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Problems Caused by the Oil Price Rise

New International Initiatives to Solve Them
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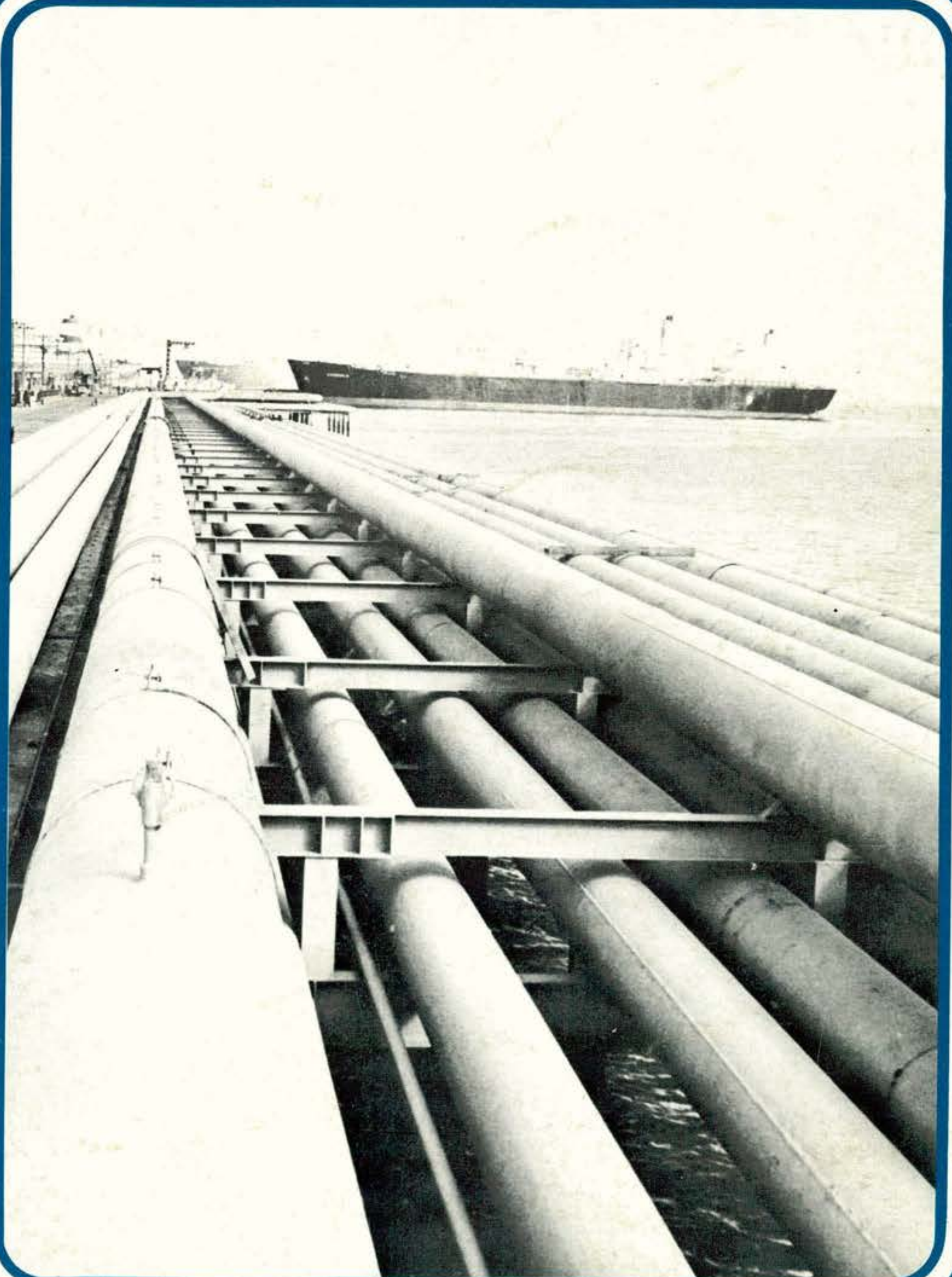

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The oil price rise has altered the pattern of financial flows and has led OECD countries to embark on new types of co-operation. Cover, *tankers waiting to transport oil from Saudi Arabia.*

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EDITOR : Jane Bussière
ASSISTANT EDITOR : Ulla Jeanneney
ART, PRODUCTION AND LAYOUT: Marc Delemme
PHOTO RESEARCH : Silvia Lépot

All correspondence should be addressed to the Editor.

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ENERGY POLICY AND ITS EFFECTS ON THE INTERNATIONAL MONETARY SITUATION

By Emile van Lennep, Secretary General of OECD[1]

The sudden and massive rise in the price of oil had a profound impact on three segments of the world economy: the industrialised oil consuming countries, the developing oil producing countries and the much larger group of developing countries without significant indigenous supplies of oil. Of course neither the OECD countries nor the developing countries are a homogeneous group but by looking at the problems from both the aggregate and the individual points of view one can hope to get a clearer picture as to where there is need for a collective response and where the responsibility for action lies principally with individual countries.

