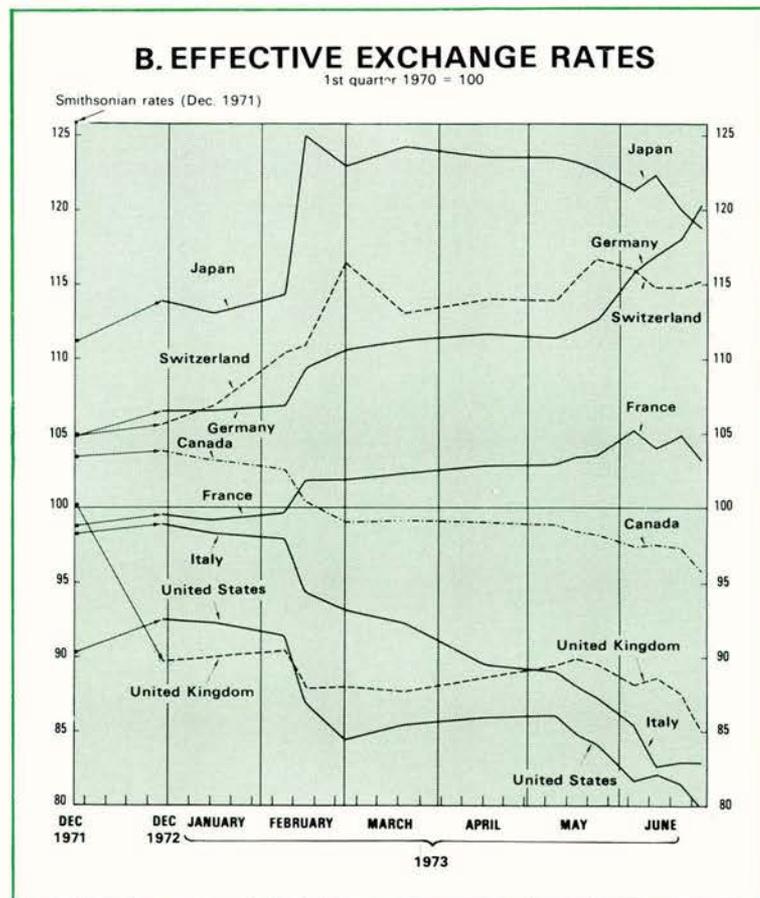
Definitive judgment concerning the impact of floating rates would be premature, but some review of the elements that may enter into eventual judgment may be in order. As shown in Chart B, movements in effective exchange rates since mid-March have seen a significant appreciation of the Deutschemerk (some 9 per cent by end-June) and substantial depreciations of the Italian lira and, to a lesser extent, the (US) dollar. A somewhat surprising development has been the depreciation of the Japanese yen, resulting mainly from continued large capital outflows.

Judging from public comment, many feel that the floating arrangements have been working moderately well. Among the arguments put forward are the following:

- without floating, the unsettling events in May would almost certainly have set off a traditional “monetary crisis”, leading to the closure of the exchange markets;
- with floating, countries have acquired some greater freedom to use monetary policy for domestic stabilisation purposes;
- traders seem to have accustomed themselves to the mechanics of floating rates without much difficulty;
- there has been little complaint from exporting interests in upward floating countries, or from importing interests and consumers where the rate has gone down.

Some other commentators feel concern because the movement of rates has so far generally been such that speculation has remained a one-way street; technical reactions following sharp movements have generally not carried rates more than part of the way back to previous levels. And while most effective changes have been small, some—particularly for the Deutschemerk and the lira—have not. There may be grounds for fearing that the full effects of the system are being masked for the moment, particularly as the OECD world is at present experiencing an exceptional boom, but that they may emerge later on. Further ahead, according to this view-point, there could be a risk—since current balances react perversely to exchange rate changes in the short run and full volume responses normally appear only with a substantial lag—that rates will “over-correct”. The divergent movement of currencies regarded by the market as “strong” and “weak” could, according to some views, become self-perpetuating, because of the impact of exchange rate changes (via import prices) on domestic cost and price levels.

Those who doubt whether the floating arrangements are working well have still to consider whether in present conditions there is any alternative. Over the past decade, massive intervention and



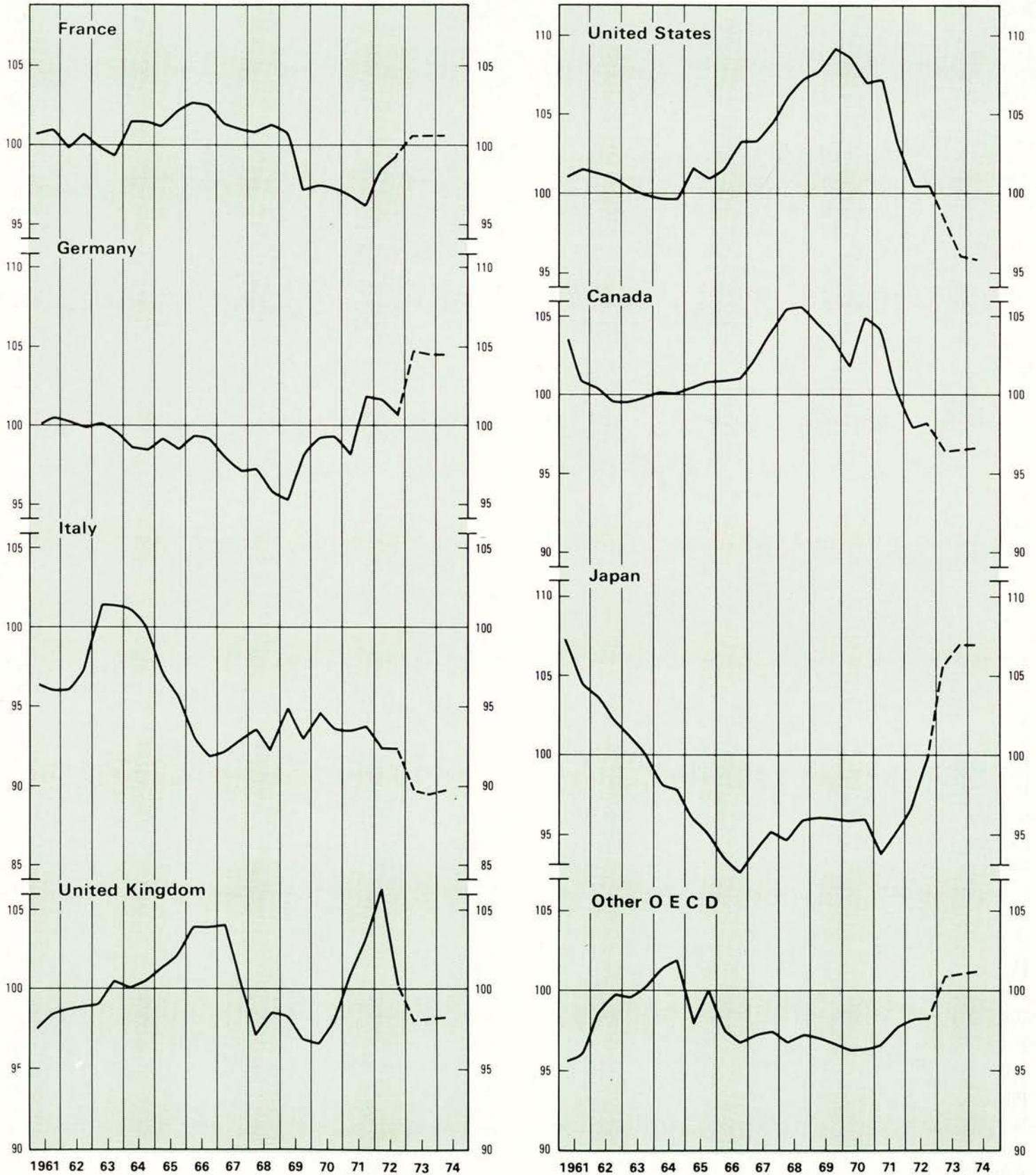
provision of support packages in the defence of fixed rates have generally, in the end, been vain. The present situation may be different to the extent that there is a consensus, at least among the economic authorities in major countries, that the set of rates which emerged in March of this year was “about right”; many of the rates defended most strongly in the past were fairly clearly wrong. Against this, however, must be considered the possibility that, given the chronic lack of confidence at present prevailing in the exchange markets, it might be no easy matter in the short run to persuade traders to accept the official consensus view; the experience of the Deutschemerk in June may be of some relevance in this respect.

Floating has to some extent done away with the “balance of payments constraint” as traditionally thought of. Insofar as this enables countries to pursue appropriately expansive demand-management policies more continuously than was sometimes possible under the fixed exchange rate system it will no doubt be welcomed. Insofar as, in an inflationary world, it jettisons an incentive to prudence, it will be regretted. Perhaps it is more important to realise that floating does not, in fact, render countries fully independent of external economic constraints. For what used to be a “deficit country”, the constraint created by a loss of reserves is replaced by the pressure exerted on prices by a depreciating exchange rate. And while, under a floating system, “surplus countries” are free, in the short-run, from undue increases in domestic monetary aggregates and may witness some easing of the price problem, this may be at the expense of a profit squeeze and, in the absence of offsetting domestic action, a reduced level of activity.

(continued on page 18)

C. RELATIVE EXPORT PRICES OF MANUFACTURES

Indices (1), 1963 = 100; in U.S. dollars

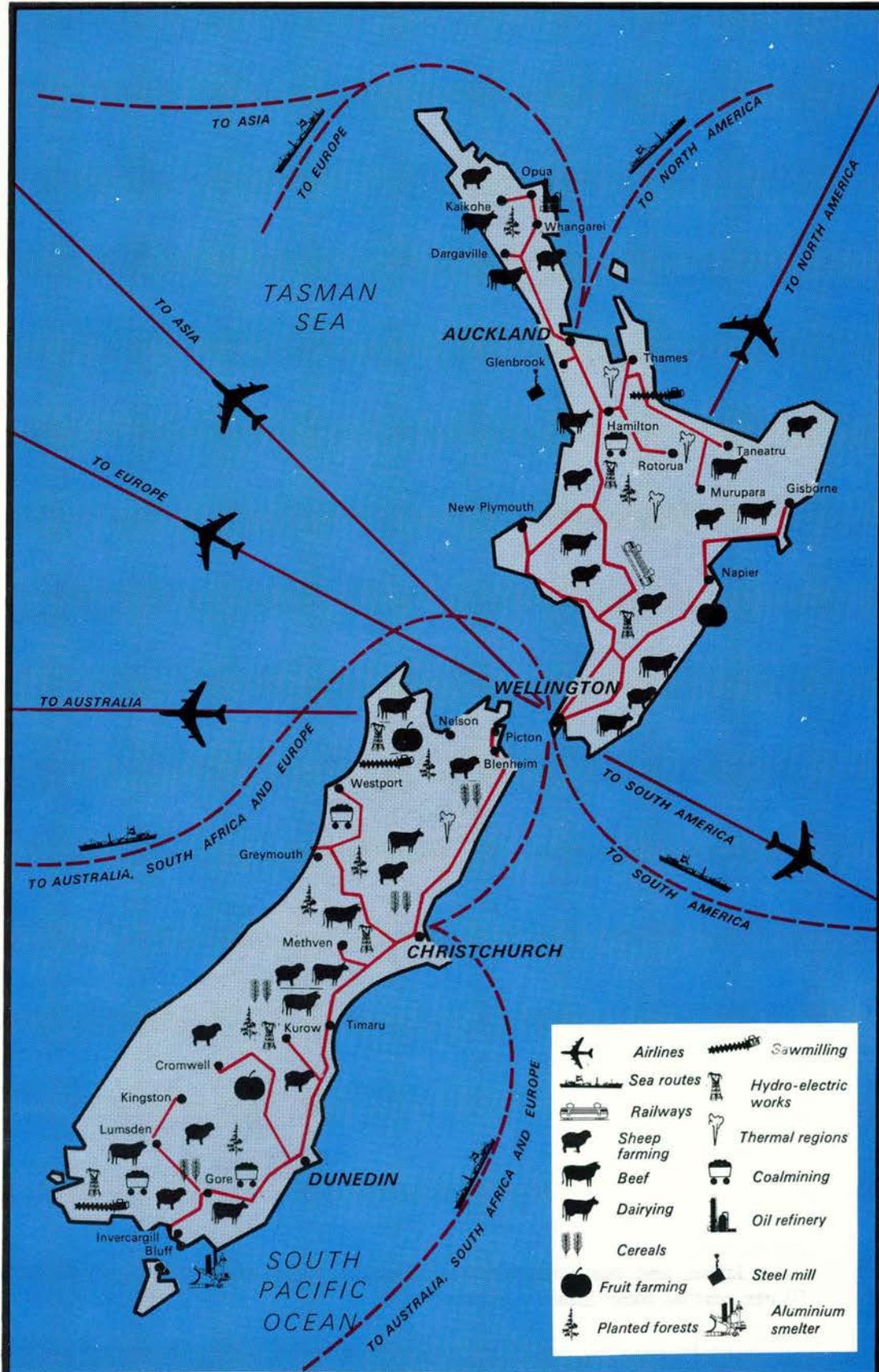


1. Index of country's own export average values divided by weighted index of competitors' export average values.

NEW ZEALAND

*the
new
Member
of
OECD*

*On acceptance
by the
New Zealand
Government of the
OECD Council's
invitation to become
a full Member of
the Organisation,
and deposition of
the instruments
of ratification
in Paris,
New Zealand formally
became the 24th
Member country on
29th May 1973.*



The New Zealand economy is now in a strongly expansionary phase. Balance of payments is healthy and growth is no longer constrained by the need to conserve foreign exchange as it was during much of the past decade. Internally, the labour force, supplemented by a high level of immigration, is growing at the rate of about 3 per cent per annum. On the basis of past experience a rate of economic growth in excess of 5 per cent per annum seems feasible for 1973-1974.

New Zealand is still very dependent on export earnings but these no longer derive predominantly from a narrow range of primary products. While still of vital importance to New Zealand, the traditional exports—butter, cheese, wool and sheep-meats—now contribute only half of total export earnings. A decade ago they represented 70 per cent of total exports.

Along with new products, new export markets have also been developed. The result has been a much more broadly based and less vulnerable export trade.

The primary industries are also in the process of diversifying, with a greater emphasis on beef production. Poor prices and drought conditions slowed expansion in the sheep and dairy industries over the late Sixties and early Seventies. Renewed expansion in wool and sheep-meat production should follow the very high wool prices this season. The rate of expansion of the dairy industry is more difficult to gauge given the uncertain market outlook for New Zealand dairy products.

The last few years have seen a change in the character of investment in manufacturing with the establishment of a number of sophisticated export-oriented manufacturing industries such as an aluminium smelter and a substantial extension of the forest-based industries. Manufacturers generally are now looking increasingly towards export markets and manufactured exports are increasing rapidly.

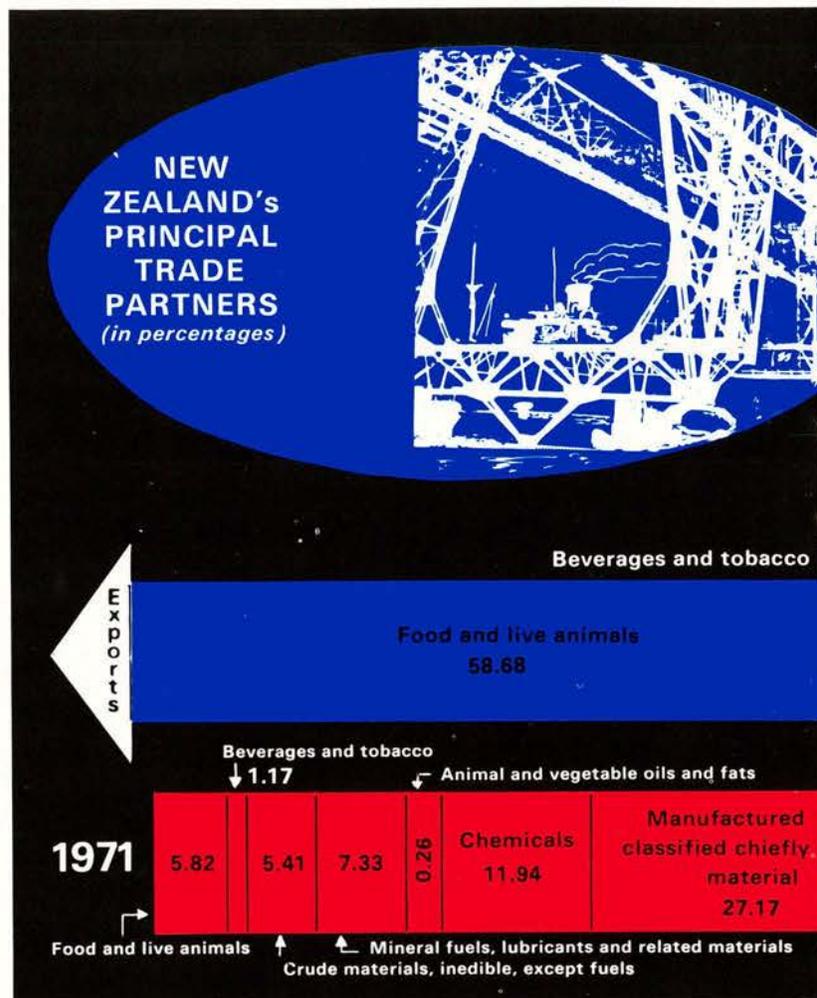
OVERSEAS TRADE

In the past, New Zealand's trade rested not only on a narrow range of agricultural products but also on a limited number of markets.

The modern New Zealand nation was firmly tied economically to Britain during its first century. It suited both countries for many years to let this situation continue; New Zealand, whose natural advantages enabled meat and dairy products to be produced very efficiently, became a substantial supplier to the British market, and for many years neither country found reason to disturb the arrangement.

Until the Second World War over 80 per cent of New Zealand exports went to Britain. The proportion began to fall from the mid-1940's, however, going below 50 per cent about 1963. It now stands at about 30 per cent. During this time the proportion of exports to Australia, the United States and Japan in particular began to grow. Nonetheless Britain remains the only substantial available market for two of New Zealand's principal export products—butter and lamb—and it is of vital importance to New Zealand that the British market should remain open to these products.

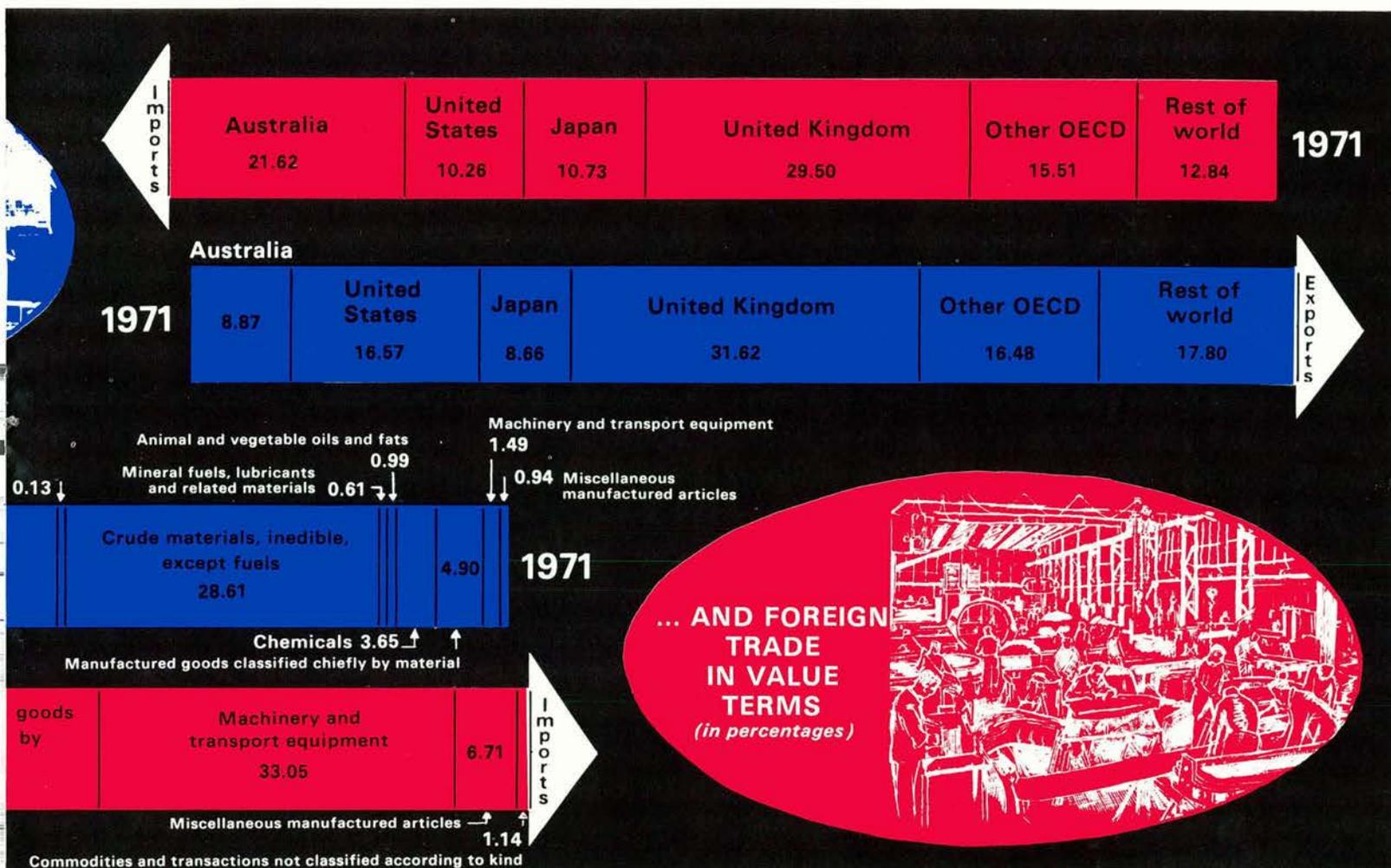
New Zealand's sources of imports are also being diversified. From a high point of 60 per cent in 1950, less than 30 per cent of New Zealand's imports come from Britain today. Australia, Japan, and the United States together now supply over 50 per cent of New Zealand's imports.



For geographical and cultural reasons economic ties with Australia are important to New Zealand, and special emphasis has been given to this relationship since the introduction of the New Zealand-Australia Free Trade agreement in 1966. The two countries are now each other's principal market for manufactured exports, and considerable efforts are made on both sides to foster mutually advantageous trade. Over 50 per cent of the two-way trade is now included in the free trade schedule of the Agreement and the list is expanded every year.

Since the Second World War New Zealand has worked to expand its secondary industries, but efforts to diversify both products and markets gained special impetus from the early 1960's with Britain's approaches to join, and its eventual accession to, the EEC. Thus the very rapid expansion of New Zealand's manufacturing sector is in response both to a growing domestic market and the need to increase exports of manufactured goods to diversify New Zealand's export base. A very substantial growth in exports of manufactured goods is expected, although export of primary products will undoubtedly remain the major earner of export income. At present the latter earn over 80 per cent of foreign exchange receipts, while forest products contribute a further 6 per cent.

Because of its continuing dependence on the export of agricultural products, New Zealand has made clear its criticism of distortions in world agricultural trade caused by price support schemes that encourage uncompetitive farm production, the dumping of surpluses so generated and barriers in general to trade in agricultural products.



New Zealand's dependence on the British market, in particular for dairy products and lamb, necessitated strong representations during Britain's attempts to join the EEC. In June 1971 agreement was reached between Britain and the Community on details of a special arrangement covering imports of New Zealand butter and cheese into Britain following its entry into the Common Market, and this arrangement was incorporated into Protocol 18 to the Treaty of Accession.

This provides for imports of decreasing quantities of butter and cheese until 1977. There is no provision for imports of cheese after that but a review in 1975 will consider the way in which to continue the arrangement for butter in the light of prevailing conditions.

Overseas trade is relatively more important to New Zealand than to most other countries. Although there are countries whose exports form a higher proportion of GNP than do New Zealand's (some 20 per cent), the fact that the domestic value of New Zealand exports is very high means that New Zealand's real dependence on trade is probably much higher than many countries with a higher exports/GNP ratio.

The country's capacity to increase production of agricultural products, and hence exports, is very great. The primary inhibition is lack of access to markets overseas. On the other hand, New Zealand's capacity to increase earnings from exports of manufactured goods is limited by many factors, not least the relatively high import costs of plant and raw materials for most of these products.

Successive governments have nevertheless set out to create an economic climate that would encourage the development and expansion of secondary industry. In a world in which trade in agricultural products seems likely to remain subject to barriers, New Zealand must protect its trading interests by expanding its own industries, both to reduce imports and to expand the range of exports. In spite of the difficulties confronting the country, there is strength in its well-educated work force and in the long native tradition of inventiveness and the readiness to change, adapt, and improvise.

EXPORTS

Agriculture

- Three main groups of agricultural products—meat, wool and dairy products; also hides, skins, sausage casings, dried and preserved milk, casein and tallow as lesser but significant items.
- Other primary products: fish, fish oil, seeds, honey, apples, pears and frozen and canned vegetables.

Processing of Raw Materials from Agriculture

- Food processing, such as meat freezing and preserving; butter, cheese and other milk products; fruit and vegetable preserving; animal feedstuffs and other food preparations.

- Wool used for the manufacture of carpets, yarn, fabrics, rugs, blankets and wool tops.
- Tanning, currying and finishing hides and skins; travel goods, handbags and other leather goods.
- Footwear, clothing, and made-up textile goods.

Forestry

- Logs, building boards, chips, pulp and paper, plywood and timber veneers.

Other Manufacturing

- Fertilisers, wire, machinery, equipment, chemical sprays, insecticides.
- Materials, components, aids and completely prefabricated wooden homes.
- Inventions like the jet boat, ferro-concrete yachts, a high speed metal cutter, forklift trucks, conveyor systems, post-hole diggers.
- A steel mill based on scrap metal feedstuff; and a basic iron and steel mill to utilise iron sand deposits.
- The aluminium products industry: hardware, holloware, stampings, pressings and mouldings.
- The manufacture, in imported stainless steel, of tanks, vats and other equipment for the dairying industry.

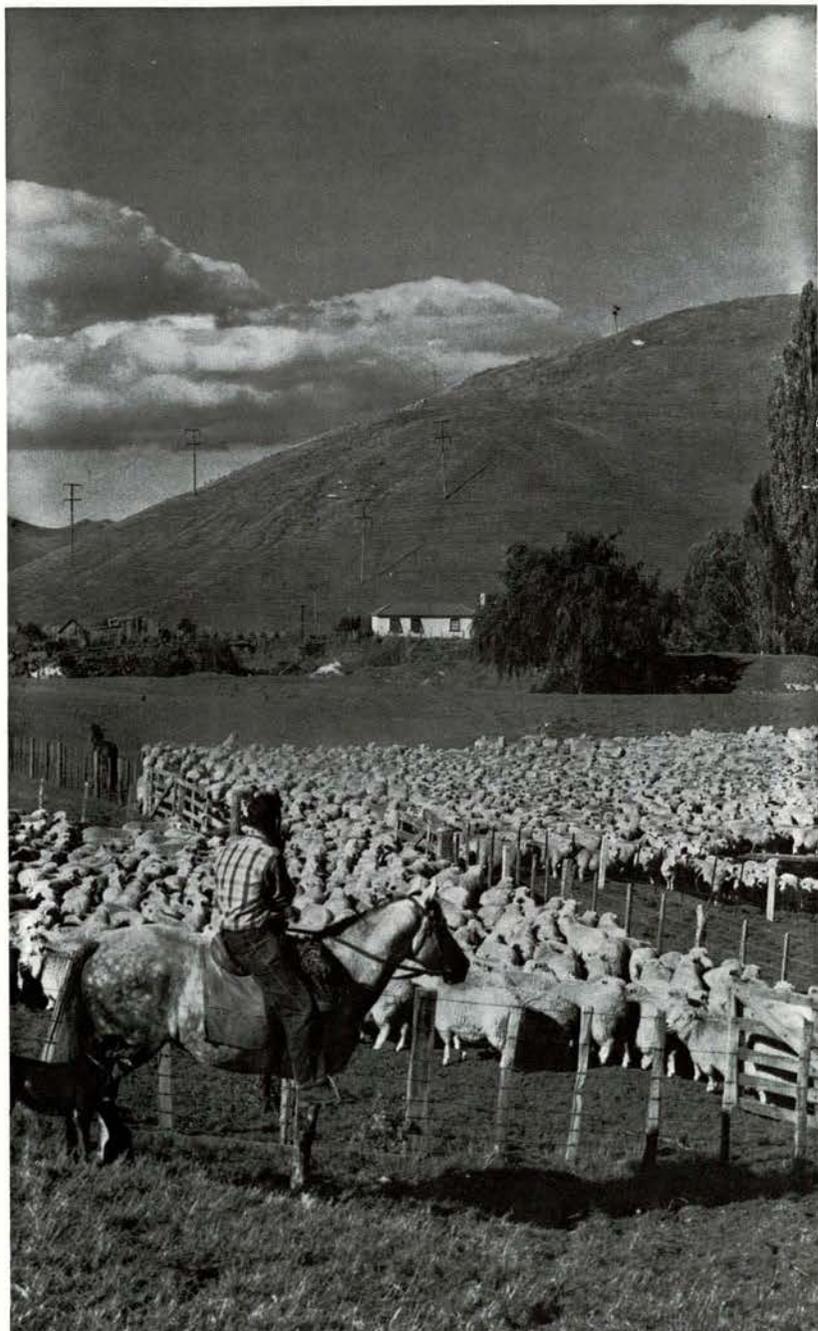
FOREIGN AID

The major emphasis of New Zealand's overseas aid has been, and will remain, in Asia and the Pacific. New Zealand's aid is almost entirely in grant form. The emphasis has been on fields in which New Zealand has particular experience and expertise—agriculture, education, health and engineering. In recent years the New Zealand private sector has become increasingly involved in the overseas aid programme.

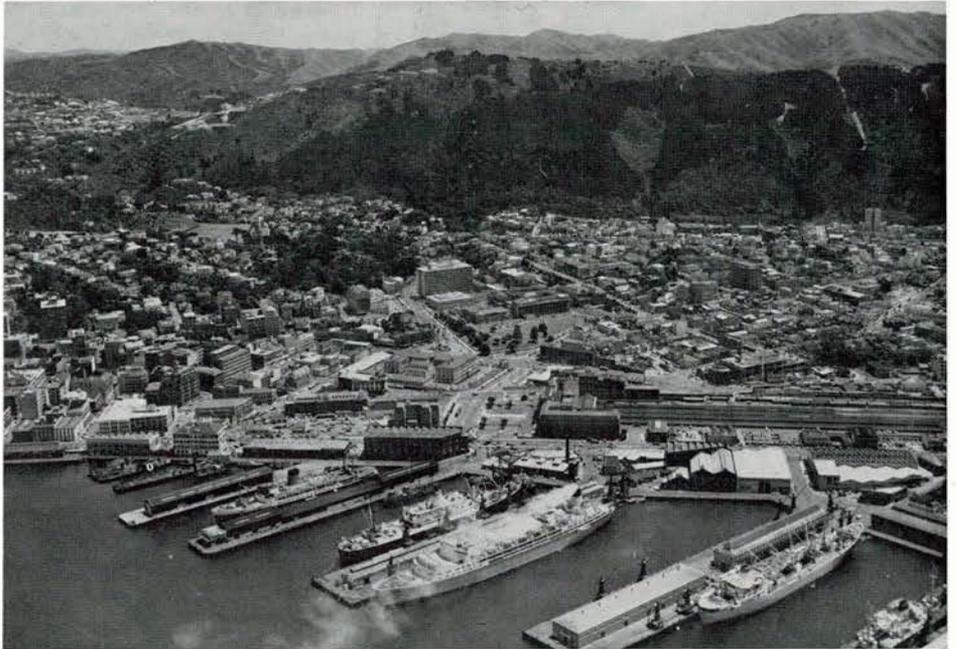
New Zealand will seek to attain the 0.7 per cent of GNP target for Official Development Assistance and the 1 per cent target for Total Resource Flow by 1975-76. A total allocation for ODA of \$27 million (NZ) has been approved for 1973-74 (compared with estimated expenditure of \$19.7 million in 1972-73), and expenditure of the order of \$41 million in 1974-75 and \$62 million in 1975-76 is anticipated. The ratio of bilateral to multilateral aid in 1973-74 will be approximately 70:30 compared with 80:20 in 1972-73.

Allocations for the bilateral aid programme have been set at \$11.5 million in 1973-74, \$16 million in 1974-75 and \$21.5 million in 1975-76. Within this programme new allocations will be made for the British Solomon Islands, the Gilbert and Ellice Islands, Papua, New Guinea and the New Hebrides. The Government intends that a greater proportion of New Zealand's bilateral aid expenditure should be directed towards the Pacific even than has been the case heretofore. A new programme of bilateral aid to Latin America is being established at an initial level of \$250,000 and provision has been made for a contribution of a like amount to the Inter-American Development Bank (IDB).

Bilateral capital aid is applied solely to projects which have been specifically requested by the government of the recipient country. New Zealand engineers have designed roads and bridges



New Zealand Butter & Cheese



| | | |
|---|---|---|
| 1 | 2 | 3 |
| | | 4 |
| 5 | 7 | 6 |

(1) New Zealand wool production exceeds 600 million lbs a year, lamb exports 270,000 tons. (2) Butter and cheese are graded to ensure high quality standards for export. (3) Timber exports include logs, building boards, pulp and paper, plywood and veneers. (4) Wharves, railway terminals and Government offices are surrounded in Wellington, the capital city, by a belt of bush, trees and lawn. (5) Modern industrialisation: an aluminium smelter in South Island. (6) Maori and Pacific Island girls work on the production of electric power transformers. (7) A social studies class at work in Wellington.



in Indonesia, Malaysia and Thailand, advised on port development in Malaysia and Indonesia and planned abattoirs for Laos and for Fiji. New Zealand agriculturalists and foresters have undertaken development programmes in Korea, the Philippines, Thailand, Malaysia, Indonesia, Western Samoa, Fiji and Tonga. In addition to the training of students and technicians from developing countries within New Zealand—expenditure on this will total around \$1.5 million in 1973-74—aid money has been applied to educational institutions, such as the University of the South Pacific, the Asian Institute of Technology and Khon Kaen University in Thailand.

Multilateral aid expenditure for 1973-74 is estimated at \$6.7 million, the major contributions being \$1 million to the International Development Association, \$1.5 million to the United Nations Development Programme, \$495,000 to the Asian Development Bank (\$75,000 to the Technical Assistance Special Fund and \$420,000 to the Multi-Purpose Special Fund), \$550,000 to the World Food Programme. It is expected that expenditure on multilateral aid will rise to \$7.55 million in 1974-75.

New Zealand is giving consideration to new forms of assistance, including concessional loans and implementation of large-scale capital development projects. At the same time the government intends to look at ways of stimulating non-ODA flows, including private sector grants, credits and investment, with the object of attaining the overall one per cent target of GNP.

AGRICULTURE

Although the New Zealand economy has been growing and diversifying, the importance of agriculture remains vital. The sector employs about 12 per cent of the labour force, contributes almost 16 per cent to GDP and earns over 80 per cent of total export income.

Pastoral farming dominates the agricultural pattern, 90 per cent of the cultivated land being used in grassland farming for raising sheep (60 million) and beef (4.8 million) or dairy cattle (3.8 million).

Farm size tends to be larger than in many other countries. Most farms (about 60 per cent) are owner-operated and in view of the high level of mechanisation, the proportion of hired labour is low and declining, especially in dairy farming. Part-owner, part-lessee arrangements represent about 12 per cent of the total number of holdings.

Farming efficiency, especially in the dairy industry, is among the highest in the world. Over the last decade, farm production has increased by almost 2.5 per cent a year while the agricultural labour force has declined by 0.9 per cent annually, which points to increased productivity. Stocking rates and flock and, especially, herd sizes have also increased steadily, the average now being about 1,500 sheep per flock and 90 milk cows per herd. There are approximately 900 herds with over 200 cows, mostly in the North Island where the dairy industry and most of the associated processing industries are concentrated.

Marketing of farm products is organised by various producer-controlled statutory authorities. The New Zealand Dairy Board purchases and markets all dairy products for export and regulates domestic marketing. The New Zealand Meat Producers' Board while not responsible for direct marketing, which is in

the hands of the trade, is the chief architect of marketing policy through regulating the level of shipment, supervision of grading and market promotion. The Board's funds come from a levy on meat exports. Wool is sold by auction in New Zealand or in the United Kingdom. The New Zealand Wool Board is principally concerned with promotion of markets and scientific and industrial research. Funds come from a levy on growers.

Farm income stabilisation schemes are operated to cushion farmers against temporary swings in receipts. The funds which have provided the main sources of finance for such schemes were built up during and after the war, mainly from receipts, surplus stock sales and levies on growers. A "basic price" is established each season for butter, to be paid to dairy companies by the New Zealand Dairy Board. If earnings from exports exceed the "basic price", part of the surplus may be paid to dairy companies and the remainder transferred to the Dairy Industry Reserve Account, which was continually in surplus up to the last decade. For meat and wool, minimum price schemes operate. In the case of meat, deficiency payments are made when necessary (not since 1962). In the case of wool, intervention is either by means of deficiency payments or purchase by the Wool Commission or a combination of both methods.

The National Development Conference held in 1969 confirmed the vital, continuing importance of agriculture in the national economy and the Minister of Agriculture stated that policies would continue to promote an environment which favoured the expansion of the sector, in line with targets laid down by the Conference. Particular emphasis would be placed on measures facilitating investment, encouraging greater depth in processing, improving marketing and establishing advisory and information services.

SCIENCE

Despite its small population (under 3 million), New Zealand has exhibited a forward looking policy towards science on a broad front.

Some ten years ago it appointed a Minister of Science and in the following year established a National Research Advisory Council (NRAC) whose main duty was to advise the Minister on matters related to scientific research. Through the activities of this Council an annual science budget was first introduced in 1970-71 covering all government expenditure on science excluding medical research and funds provided direct to the universities. The budget specifies twelve general areas of research and development (R & D) (see table) and the NRAC advises the Minister of Science on the priorities which should be accorded to each area.

Total expenditure on science (research, development and services) in 1972 reached almost \$50 million, of which government subscribed nearly \$40 million. The total sum represented 0.80 per cent of the Gross National Product (GNP) for that year.

EDUCATION

Since 1945 education in New Zealand has been marked by extensive growth. In that year enrolments at educational institutes were 328,000 or 19.3 per cent of the population, but by 1972 enrolments were 906,000 or 30.8 per cent of the popu-

lation. This growth is accounted for by increased births for the major part of the period, the tendency for more pupils to stay longer at school and to undertake further education after leaving school and the development of new education services.

EXPENDITURE ON SCIENCE BY SOURCE OF FUNDS

| Organisation | Years ended March | |
|---------------|-------------------|--------|
| | 1961 | 1972* |
| Government | 8,502 | 39,388 |
| Private | 1,322 | 10,557 |
| Total science | 9,824 | 49,945 |
| As % GNP | 0.37 | 0.80 |

* Provisional

PERCENTAGE EXPENDITURE ON SCIENCE (DIRECT EXPENDITURE PLUS GOVERNMENT GRANTS TO SCIENCE) BY GOVERNMENT DEPARTMENTS 1971-72

| Department | % |
|--|------|
| Scientific & Industrial Research | 37.0 |
| Ministry of Agriculture & Fisheries | 30.3 |
| Transport | 7.5 |
| Forest | 6.2 |
| Health | 4.8 |
| Education in Universities | 4.8 |
| Works | 4.2 |
| Defence | 2.1 |
| Trade & Industry | 1.6 |
| Internal Affairs, Labour, State Services Commission, Social Welfare, Justice, Electricity, Maori & Island Affairs, Lands & Survey | 1.5 |

ESTIMATED NATIONAL EXPENDITURE ON SCIENCE BY ACTIVITY GROUPS 1971-72

| Activity Group | % |
|---------------------------|------|
| Agriculture | 38.4 |
| Forestry | 7.4 |
| Fisheries | 3.4 |
| Minerals | 4.8 |
| Manufacturing | 8.9 |
| Building & Construction | 3.6 |
| Transport | 1.2 |
| Natural environment | 17.1 |
| Social sciences | 1.9 |
| Human health | 7.9 |
| Fundamental research | 1.7 |
| Other scientific services | 3.7 |

In 1972 enrolments were as follows:

| | |
|---------------------------|---------|
| ● Pre-school institutions | 46,000 |
| ● Primary schools | 521,000 |
| ● Secondary schools | 197,000 |
| ● Teachers colleges | 8,000 |
| ● Technical education (1) | 95,000 |
| ● Universities | 39,000 |

The state education system is financed by central government without recourse to local rates or taxes. In 1971-72 total net government expenditure on education was 18 per cent of total government expenditure or 5.3 per cent of Gross National Product.

ENVIRONMENT

The concern of New Zealand to ensure that its environment is adequately safeguarded has over the years given rise to legislation, under which virtually all ministers now have responsibility for some aspect of environmental management.

Non-government bodies have also been established in advisory roles. In 1962 the Nature Conservation Council was established to offer advice on the impact of proposed public and private works, with particular concern for native flora and fauna and for the natural features of the country. On the recommendation of the Physical Environment Conference held in 1970, the Environmental Council was established. It comprises persons who, because of their expertise in environmental matters and the responsibilities they carry, are able to exercise considerable influence.

The government is concerned that there should be no unnecessary disruption to the existing administrative structure for environmental matters, which has generally worked well, and that the Minister for the Environment should exercise a coordinating role and be free to intervene to ensure that matters of environmental importance are not overlooked. The Minister is also able to receive and investigate appeals made to him by non-government bodies and individuals dissatisfied in some way with decisions bearing on environmental matters taken by the authorities directly responsible.

The Commission for the Environment created in 1972 is a small unit in the public service. It undertakes studies on behalf of the Minister for the Environment and makes recommendations to him on policy matters. It will work closely with the government departments with environmental responsibilities and will aim to coordinate their activities, avoid duplication of effort, help reconcile any conflicting policies or recommendations, and generally to seek action to protect environmental values wherever this appears to be necessary.

A major responsibility of the Commission will be the auditing of environmental impact reports. All major government capital works and management projects are to be subject to an environmental impact report before decisions to proceed with them are taken, and for this purpose the Commission for the Environment will have access to departmental information to enable it to identify policies and proposals with significant environmental implications. The recommendation of the Commissioner for the Environment on the project will be submitted to cabinet or to the appropriate approving authority along with those of the promoting department and on the basis of these recommendations the government will take a final decision.

(1) About 26,000 of these are enrolments in non-vocational or hobby classes.

STATISTICS RELATING TO THE NEW ZEALAND ECONOMY (1)

| | | | | | | | |
|--|--|---|--|---|--|---|-------|
| AREA (1,000 square km) | 268.7 | GROSS CAPITAL FORMATION, 1971-1972 (\$ million US) | 1,627 (23 % of GNP) | DEVELOPMENT ASSISTANCE (1,000 \$ US) | total flow 1971-1972 | 22,960 | |
| OCCUPIED FARMLAND (1,000 square km) | 173.5 | PERSONAL EXPENDITURE ON CONSUMER GOODS AND SERVICES, 1971-1972 (\$ million US) | 4,152 (58 % of GNP) | | of which ODA (0.21 % of GNP) | 15,254 | |
| FORESTS (1,000 square km) | 61.8 | PUBLIC AUTHORITY EXPENDITURE ON CONSUMER GOODS AND SERVICES, 1971-1972 (\$ million US) | 1,141 (16 % of GNP) | | total flow (estimated) 1972-1973 (2) | 32,307 | |
| POPULATION December 1972 (1,000) | 2,962 | OFFICIAL FOREIGN RESERVES (including banks' overseas investment), March 1973 (\$ million US) | 1,217 | | of which ODA (0.26 % of GNP) | 29,232 | |
| INHABITANTS per square km | 10.7 | CURRENCY | monetary unit New Zealand dollar | CONSUMPTION OF ANIMAL PROTEIN, 1969 (grammes per head per day) | 109.6 | | |
| INCREASE IN POPULATION (% average 1966-1971) | 1.4 | | currency units per \$ US March 1973 | 0.752 | PASSENGER CARS 1968 (per 1,000 inhabitants) | 302 | |
| GROSS NATIONAL PRODUCT | at current prices 1971-1972 (\$ million US) | 7,136 | IMPORTS (1972) (in \$ million US) | total FOB | 1,247 | TELEVISION SETS 1968 (per 1,000 inhabitants) | 223 |
| | per head (\$ US) | 2,571 | | from OECD area of which: | 1,182 | TELEPHONES, 1968 (per 1,000 inhabitants) | 420 |
| GROSS DOMESTIC PRODUCT AND STRUCTURE OF GDP, 1971-1972 | at current prices (\$ million US) | 7,222 | | from UK | 465 | ELECTRICITY FOR PUBLIC SUPPLY 1971 (kWh per head) | 4,841 |
| | agriculture and processing | 16.0 % | | from Australia | 303 | PUBLIC EDUCATION EXPENDITURE, 1970-1971 (per cent of GNP) | 4.8 |
| | forestry | 4.1 % | | from rest of the world | 65 | DWELLINGS COMPLETED, 1971 (per 1,000 inhabitants) | 8.0 |
| | fishing | 0.3 % | EXPORTS (1972) (in \$ million US) | total FOB | 1,832 | (1) Source : New Zealand Government. The figures are not necessarily comparable with the data concerning the other OECD Member countries published in the OECD Observer, N° 63, April 1973. Exchange rates used for 1971-1972 : NZ\$1 = US\$1.14—the average between the rate prevailing in March 1971 and March 1972. (2) The exchange rate used is NZ\$1 = US\$1.33. | |
| | mining | 1.0 % | | to OECD area of which: | 1,517 | | |
| | power and gas | 2.5 % | | to UK | 584 | | |
| | motor vehicle repair | 1.9 % | | to Australia | 142 | | |
| | other manufacturing | 17.6 % | | to rest of the world | 316 | | |
| | building and construction | 8.9 % | | | | | |
| | total goods | 52.3 % | | | | | |
| total other including services | 47.7 % | | | | | | |

THE INTERNATIONAL TRANSMISSION OF INFLATION

A widely held view is that the increasing economic interdependence of the OECD area—and of European economies in particular—has led to a higher degree of “internationalisation” of the problem of inflation. OECD’s Economic Outlook N° 13 in a special article explores whether or not this view is borne out by the facts, how inflation has been transmitted from country to country in recent years and what measures might be taken to minimise “imported” inflation. The following are excerpts from this study.

A listing of the main channels of transmission of international inflation, that is admittedly eclectic in approach (1) might run as follows.

- *Price effects*, which can be of various kinds:
 - *Trade price effects from non-competitive imports* (for example raw materials that cannot be produced domestically): the most direct and obvious form of imported inflation, affecting either industrial costs, or consumer prices directly.
 - *Trade price effects from competitive imports*: these import prices will tend to be influenced in some degree by domestic competitors, although the latter’s pricing on the home market will, by the same token, be influenced by import price behaviour.
 - *Trade price effects from price-following exporters*: a more complex chain of effects. A rise in world market prices leads to improved exporters’ profits, and thence to higher wage increases; these wage increases may then influence wage formation in sectors sheltered from foreign competition and, thence, the pricing of these sectors.
- *Demand effects* arising from increased exports and an improvement in the current balance leading to excess demand at times of full employment.
- *Liquidity effects* of the current balance, plus or minus capital flows, on monetary conditions and hence in time on domestic demand and prices.
- *Other linkages*, such as:
 - *Multinational corporation and union links*: direct links in pricing policy are possible over and above trade price effects, and international trade union co-operation can influence wage-bargaining.
 - *International inflationary expectations and demonstration effects*: an international version of domestic price expectations may operate powerfully over and above the more direct economic mechanisms, as may also cross-frontier wage-bargaining demonstration effects.

Price Effects

Among the complex mechanics of transmission of international inflation, direct trade price effects appear to be of major importance. Quantified evidence shows that the problem of ‘imported inflation’ through trade price effects is particularly serious and intractable for the smaller open European economies.

The behaviour of trade prices as a mean of transmitting inflationary influences is considered in the light of three sets of evidence:

- First, the size of the foreign trade sector (including goods and services) as a share of GNP. This may be considered as a simple but basic indicator of the varying degrees to which countries are exposed through trade prices to internationally transmitted inflation (2). Reflecting population size, the height of trade barriers and, to some extent, stage of development, the size of the foreign trade sector (the average of exports and imports as a share of GNP) shows a very wide range of variation, from about 50 per cent in the case of the Netherlands, to as little as 6 per cent for the United States (see Table 1). Most of the smaller countries are in the upper half of the range.

Increasing economic interdependence is reflected in the continuing gradual increase of the foreign trade sector as a share of GNP in most countries. Belgium, Spain and Switzerland stand out for their particularly big structural increases in the foreign trade sector. The second factor is the different degree to which any given country’s import and export prices are determined by external versus domestic influences. This also seems to depend upon the size of the country and of the share of the trade sector in GNP.

Thus a small country with a large foreign trade sector may find its import and export prices ‘dictated’ by world trade prices. This is the case postulated by a school of Nordic economists with respect to their own economies. In its pure form, general changes in aggregate prices and wages in this model are determined through the external sector; thus, to put it crudely, all inflation is imported.

The Nordic model seems plausible and has, for the past, given some good statistical results for small countries with a large foreign sector, but (it would no doubt be generally agreed) could hardly apply to a country like the United States with its very small foreign sector and where foreign trade prices seem to be predominantly domestically determined nor to the larger European countries.

Evidence of the greater sensitivity of small countries’ trade to foreign influences is presented in Chart 2, which shows that the amplitude of exchange rate changes (either upwards or downwards) has tended to be inversely related to the size of the foreign trade sector in GNP. Thus, large countries with small trade sectors tend to find that their trade prices can and do get out of line with those of their competitors, and have thus comparatively high propensities to change their effec-

(1) For example, the discussion of trade price and demand effects tacitly assumes that monetary variables follow a passive and accommodating course, whereas discussion of the liquidity effects involves the hypothesis that the monetary variables may be more important determinants of price formation.

(2) The importance of the public sector has also increased, and this trend outweighs the increasing importance of foreign trade in certain countries, namely Denmark, the Netherlands and Sweden.

**Average of exports and imports (of goods and services)
as percentage of GNP at current prices
in eighteen OECD countries, 1960-62 and 1968-70**

| | 1960-62 | 1968-70 | Change |
|----------------|---------|---------|--------|
| Netherlands | 50.2 | 49.2 | -1.0 |
| Belgium | 35.5 | 43.9 | +8.4 |
| Norway | 40.0 | 42.6 | +2.6 |
| Ireland | 38.5 | 40.6 | +2.1 |
| Switzerland | 28.3 | 34.9 | +6.6 |
| Denmark | 31.9 | 30.2 | -1.8 |
| Austria | 24.3 | 28.2 | +3.9 |
| Finland | 24.4 | 26.8 | +2.4 |
| Canada | 21.2 | 25.3 | +4.1 |
| Sweden | 24.3 | 25.1 | +0.8 |
| United Kingdom | 22.3 | 23.5 | +1.2 |
| Germany | 18.8 | 21.9 | +3.1 |
| Italy | 15.6 | 19.0 | +3.4 |
| Australia | 15.4 | 15.9 | +0.5 |
| France | 12.8 | 15.6 | +2.7 |
| Spain | 10.9 | 15.3 | +4.4 |
| Japan | 10.6 | 10.7 | +0.1 |
| United States | 4.9 | 5.9 | +1.0 |

Source: OECD, *National Accounts of OECD Countries*.

tive exchange rates. Small countries with large trade sectors find that their trade prices are kept more in line with external competitive conditions, and thus their propensity to change exchange rates is comparatively slight. These tendencies are as much true of devaluation-prone as revaluation-prone countries.

This evidence is corroborated by econometric analysis of export price behaviour made by the OECD Secretariat in connection with its balance of payments forecasting (3), suggesting that:

- in the United States, the domestic price influence is massively predominant over competitors' export price influence;
- in Germany and the United Kingdom the domestic price influence is also dominant, but less strongly so;
- in Canada (a controversial case), France and Japan, the influences appear to be more equally weighted;
- in the smaller countries, such as Austria, the Netherlands, Norway and Sweden, the external price influences are considerably more powerful than the domestic influences.

The multiple (foreign and domestic) determination of 'competitive' foreign trade prices would seem to be established beyond doubt, with the weights of the two sources of influences varying in large measure as a function of the size of the foreign trade sector. But for a country such as Germany export prices may still be significantly correlated with the price behaviour of foreign competitors, even if the domestic determinant is also of importance. Some economists have focussed attention on the foreign determination of German export pricing, paying less attention to the domestic cost influence which would seem—manifestly—to have been of sufficient power to have enabled the DM to have become undervalued repeatedly during the 'Fifties and 'Sixties.

● Thirdly, there is the effect of parity changes on the evolution of foreign trade prices in *local* currency terms. The course of export and import prices in local currencies in the period 1965-1972 points to the clear impact of parity changes on foreign trade prices. The period 1965-1967 was characterised by a general stability of foreign trade prices, under the leadership of Germany and Japan whose export prices hardly changed at all. The devaluations of late 1967 disturbed this picture, with the devaluers receiving sharp price increases through the export and import sectors in 1968, and the re-

maining countries (effective revaluers) receiving stabilising influences. Conversely, after the DM was revalued in 1969, large and generalised trade price increases ensued for most countries, as the 'German discipline' on world competitive conditions was relaxed. More remarkably, German export prices expressed in DM also continued to rise in 1969 and 1970, reflecting the high demand pressures in the German economy. Similarly in 1971 the countries revaluing or floating in the first half of the year tended to experience nearly stable or declining export prices and nearly stable or declining import prices, while the rapid rate of increase continued in most other countries. The pattern of trade price variations in 1972 seems to reflect the Smithsonian realignment of parities and the subsequent mid-1972 floats of the United Kingdom and Ireland: the overall effect of the Smithsonian realignment appears to have been to dampen the rate of increase in foreign trade prices in the short run.

Demand Effects

The well known process by which demand pressures spill over from country to country was an important factor in Europe from 1968 through mid-1970 when the very strong boom in Germany generated strong expansionary forces in its major trading partners. It was much less important, however, from mid-1970 until late in 1972, the period during which the phenomenon of 'stagflation' became generally apparent and demand pressures eased.

Liquidity Effects

The massive liquid dollar inflows into Europe in the years 1970 to 1972 at a time of high inflation give, at first sight, an opportunity for ascribing the inflation to international monetary explanations. Those who believe that international liquidity has been an important factor argue that (a) the United States' balance of payments deficits have been largely responsible for the accelerated rate of monetary expansion in most countries during this period, and (b) that this has been the main causal factor behind the faster rise in prices. Those who are sceptical tend to advance one or more of the following arguments:

- (i) up to a point, externally generated liquidity can just be a substitute for the domestic money creation needed to satisfy normal liquidity needs; beyond this, countries can offset, in varying degrees, unwanted liquidity creation coming from the foreign surplus;
- (ii) more fundamentally, the faster rate of money creation was more a reflection than a cause of the accelerated rate of inflation.

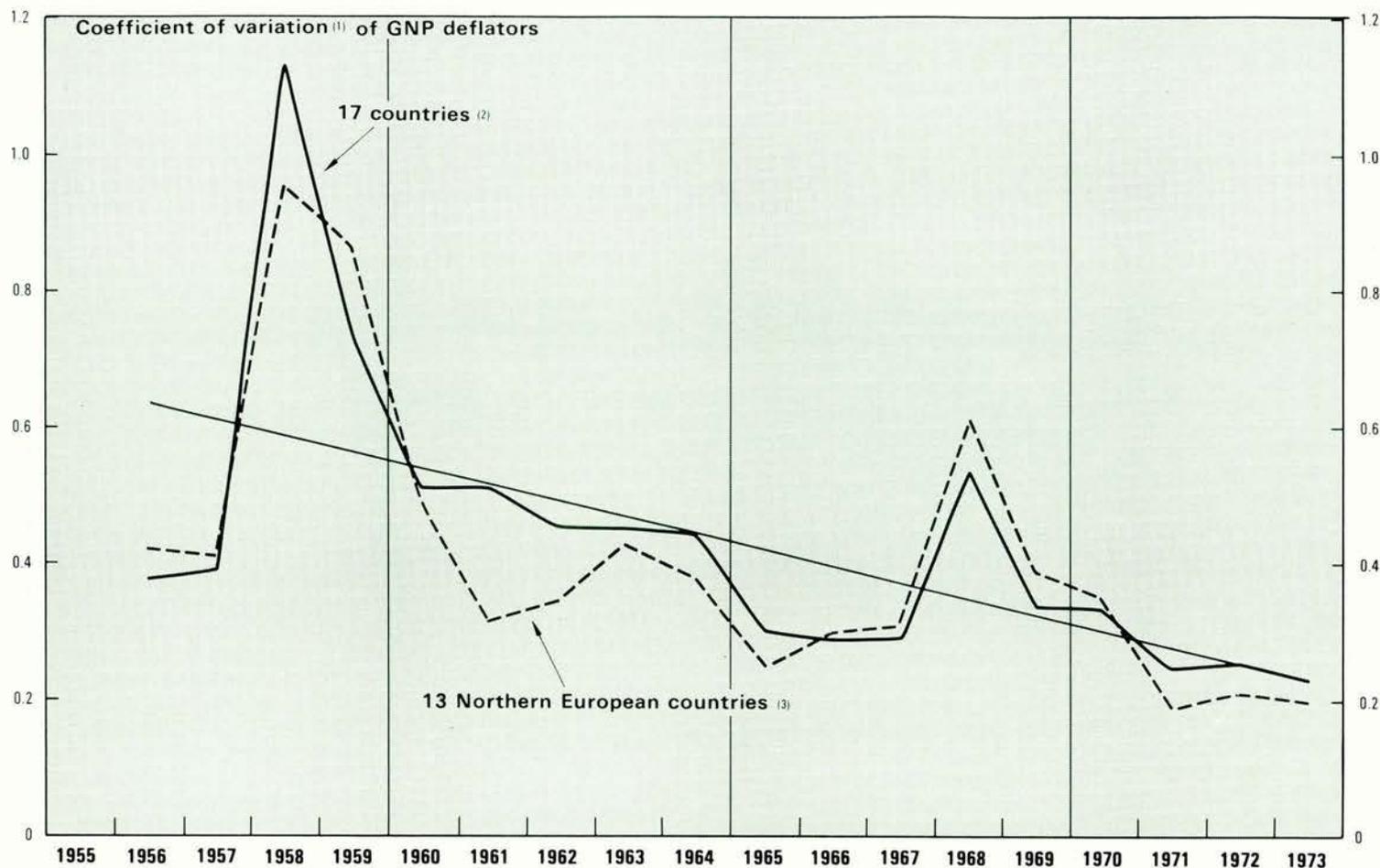
Reviewing briefly the evidence over the past eight years, in the period 1965 to 1967 the overall US deficit was quite small in relation to the expansion of money supply in non-US OECD countries, and the individual country surpluses were almost all in the range of 1 to 3 per cent of GNP (See table 4). These were also years in which the European average rate of inflation was comparatively low.

In 1968 and 1969 the US balance of payments (on an official settlements basis) was in fact in surplus, and the balance of non-monetary transactions had a small *contractionary* impact on the total money supply of other OECD countries. In the first of these two years, 1968, the European average GNP deflator rose only 3.2 per cent, but in 1969 European inflation began to accelerate (the deflator rising 4.9 per cent)—notwithstanding the US surplus.

In 1970, the surplus on non-monetary transactions of other OECD countries amounted to an 18 per cent 'primary' contribution to

(3) For details see Economic Outlook N° 13.

A. THE INCREASING CONVERGENCE OF INFLATION RATES



1. Standard deviation divided by the mean. 2. OECD-Total less Greece, Iceland, Luxembourg, Portugal, Spain, and Turkey. 3. OECD-Europe less Greece, Iceland, Luxembourg, Portugal, Spain, and Turkey. 4. GNP potential minus actual as percentage of potential

Evidence that internationally transmitted inflation has been growing in importance compared to its domestic determinants may be found, prima facie in highly aggregated and general form, in the reduced dispersion of national inflation rates between countries of the OECD area.

By the early 1970's inflation rates, particularly in Europe, had become much more similar between different countries than they had been earlier. This does not seem to be attributable to a closer synchronisation of cyclical fluctuations.

the expansion of money supply in these countries. While the European GNP deflator further accelerated to a rate of increase of 6.3 per cent in this year, the increase in money supply was itself only 'normal' by past standards (13 per cent)—which implies that the 'extra' inflows of liquidity were, on average, sterilised.

In 1971 however, the growth rate of the money supply rose to an unusually high rate of about 17½ per cent. At the same time, the contribution of the 'primary' monetary effect of external transactions to the growth of money supply in the non-US OECD countries further increased to 24 per cent. And in 1972, monetary expansion further accelerated, although the relative importance of the 'primary' monetary effect declined in line with the reduction of the US balance of payments deficit.

Since the years 1971 and 1972 corresponded with the period when in many countries, price increases remained high or accelerated despite an easing of demand pressures, an *a priori* case could be made for attributing an important causal role to the international monetary transmission process. To make such a case, however, requires the assumption that an abnormally high rate of money creation has a *direct* impact on price and wage determination, independent of any effect on spending decisions and real demand.

To summarise, an 'international liquidity-monetarist' explanation of the course of inflation in OECD countries other than the US

during the period 1965-72 appears rather difficult to reconcile with a year-by-year examination of the facts; even for 1971, when the monetary and price indicators are best in line, the low prevailing level of demand pressures implies the need to resort to a rather extreme (quantity theory) argument.

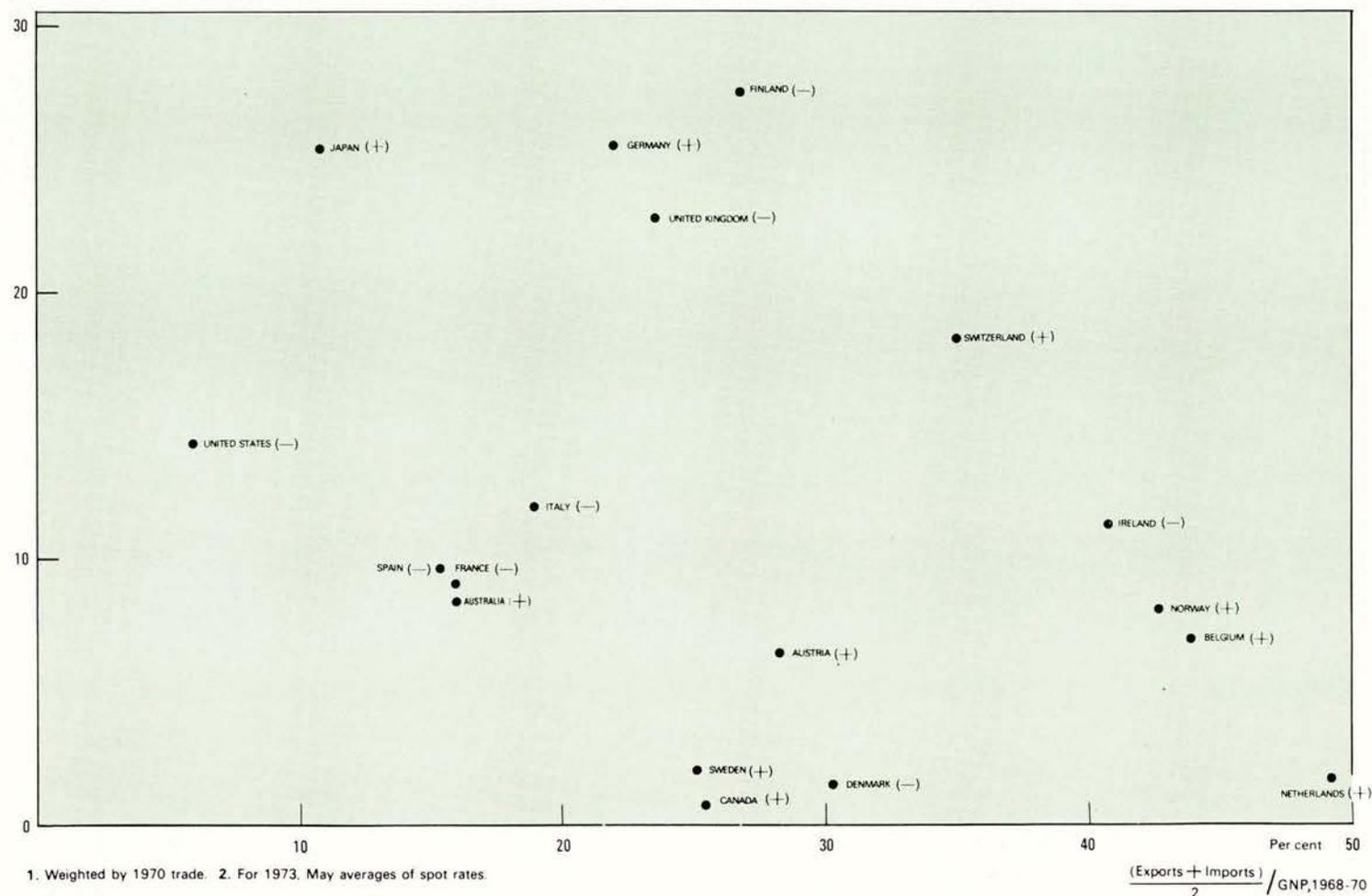
Whatever may be the difference of views about these questions it would probably be generally agreed that the large capital inflows into many countries during the last three years have greatly complicated the task of implementing monetary policy, particularly in Germany and Switzerland. Thus, even if it is thought that the amount of inflation imparted directly in this way may be relatively limited, it would remain true that the national authorities' ability to control the course of domestic demand has, to varying degrees, been impaired.

Other Linkages

The height and uniformity of national inflation rates in 1971 and 1972, at a time of relative trade price stability (under the influence of the 1971 parity realignments) and low demand pressures, poses the question whether other international inflationary influences have been at work.

B. EFFECTIVE PARITY CHANGES,⁽¹⁾ 1967-73⁽²⁾ AND THE SIZE OF THE TRADE SECTOR IN GNP

Effective parity changes, 1967-73
Per cent



Price and wage links due to *multinational corporations and unions* are difficult to pin down in the absence of empirical evidence. Studies of the United States-Canadian relationship provide the main insights at present available, and indicate that price links are stronger than wage links. A study undertaken for the Economic Council of Canada found that about 60 per cent of Canadian price changes could be 'explained' by United States indicators, whereas the factor for wages was only 30 to 40 per cent. However, institutional peculiarities in the United States may mean that some of the findings are inapplicable in Europe.

As to the international transmission of *price expectations and other demonstration effects*, it is suggested that intangible factors like these should not be disregarded. Much has been said about the French, Italian and British wage explosion demonstration effects. The feeling that the inflationary problem in Europe has become generalised is evident in—and may have been enhanced by—the frequency with which governments have explained that 'imported inflation' has limited the effectiveness of their domestic stabilisation policies.

National Policies for Countering Imported Inflation

● Parity Changes

There is no simple answer to the question whether a regime of fixed or more flexible exchange rates is more or less 'inflationary'

per se. Small periodical revaluations may in theory be a means for small open economies to protect themselves against imported inflation, but the practical problems of such a policy would seem to be very considerable. In the first place the expectation or knowledge that the currency was going to appreciate would trigger off big capital inflows. Here the much discussed question is whether the country concerned can defend itself adequately through capital controls or through a monetary policy which maintains interest differentials sufficient to offset speculative gains. In a broader sense the issue is whether the benefits of less imported price inflation would be more than offset by the constraints entailed for the use of policy instruments for domestic demand management purposes.

Secondly, the need to revalue in advance of the trend in world prices requires a high degree of sophistication by all those concerned with price and wage decisions. As often pointed out from the labour side in the Nordic countries, without an explicit and pre-announced adoption of such a policy, trade unions in small open economies cannot be expected to disregard the expectation of imported inflation in their wage bargaining, or to deny themselves cost-of-living compensation in the event of its reflection in domestic prices.

On the other hand, in the recent set of parity changes a number of countries have had stabilisation objectives prominently in mind in deciding to revalue. It is clear that no open economy can in the long run maintain a lower inflation rate than its trading partners under conditions of fixed exchange rates.

● *Import Subsidies, Export Taxes and Import Tariff Cuts*

The case for subsidising temporary import price rises is to avoid triggering off the price-wage spiral, particularly with regard to commodities (like basic foods) to whose prices the consumer and wage-earner is particularly sensitive. In practice, however, it has often been found that 'temporary' subsidies become very difficult to remove. In the case of import price increases that are unavoidable (*par excellence* commodity price rises for a country such as the United Kingdom), the only real scope for action would seem to be to try and dampen the price-wage spiralling effects. In this connection it seems unfortunate that cost-of-living wage indexation mechanisms, widely employed in Europe, make no provision for excluding unavoidable terms of trade deteriorations (either those resulting from import price rises or devaluations).

Tariff cutting is a further (exhaustable) means of combatting import price rises. The present low level of tariffs in OECD countries (with some exceptions) means that the macroeconomic impact of such initiatives can only be small, particularly given the desire of countries to conserve their bargaining positions for multilateral negotiations.

● *Countering Liquidity Effects*

Techniques to counter the domestic *liquidity effects* of a current account surplus and capital inflows are under active discussion. It would seem to be common experience that the liquidity inflow counterpart of current account surpluses are generally moderate enough in size and smooth enough in their evolution to submit to effective control by conventional monetary sterilisation policies—such as open market operations and the adjustments of bank reserve requirements and liquidity ratios. This may be true also in many cases of structural long-term capital inflows though surges of vast speculative amounts of mobile capital under conditions of exchange rate uncertainty can far exceed the defensive capacities of conventional domestic monetary policy techniques. Measures of greater severity include the penalisation of foreign inflows through the imposition of high deposit requirements on borrowers or of low or negative interest rates on depositors, the use of two-tier exchange rates, and wider bands for short-term exchange rate fluctuations.

● *Multinational Corporations*

As regards the pricing policies of *multinational corporations*, the logical policy instrument is clearly the international extension of competition policy. While some strengthening of such mechanisms would seem required to parallel the development of international business, it is not apparent that stabilisation benefits of macroeconomic significance are easily obtainable in the short to medium run.

Future Prospects for International Action against Imported Inflation

To the extent that *psychological* or 'expectational' inflationary impulses may be at work, it would be logical to suggest that the required antidotes should have a correspondingly powerful international psychological impact. This constitutes the case by principle for joint or simultaneous national programmes of stabilisation.

On the other hand, in the case of several of the non-EEC countries which may consider themselves to be importers of inflation or

which may wish to disconnect themselves from a world of generalised inflation, it can be argued that the most effective action should be more independent than concerted. Canada over a long period and Australia more recently have been prepared on occasions to float upwards or revalue. Austria and Switzerland have in 1971-73 taken similar exchange rate decisions, although in view of their close integration into the European economy these countries feel more strongly the need for concerted as opposed to independent action. The immediate motive has in all cases tended to be to counter undesired payments surpluses, but the connection with the problem of inflation is inescapable and of macroeconomic significance.

The use of parity changes is, however, by definition of limited use in an international *collective* attempt to reduce the rate of inflation, since a country which revalues in order to reduce its imported inflation by the same token re-exports some inflation to the rest of the world (as was seen from the rise in world trade prices after the DM revaluation of 1969). Indeed, the present situation in Europe is not characterised by one group of low-inflation countries wishing to defend themselves against another group of high-inflation countries; but rather by a tendency for everybody to export inflation to everybody else, with a general state of inflationary psychology communicating across frontiers.

In a situation of generalised inflation national actions that support and reinforce each other are called for, rather than those (such as individual parity changes) which cancel out at an international level. Trade liberalisation measures (through cutting tariffs or increasing quotas) in this context have the advantage that, unlike parity changes, all countries can participate and all benefit.

In contemplating an internationally concerted framework for stabilisation policy, experience in both the OECD and EEC shows that it may be relatively straightforward for a group of countries to agree on a common concern about the problem of inflation, and on a loosely defined target for improved price performance. Internationally concerted *action* in terms of joint decisions has proved more difficult. The least demanding (but not necessarily least effective) concept of action might be the *organised simultaneity of national stabilisation programmes*, without presupposing any specific harmonisation of the measures taken other than in their timing. The remarkable uniformity and high level of national rates of inflation in Europe at the present time does at least mean that many governments have been faced with the need to take important decisions at approximately the same time. It may be a question for consideration whether certain losses of freedom over timing might or might not be outweighed through the psychological impact achieved through simultaneous introduction and joint announcement.

Moving in the direction of collective economic policy decision-making, the EEC initiative of 1972-73 is of particular interest as an illustration of the continuous spectrum of '*joint action content*' that may be possible in various fields of policy. As had been advocated in the OECD Secretary-General's Report on inflation in 1970 (4), the EEC initiative embraced an internationally concerted multi-policy approach to combatting inflation. While the EEC decision was criticised, by some commentators, as lacking in precision, it represented an important institutional initiative towards simultaneous action in pursuit of common aims.

An example of one area which could prove worth further consideration is that of concerted price control initiatives. Opinions

(4) *Inflation: the Present Problem*, OECD, December 1970

for and against the use of price control seem to have been attenuated, with some 'new users' (such as the United States) finding that the costs of controls over a short period were probably not large and 'experienced users' (such as Belgium and France) recognising that severe price control cannot be sustained for long periods without running into problems of enforcement or distortion of economic structures.

Since almost all European countries have in the course of the past two years been introducing price freezes or periods of accentuated price restraint at narrowly separated intervals, it may be asked whether a programme of *simultaneous price control initiatives* of shortish duration among a large number of European countries might not be the kind of operation, if backed with further national stabilisation initiatives, with which to achieve the desired psychological impact on the general state of European inflationary expectations. Some European governments, experienced in the use of price controls, have recently judged that the psychological impact of national price initiatives of this kind has been blunted through familiarity. A collective initiative, on the other hand, might have some of the shock impact that—*mutatis mutandis*—was the merit of the United States controls.

Looking into the future, the least impractical of logically possible solutions to this problem might be the institution of a *European*

price control or surveillance mechanism covering the larger national and international companies, which, during periods of accentuated national price control, could be used to apply some degree of control to the foreign trade prices of those manufactured commodities whose trade is so heavily internationalised that national price control is made inoperable.

The suggestion of parallel initiatives in the field of incomes has to face the fact that there is a far smaller degree of consensus in individual countries in Europe at the present time in this area than in the domain of price control. The most that perhaps could be envisaged for the foreseeable future might be some European variant of the German style of 'concerted action' consultations on economic policy and income determination.

The international dimension to the problem of inflation has been undermining the effectiveness of national stabilisation measures, particularly in the more trade-intensive European economies. The possibilities for the development of new policy instruments designed to meet the international problem of inflation in the future have been discussed. Fundamentally, however, it will remain for the large and medium-sized OECD countries to assure, through their domestic policies, a reasonably stable world price environment. The smaller countries have to recognise that they too have their own domestic potential for inflation.

Occurrence of large balance of payments surpluses on non-monetary transactions since 1965

| Surplus as percentage of GNP | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|-----------------------------|---------------------|---|---------------------|-----------------------------------|--|--|--|
| More than 7 | | | | | | | Switzerland | |
| 6 to 7 | | | | Switzerland | | | Ireland | Australia |
| 5 to 6 | | | | | | Switzerland | Portugal | |
| 4 to 5 | | | | | | | | Portugal Switzerland Greece Spain |
| 3 to 4 | | | Portugal | | Iceland | | Australia Japan Spain Iceland | |
| 2 to 3 | Italy Portugal Norway | Portugal Ireland | | Portugal Finland | | Spain Iceland Canada | Turkey U.K. | Ireland Netherlands Germany Iceland |
| 1 to 2 | Iceland | Italy | Norway Austria Switzerland Germany | Norway | Portugal Japan U.K. BLEU | Germany Netherlands Portugal Norway | Greece Germany Netherlands Finland Austria France | Japan Finland |
| Percentage ratio of the following to the change in money supply of non-U.S. OECD countries: | | | | | | | | |
| 1. Balance on non-monetary transactions for non-U.S. OECD countries; ^a | +4.2 | +2.8 | +0.8 | -2.1 | -4.1 | +17.6 | +24.3 | +9.0 |
| 2. US Balance on official settlements; ^b | +2.2 | +0.3 | +5.9 | -3.0 | -4.5 | +15.3 | +28.7 | +7.6 |
| Percentage change of money supply in non U.S. OECD countries. | +12.6 | +11.1 | +13.2 | +11.5 | +13.0 | +13.1 | +17.4 | +20.3 |

a) + (-) = Contribution to expansion (contraction) of money supply.
b) + (-) = Deficit (surplus) of U.S. balance on official settlements.

MEASURING PERFORMANCE IN THE FIELD OF EDUCATION

The problem of measuring the performance of the educational sector, where public expenditures have been growing at 15 per cent a year in OECD countries, has become a matter of increasing concern to governments. Because of this problem, and as a contribution to the Organisation's programme for developing new social indicators (1), the OECD Education Committee has defined the major policy objectives of education and has agreed on a system of indicators for measuring the attainment of these objectives.

The following article summarises the Committee's report: "A Framework for Educational Indicators to Guide Government Decisions".

In order to devise a framework of educational indicators, the first step is to define the basic objectives and concerns of educational policy. The second is to decide which indicators are most useful for monitoring progress or regression within each policy concern.

The educational indicators proposed by the OECD Education Committee, are therefore set out below according to the six major categories of policy objectives defined by the Committee:

Contribution of Education to the Transmission of Knowledge

Preliminary to a measurement of education's contribution to the transmission of knowledge, a breakdown of persons participating in the educational process has to be established. In this connection, relevant indicators are:

- numbers and proportion enrolled—by sex and age in each level of education;
- stock of people by years, and level of education completed who have left the formal school system.

As an indicator of *knowledge and skills transmitted*, the following type of data needs to be developed:

- achievement scores (of people undergoing education) measuring factual knowledge—by age, sex, number of years and type of schooling, and by relevant socio-economic characteristics (income of parents, education of one or both parents and social class or race of parents).

Contribution of Education to Equality of Opportunity and Social Mobility

The following indicators seem necessary in order to help clarify the degree to which education systems promote equality of opportunity and achievement and social mobility:

- enrolment ratios—by parental socio-economic characteristics, broken down by educational level, age, sex and IQ;

- transition ratios (including entries and exits)—by parental socio-economic characteristics, educational level, age, sex and IQ (in the case of exit, by occupation);

- public and private expenditure per child over the formal school cycle by parental socio-economic characteristics, sex and region;

- distribution of subsidies (grants or low-interest loans) by family income of students;

- achievement scores by parental socio-economic characteristics, age, sex and IQ.

Contribution of Education to Meeting the Needs of the Economy

In order to measure the contribution of education to economic development, the following indicators are proposed:

- distribution of the labour force by occupation, economic sector, education level and years completed, age and sex;
- amount of on-the-job training given to the labour force;
- unemployment by type of education, occupation, age and sex;
- cost-benefit ratios and social and private returns on education by sex, type and number of years of schooling, specifying graduates and non-graduates as separate categories.

Different measures have been proposed or used in the literature on the subject to define the quality of the labour force. The choice of which one to use must be dictated to some extent by the availability of data. The simplest proposed is average (or median) level of education and its distribution in terms of standard school-years, as embodied in the labour force between 15 and 65 years of age.

(continued on page 34)

(1) See "How to Measure Well-Being: OECD's Programme to develop a set of Social Indicators" *OECD Observer*, No 64 June 1973.

Contribution of the Educational System to Individual Development

The most straightforward indicator of the satisfaction of *private demand* for education is probably the ratio of the number of applicants (eliminating the effect of multiple applications) to the number of places in different types of school—by sex, region and relevant social characteristic.

In connection with satisfaction of requirements for *individual development*, possible indicators are:

- quality of teaching, measured by the proportion of teachers who meet official training requirements—by level and type of education;
- distribution of pupils—by class size, by level and type of education;
- number of hours per year available for individual counselling by level and type of education;
- proportion of total staff hours represented by people with specialised insights, i.e., educational psychologists, social workers, etc.;
- proportion of educational expenditure—by age group—spent on handicapped students, compared with the proportion of handicapped students in each group;
- total number of feasible combinations of subject options, and proportion of combinations which do not preclude entry to next educational level or to other types of education on the same level;

- proportion of repeaters and drop-outs by level and type of education, age, sex and social characteristics;
- possibilities for part-time work by type and level of education;
- proportion of the adult population which voluntarily enrolls for adult education courses;
- value of time (based on time-budget studies) spent by adults on educational activities during hours of leisure.

In connection with the amelioration of the *quality of life* and educational indicators to measure it, one might note that the ability of individuals to lead a varied and active life is one of the main benefits accruing from the educational system. This is extremely difficult to measure objectively, but the major socially-provided opportunity to be active in life is participation in the labour force.

Numerous studies have shown that labour-force participation of men is not significantly influenced by differences in their education, but the situation is quite different for women. Female labour-force participation is much lower for those with only primary education. Therefore increased education for women will lead to important social benefits, especially for the middle-aged, who, with only a primary school background, may feel unable to join the labour force, or even to enrol in a training course which would make this possible. Consequently an appropriate indicator in this regard would be labour-force participation—by sex, level and type of education, and relevant social characteristics.

One indicator of the contribution of education to individual development might be the importance of expenditure on handicapped students. A blind computer expert demonstrates a braille reader which is linked to a computer.



In proposing statistical measures of *cultural activity*, it is difficult to avoid assumptions which imply elitist values. Such assumptions are evident when the performing arts and literature are the only cultural activities included. One way to avoid this problem would be by distinguishing between active and passive uses of leisure, more particularly in the field of recreation, i.e., between participant and spectator sports. Hence the following indicator needs more careful specification: participation in cultural activities—by level and type of education.

Effective Use of Resources in Pursuit of the Above Policy Objectives

A necessary condition for efficient educational use of scarce resources, i.e., resources with alternative uses, is increased knowledge about the internal functioning of the educational system and its relation to society. This insight can only be achieved by research and scientific analysis of the system. The importance of research can be measured in different ways. The proposed measure is very simple and straightforward: proportion of total private and public expenditure allocated to educational research.

Resources available as *inputs* to the educational process may be divided into two different categories: (1) instrumental inputs, which can be manipulated within and by the educational system; and (2) exogenous inputs, which the educational system must regard as given, and which are determined outside the system.

The line between these two categories is not a sharp one, for it is easy to find examples of input factors which are partly instrumental and partly exogenous. One obvious example is teachers' wages, which are partly determined by the general level of productivity, but also by the demand for teachers from the educational system.

Instrumental and exogenous inputs influence the educational process simultaneously. Thus, in order to estimate the effect of changes in the educational output of changes in instrumental inputs such as teachers' wages, the effect of exogenous inputs must be taken into account. Information on both types of inputs is therefore needed for realistic estimates of the results of policy changes.

Instrumental inputs include: teacher time, quality of teaching, student time, equipment, books and buildings. Implicit in these inputs are ways of organising instruction, e.g. TV instruction for large groups versus the usual classroom instruction, etc.

The following statistics are needed as indicators for the input of teacher time:

- number of teachers—by type and level of schools in which they teach, broken down by sex, age, type and level of their own education;
- working hours (required number of working hours plus overtime per year)—by sex, age, type and level of teacher's education, and by type and level of school in which they teach;
- average size of class—by type and level of education.

The rapid advance in the body of total knowledge and the new insights continually being gained through research on education make it necessary for teachers to have access to recurrent education, if only to maintain the quality and relevance of their teaching. Thus, as measures of the quality of teaching, these indicators are proposed:

- proportion of teachers fulfilling official training require-

ments—by level and type of education (an indicator used previously);

- number of hours per teacher per year allocated to organised recurrent education.

Regarding other important instrumental inputs:

- number of school hours per student per year—by type and level of education;
- current costs including expenditures on teaching materials, cleaning, electricity, transportation and imputed user costs of existing capital, especially buildings by level and type of education;
- investment costs, buildings and equipment by level and type of education;
- current costs per pupil by different educational technologies (for example, conventional vs. TV instruction).

Exogenous inputs can be divided into three sub-categories: (1) factors describing personal and family resources, which influence the education and educability of the school population; (2) factors describing peer group influences within the school population; and (3) the value of the input of teacher time and pupil time (earnings foregone by pupils above the primary level).

Indicators for these sub-categories might be:

- initial distribution of achievement scores of pupils by level and type of education;
- distribution of pupils by fathers' and mothers' education, family income, and fathers' and mothers' occupation;
- distribution of individual schools, showing average social class of pupils;
- weekly or hourly pay for teachers by age, sex and educational level, and by level and type of school;
- weekly or hourly wage for young workers by sex, education and age (information needed for estimating value of input of pupil time).

Variations in methods of financing can have considerable influence on the allocation of resources and the distribution of the benefits of education. Financial instruments can influence the educational system in four ways, by affecting: (1) the price and use of inputs, (2) the benefits derived from education, (3) the demand for education, and (4) the participation of social groups in the educational system.

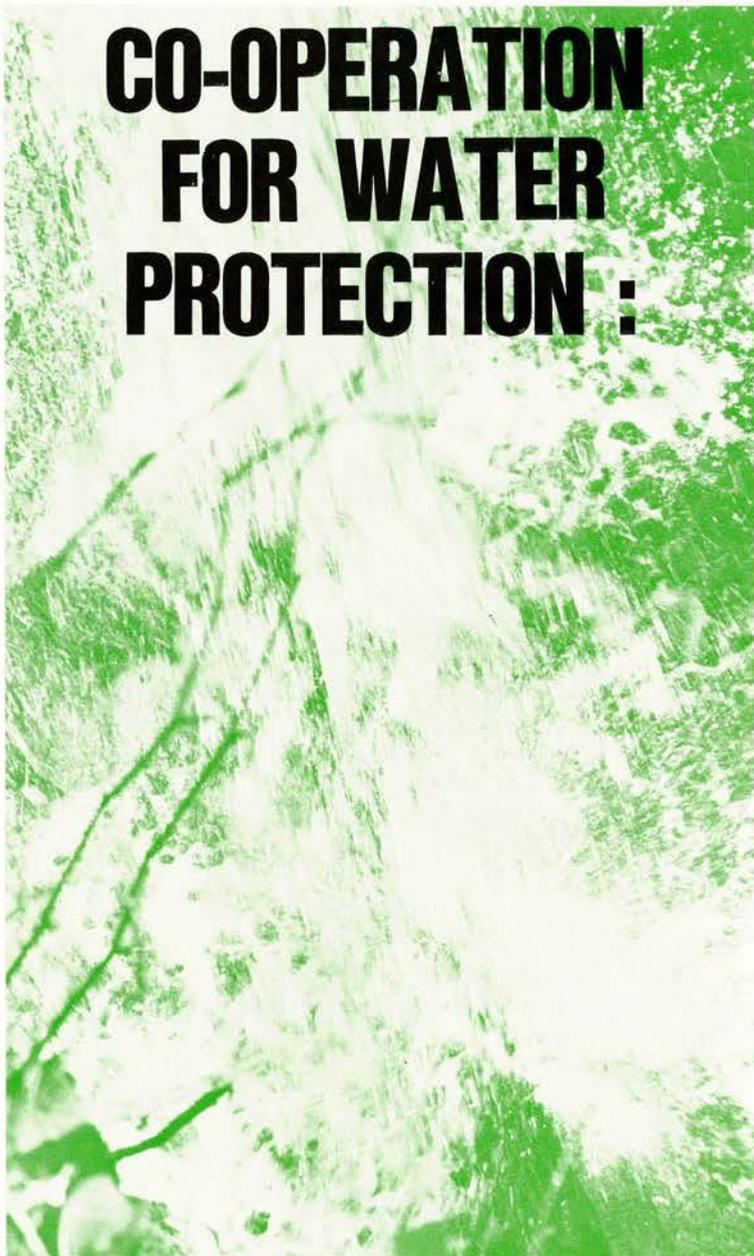
An example of (1) might be the case of central government support for either private or local government education. This support is often in specific form, e.g. payment of teachers' wages, and this, in turn, may affect the use of resources by local authorities. In the case of (2), it is clear that the larger the financial burden assumed by individuals, the smaller will be their benefits in terms of life-time earnings. This, in turn, will have an impact on the demand for education (3).

The degree of subsidisation of education costs by the State and the extent to which maintenance grants are available for students will obviously have an impact on the extent to which different social classes participate in education beyond the compulsory stage (4).

Thus the following statistics are probably necessary as educational indicators:

- proportions of total direct expenditure financed from private sources, local authorities and central government by level and type of education;
- central government subsidies to local government and private schools by method of support for each level and type of education;
- subsidies, loans and grants to individuals by type and level of education, and by parental socio-economic characteristics.

CO-OPERATION FOR WATER PROTECTION :



EUTROPHICATION CONTROL

For some years the increasing eutrophication of water has been a source of grave concern in many OECD Member countries. At their request OECD has undertaken a programme to evaluate possible methods of control and monitoring. The following article describes the nature and scope of such efforts. It has been written by Gérard Dorin of the OECD Environment Directorate.

In most countries natural waters—rivers and lakes—have often been regarded as a system with a virtually unending capacity for supplying water and absorbing wastes. But the sweep of economic development, particularly in the last two decades, has shown that the ability of natural waters to “digest” growing amounts of waste matter has certain limits and that these cannot be exceeded without seriously threatening water as a vital resource for human society and the ecology.

Ignorance or disregard of these limits has caused water to be heavily polluted in many regions, besides enabling one specific feature of pollution to make astounding gains. This is the process of eutrophication, which has a marked adverse effect on the quality of water and its ecology. Twenty years ago the process was known only to a few specialists, but it has since spread in such “epidemic” proportions as to arouse considerable fear and anxiety in some countries. This is because of a feeling of uncertainty in the face of a phenomenon which still involves many unknowns and is therefore difficult to control.

The Phenomenon of Eutrophication

Water pollution follows a complex pattern, and pollutants may be considered to be of three types.

The first, which usually accounts for most of the pollutant load, consists of substances which are fairly biodegradable (namely organic wastes), and if the water contains a normal amount of oxygen and the load is not too heavy, these can be broken down without too much trouble.

The second type consists of substances which are barely degradable, if at all. While some are largely innocuous so long as their degree of concentration remains low (sodium chloride for example), other substances (usually chemicals such as organo-chlorine compounds or salts of heavy metals) are toxic and extremely harmful, even in small doses, because they can become fixed in living organisms and produce dangerously high concentrations in the food chain. In this category might also be included certain micro-organisms (viruses, bacteria, parasitic eggs or larvae) which are found to be especially persistent in water and are a hazard to man.

Finally the third type, which will be given special attention in this article, comprises all those substances which act as nutrients (in particular those containing phosphorus or nitrogen) and which are often produced by the biodegradation of more complex materials. These nutrients, small amounts of which are always present in natural water, trigger the eutrophication process as their degree of concentration increases.

Although a simple definition of eutrophication is not easy, it may roughly be described as the explosive, uncontrolled growth of specific varieties of microscopic algae (especially blue algae such as *Scillatoria rubescens*, *Microcystis*, *Anabaena*, etc.) under the effect of nutrients. These algae have a short life span, reproducing and dying off so fast that large amounts of organic matter are generated in the water while the nutrient substance they contain are released for use in a further cycle. Decomposition of the organic matter produced can rapidly deoxygenate the water, especially at greater depths, and putrid substances are formed. Thus a phenomenon which might be called “autopollution” takes place, because even when relatively moderate injections of nutrient substances are received, the water uses them to produce its own pollution instead of degrading the material.

The Impact of Eutrophication on Water Quality and Water Management

Eutrophication can have far-reaching effects on the quality of water and on the ecology. Generally the initial biological balance is destroyed and many existing species (especially fish) virtually disappear. The water can become a nearly dead environment, apart from a shallow surface layer which contains oxygen. The attractiveness of natural waters for leisure activities and tourism also suffers; fishing, bathing and water sports become unreliable or even impossible, while aesthetically the water also changes drastically, turning a dark colour and acquiring an unpleasant smell.

Moreover, water badly affected by eutrophication becomes virtually unusable for drinking purposes—even after very costly treatment it is of inferior quality, has a nasty taste and contains organic matter which encourages the proliferation of bacteria. At the same time, the fairly general increase in the amount of nitrates (also in ground water) threatens the future of drinking water supplies.

In many countries public opinion is reacting more and more strongly to the rapid deterioration of natural water resources and to the poor quality of drinking water. Meanwhile the task of the authorities concerned is being made that much harder by the growing demand for domestic, industrial, irrigational, recreational and other needs, while the amount and above all the quality of water available is steadily falling. In addition, depletion of the oxygen in natural water bodies owing to eutrophication limits still further their capacity to “biodegrade” the varying pollutant loads they receive. Eutrophication can thus be considered as a factor which considerably worsens the pollution of water in general.

The particularly rapid growth of the process during recent years suggests that in the fairly near future a large proportion of surface waters may become affected, in which case the socio-economic and ecological consequences would be extremely serious.

Sources Responsible for Pollution

The findings of OECD experts show that in most cases it is phosphorus which is the most important element of eutrophication development and control, whether as the leading natural growth-limiting factor or that which can best be made growth-limiting by means of some suitable technique. Nitrogen compounds come next, and many other substances usually present in waste water also play a role. Nutrients (phosphorus and nitrogen) can in part be attributed to natural processes and then occur in limited and “reasonable” quantities, thus promoting normal biological cycles.

But the total nutrient load is increasing, often massively, as a result of human “polluting” activities, which will here be given special attention since such additional quantities of nutrient trigger off eutrophication. In developed countries the largest source of nutrients is usually domestic and urban sewage, accounting on average for 60 to 70 per cent of the phosphorus and for 30 to 40 per cent of the nitrogen found in water; one half or two thirds of the phosphorus comes from synthetic detergents and most of the remainder from human wastes.

Agriculture usually comes next and is responsible on average for 50 per cent of the nitrogen and 20 to 30 per cent of the

phosphorus load. The widespread and intensive use of agricultural fertilisers is of course often an important cause of direct or indirect water pollution, especially by nitrates. Livestock farming, especially of the intensive “industrial” type, is responsible for increasingly heavy amounts of pollution.

Industry, although often the largest polluter, usually ranks only third where pollution by nutrients is concerned: it contributes some 10 to 20 per cent to the phosphorus and nitrogen water loads. Its impact may however predominate in certain hydrographic basins owing to massive, concentrated discharges. From this point of view the food, pulp and paper, textile and fertiliser industries are among the most polluting.

Under natural conditions the supply of nitrogen and phosphorus compounds from the atmosphere is far from negligible. But in areas of dense economic activity such as northwestern Europe and eastern North America this contribution is substantially greater (by a factor of about ten). This is due to air pollution and the resulting fall-out of particulate matter and the hydrolysis of gaseous chemical compounds by rain. Exhaust gases from industry, the rising consumption of fuels, and the current practice of incinerating waste matter, are major causes of air pollution and of the deposition of such pollutants in water, either directly or indirectly.

Remedies and Possibilities for Action

The basic objective of eutrophication control is to keep the amount of nutrient substances below the level considered dangerous for the water in question. It should be noted that lakes and reservoirs are much more vulnerable to eutrophication than rivers, and slow-moving rivers more sensitive than fast-flowing ones, primarily for reasons of water renewal and turbulence. The task of the authorities must therefore be to keep household, agricultural and industrial pollution below the levels regarded as dangerous. But the problem of estimating such levels, of identifying and evaluating the sources of pollution and of finding ways of controlling them is in fact an extremely difficult one, which is why a majority of Member countries have launched a broad co-operative programme in OECD for evaluating methods of controlling eutrophication.

In the light of the research undertaken the OECD countries decided in 1970 to concentrate their joint efforts on four key points of eutrophication control: the problem of detergents containing phosphorus; the treatment of waste water; pollution by agricultural fertilisers and livestock farming; and methods of water monitoring. During 18 months four groups composed of experts from Member countries worked to throw some light on these difficult questions, and have submitted their reports, coordinated by a Steering Group whose task is to collate all the findings, draw conclusions and draft overall recommendations.

The Effect of Detergents on Water Pollution and Eutrophication

Detergents are intimately associated with general water pollution, to which they contribute owing to the very function they perform. Two important problems having to do with the actual chemical composition of detergents have however attracted attention for a number of years. The first, which has now been resolved in practically all Member countries, was the poor

Treatment of Waste Water



Water badly affected by eutrophication becomes unusable for drinking purposes; fishing, bathing and water sports become virtually impossible.

degradability of detergents (type ABS — alkyl aryl sulphonate) which persisted over long periods in natural waters, with harmful effects of which foaming was the visible manifestation. This first disadvantage has been largely corrected owing to the adoption of more degradable detergents (the LAS type for example), but not the second, which is that in most detergent products about one half of the material by weight consists of polyphosphates, the main purpose of which is to neutralise water hardness.

It is interesting to note that over a period of twenty years eutrophication and the phosphorus concentration in water have largely kept in step with the increased use of detergents containing phosphorus in OECD countries.

No definitive solution has yet been found to this problem, despite many long years of intensive search for some polyphosphate substitute which would be universally applicable and accepted. So far two substances have commanded attention: NTA, which is fairly efficient but which has given rise to objections owing to possible effects on the environment or on health; and citrate, which may be less efficient but is readily degradable and quite harmless. A more intensive use of natural soap-based products would moreover appear to be highly desirable wherever water is not too hard, since these are effective while at the same time practically non-polluting.

In several Member countries steps have already been taken—in certain cases a few years ago—such as gradually to reduce the phosphorus in detergents to a minimum amount, whether by introducing substitutes or not. The example of these countries shows that a rational approach calls for a more realistic adaptation of detergent products to actual environmental conditions at national or regional scale, meaning primarily in terms of water hardness and danger of eutrophication. This in no way need prevent the international standardisation of products according to, say, three degrees of water hardness (low, medium and high).

Generally speaking, most of the pollutant load (urban, industrial and agricultural) reaching natural waters could fairly easily be intercepted and treated in suitable treatment stations. It must however be acknowledged that in OECD countries as a whole the level of waste water treatment is deficient, which is mainly why water pollution and eutrophication conditions are what they are. Most industrial and domestic sewage is still discharged directly into natural waters without treatment. The amount of effluent actually treated is close to zero in many countries and exceeds 50 per cent in only very few OECD countries, the average value probably lying between 20 and 30 per cent. Moreover, a significant proportion of treatment plants operate unsatisfactorily and actual efficiency of treatment over 365 days is often no more than 50 per cent of theoretical efficiency, sometimes less. The reason for this may be found in poor management practices, obsolescence, overloading, etc., and is also due to poisoning of the biological treatment process by toxic substances originating in industry.

Certain OECD Member countries are now making major efforts to develop and manage the treatment of waste water on a national scale. In other countries, however, the lag is so great that a good many years will be required before an acceptable situation is reached, since pollution is now increasing at a much faster rate than the attempts to control it. Conventional treatment processes are an essential tool of water pollution control, but where the risk of eutrophication is substantial they are not enough, since on average they hold back only 25 per cent of phosphorus and nitrogen compounds, the remainder staying in the treated water as soluble phosphates and nitrates. Thus an additional stage of treatment (sometimes called tertiary treatment) is required. It is fairly easy to introduce this further process in existing plants. The extra cost amounts to some 30 per cent for removing the phosphorus and 70 per cent for eliminating nitrogen. In new plants, this removal stage can be integrated into the overall process and the cost is lower.

The practice of removing phosphorus is increasing in a number of OECD countries, either systematically, as in Scandinavia, or by paying special attention to the areas most sensitive to eutrophication. The removal of nitrogen compounds, which at present is much less common, may in many cases become essential not only because of eutrophication itself, but also owing to the increasing nitrate content of drinking water in many regions.

One clever strategy for protecting lakes against pollution and eutrophication has been used with success, especially in alpine regions. A protective ring of specially designed sewers surrounds the lake and intercepts all polluted water, which after conventional treatment is then diverted to a river downstream from the lake. Examples are Lake Annecy in France, a number of Bavarian lakes (Ammersee), several Austrian lakes (Weissensee), and certain Scandinavian projects. To protect reservoirs and artificial lakes against eutrophication, a process is being developed in Germany to remove phosphorus from the entire flow of the tributary river (Wahnbachtal). Some other methods, found for example in the United Kingdom and Germany, create a turbulent mixing of waters which improves re-oxygenation and limits eutrophication to some extent.

Eutrophication and Agriculture

Much as the evolution of crafts into giant industries and the transition from a rural style of life to an increasingly urbanised

society have resulted in considerable degradation of the environment, so in many cases, depending on natural conditions and on the methods used, recent major shifts from traditional to modern farming have produced negative environmental effects, in particular heavier water pollution and eutrophication. It is important to realise that agriculture in the different countries has been compelled to adapt rapidly to the growing pressure of international markets and that the large-scale production of high-quality, attractively presented farm produce at low, competitive prices which yield an adequate return yet cause no damage to the environment, are extremely difficult goals to achieve all at once. Policy decisions must be made, which generally turn out to be compromises between the various issues.

The OECD experts who have been assigned the task of assessing the impact of agriculture on water pollution and on eutrophication in particular have given special attention to the two aspects which they considered to be fundamental: the use of chemical fertilisers and the uncontrolled discharge of wastes from livestock farming (especially of the "industrial" type). In the more developed OECD countries the price of chemical

fertilisers has generally risen relatively less than the costs of farm labour, farm equipment and farm products. This has resulted in the use of increasing amounts of chemical fertiliser and correspondingly less animal manure, the latter being dumped in increasing amounts into the environment or otherwise inadequately disposed of, thus creating some form of pollution.

While acknowledging the present lack of any simple, radical solution meeting both agricultural and environmental requirements, the experts suggested a number of realistic technical or administrative measures capable of reducing water pollution without significantly affecting the farm economy. A national programme is thus needed to educate farmers in the use of agricultural techniques—especially the best methods of fertilisation, whether in terms of crop yields or environmental benefits (e.g. by less intensive and split applications late enough in the spring, etc.).

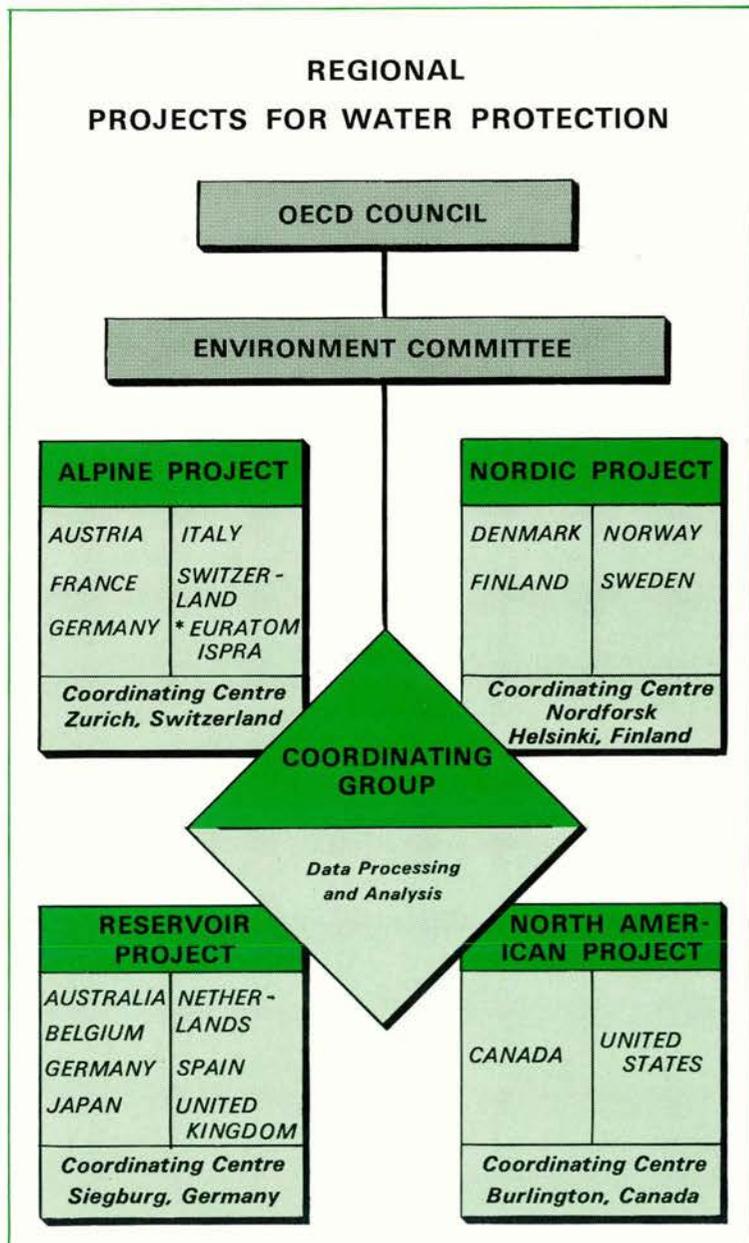
The problem of wastes from livestock farming as viewed by the experts may be summarised as follows: from the standpoint of the environment in general (water, air, ground), the least polluting, most advisable solution is the rational use of animal wastes for fertilising agricultural land; technically and commercially the modern management of these wastes (storage, processing and composting, transport, distribution, spreading) calls for considerable effort. Moreover, certain legal and tax measures may prove useful for improving the balance between chemical and animal fertilisers and thus better harmonising the interests of agriculture and the environment.

International Water Monitoring Project

Rational and effective control of water pollution, and especially of eutrophication, calls for valid, quantified hydrological data. Time may be saved and substantial advantages gained if the OECD countries co-operate closely on eutrophication control. While such co-operation already exists on a large scale, it has so far been considerably hampered in that OECD countries (and sometimes even different laboratories in a given country) use different methods of measurement and thus produce results which are not comparable. In view of this considerable drawback, it was considered essential to standardise measurements to an acceptable extent. In 1972 experts from Member countries drew up a common water measurement system especially designed for eutrophication control, and as a framework for such international co-operation proposed a joint water monitoring programme which was accepted by the Member countries and launched early in 1973.

The majority of OECD Member countries (17 in all) are actively taking part in this international water monitoring project, which is to last four years; some 40 national institutes have coordinated their activities under this programme, which is sub-divided into four regional and specific schemes: the Alpine, Nordic, North American and Reservoir Projects.

Two international organisations, Euratom and Nordforsk, are co-operating with the programme, together with three international commissions concerned with the larger Alpine lakes. The liaison function in each of the four projects is provided through a Regional Coordinating Centre and the whole programme is directed by a General Coordinating Group. It is expected that these projects will enable a considerable step forward to be made by providing answers to many pending questions, the solution of which is essential and daily becoming more vital for water management.



AT OECD

Conference on Post-Secondary Education

A four-day conference on Future Structures of Post-Secondary Education was held at OECD headquarters beginning 26th June and attended by Ministers of Education of central and provincial governments, by educational planners, rectors of universities and professors, research scientists, employers and trade union representatives.

The discussions focussed on the question of what structures will be appropriate for the next stage of development—the transition from elitist to mass higher education. After reviewing the main trends and problems, the conference discussed four specific issues:

- accessibility to post-secondary education and employment ;
- non-traditional forms of study in post-secondary education ;

- the structure of studies and the place of research in mass higher education ;
- planning and finance of post-secondary education.

For a day and a half the conference was carried on in working groups, each concerned with one of these four problems. Three case studies of comprehensive reform of post-secondary structures were presented to the conference and discussed—development of higher education in the United Kingdom; the proposals of the U 1968 Educational Commission in Sweden and the recommendations of the Carnegie Commission in the United States.

A detailed report on the proceedings and findings of the Conference will be given in the October issue of the OECD Observer.

OECD's newly formed Steering Committee on the European Intercity Transport Study met for the second time on 25th-26th June to discuss the group's programme of work. The eleven countries participating in this activity (1) as well as the European Economic Community, and the Conference of European Ministers of Transport, were represented under the chairmanship of Michel Frybourg of France, director of the Institut de Recherche pour le Transport.

Task forces are already at work on the first two aspects of the group's study:

- a forecast of likely demand for travel between 70 West European cities in 1985 and beyond. The cities included in the network were chosen on the basis of their size, the importance of their role as seats of government or transport nodes and their function as planned centre of regional development. The study will include all forms of transport—air, rail, road and waterborne. Such studies have been made for individual modes of transport or on a national basis but never before-comprehensively in an international framework ;
- a forecast of projected supply: a survey



Left to right: Maurice Niveau, Chairman, OECD Education Committee, Ambassador François Valéry, Head of the Permanent Delegation of France to OECD, Jacques Limouzy, French Secretary of State for National Education, Emile van Lennep, OECD Secretary-General.



Left to right: Alexander King, OECD Director General project leader, Michel Frybourg, Chairman, Albert

Transport

will be made of all transport facilities presently planned including new airports and, if agreed upon by the governments concerned, a Channel tunnel; systems now under development such as the various forms of rapid rail transport and vertical and short take off and landing aircraft (VTOL and STOL) will be included in the analysis.

A third task force will be set up shortly to examine the various possible strategies for developing transport within the 70-city network with emphasis on the possibilities for collective action among the governments concerned. Examples of the type of problems to be examined: should railway terminals be built at airports rather than in city centres? Does it make sense to concentrate traffic on a few major air routes requiring the construction of second and third airports in large congested centres rather than to spread the traffic out so as to make use of the less crowded airports of smaller cities?

(1) Austria, Belgium, France, Germany, Greece, Ireland, Italy, the Netherlands, Spain, Switzerland, and the United Kingdom are participating at the present time.

OECD Committee for Fisheries elects New Chairman

At a meeting on 21st-23rd May, the OECD Committee for Fisheries elected Carl Bjørje of Norway as Chairman for the current year. Mr. Bjørje, Deputy Director General of his country's Ministry of Fisheries, has participated in the work of the Committee since it was set up in 1961 and in the preceding groups dealing with fisheries under OEEC. In his place as a Vice-Chairman J. Hertoft of Denmark was elected. The other Vice-Chairmen are A.A.P. Duarte Silva (Portugal) and S. di Palma (US).

The Committee's main business during the May meeting was to complete its Review of Fisheries in Member countries in 1972. The Review, covering a



particularly critical period in international fisheries, has now been published.

OECD Publications Centre set up in Tokyo

To carry out the sale and distribution of its publications in Japan and the Far East, OECD has established a Publications Centre in Tokyo (1) with a reading room open to the public. This is the second such centre, the first having been opened in Washington (2) in 1966.

Former Executive Secretary to the United States Educational Commission in Japan,

John Barnett, has been appointed head of the Centre; in May he visited Paris headquarters for a sales planning meeting.

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for Scientific Affairs, Michael Thomson, OECD Aurignac, assistant project leader.



Heads of OECD Publications Centres: Washington, Eric Ekers, left, and Tokyo, John Barnett, right.

New OECD Publications

ANNUAL REPORTS ON COMPETITION POLICY IN OECD MEMBER COUNTRIES, No. 1-1973 (May 1973).

These national reports are devoted to the evolution of competition policy, legislation and jurisdiction relating to restrictive business practices in OECD Member countries. They are examined at the bi-annual meetings of the OECD Committee of Experts on Restrictive Business Practices and, for this purpose, the countries are divided into two groups, each country presenting an annual report for one of each of these meetings. The reports are published twice a year, every six months.

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