Impact on OECD Countries

The impact of the oil price rise on the OECD countries as a whole has been threefold: a sharp boost to inflation; a depressive effect on output and employment; a massive swing into current account deficit and a move towards becoming a net importer of capital.

• *Inflationary Consequences*

The boost to inflation has been the most obvious and the most painful. The rise in the price of net imports of oil into the OECD area in 1973 and 1974 corresponded to some 1¾ per cent of total domestic expenditure. The full impact on the overall price level was, however, significantly greater. The supply limitations of late 1973 and early 1974 and the resulting threat of shortages, followed by the need to reduce the import bill when the cost of oil imports was quadrupled and even quintupled, prompted governments to rely heavily on the price mechanism to reduce dependence on outside sources of energy. To varying degrees governments permitted producer prices of domestic energy to rise in line with the cost of imported oil and gas, and export prices of energy were of course fully adjusted to world prices. In addition, several governments increased indirect taxes on energy. Taking these factors into account, the impact of the energy price increase on the overall OECD price level may be estimated at some 3½ per cent (see Table 1). On this basis, something like half the acceleration of OECD's consumer price rise in the course of

(1) The text is taken from a speech given by the Secretary General before the German Society for Foreign Affairs in Bonn on 18th February 1975. The entire speech has been published in German in the periodical Europa Archiv.

1. RISE IN ENERGY BILL (a) IN 1973 AND 1974 AS A PERCENT OF TOTAL DOMESTIC EXPENDITURE

	Total of 1973 and 1974	*Of which: Oil*
Canada	2.3	1.7
United States	2.2	1.4
Japan	4.3	3.3
Australia and New Zealand	3.4	2.3
France	3.6	2.9
Germany	3.1	1.9
Italy	5.9	5.3
United Kingdom	5.5	3.9
Other Northern Europe (b)	3.9	3.0
Other Southern Europe (c)	4.3	3.8
Total OECD (d)	**3.3**	**2.3(e)**
OECD Europe (d)	*4.1*	*3.0*

(a) Oil, hard coal and natural gas: import prices and domestic producer prices; does not include wholesale and retail markups. Excludes hydroelectricity and nuclear power.
(b) Belgium-Luxembourg, Netherlands, Denmark, Ireland, Austria, Finland, Norway, Sweden, Switzerland.
(c) Greece, Portugal, Spain, Turkey.
(d) Based on 1973 GNP weights.
(e) Including 1.8 per cent for oil imports from outside the OECD.

1974 (to nearly 15 per cent compared with 8 per cent in 1973) can be attributed to higher energy prices.

The full impact was almost certainly higher. Inflation is a dynamic process par excellence, and any outside influence is magnified. The unexpected acceleration of inflation caused by the oil price rise gave impetus to a new wage-price spiral by reducing real wage earnings and triggering attempts to recoup the losses through higher money wages.

The timing of the oil price rise was also most unfortunate from the point of view of the industrialised economies. It came at a period when, for many months, overall demand pressures virtually throughout the industrialised world had been so strong as to lead to recurrent shortages and inflationary anticipations. This enabled firms to pass their energy-related cost increases fully on into sales prices and—frequently—to enlarge their gross profit margins at the same time. Had it been imposed in a period of weak overall demand, there would have been more chance of containing the spillover effects—indeed, firms would have been compelled to absorb part of the energy-related cost increases. The oil crisis occurred just when there had seemed some signs of the year-long commodity price boom starting to decline: it gave the boom a new lease of life.

It will never be possible to disentangle all these various factors with any accuracy. But it is interesting to note that just before the oil price rise in October 1973 the OECD Secretariat forecast that the general price level in the industrialised countries might rise by around 7 per cent in the course of 1974. In the event they rose by some 15 per cent.

• *Depressive Effects*

The depressive impact of the oil-price rise on output and employment took longer to make itself felt. This depressive impact did not come so much from the monetary side: the money transferred to the oil producers more or less all came back in the form of payments for goods and services or investments in money and capital markets. It came rather from an interruption in the flow of incomes and expenditures. Real incomes in the consuming countries were reduced; real expenditure by the producing countries rose by very much less than their receipts because of their inability to spend so much money so quickly. But this contractionary influence was temporarily masked, in early 1974, by the fact that the first thing people were conscious of was the boost to prices. Foreseeing this—and the feeding through of the rise in other commodity prices—households and firms tried to "beat the inflation" by building up stocks at old prices and more generally by anticipatory purchases. This behaviour gave a temporary fillip to demand and exacerbated price increases, notably in the commodity markets.

The particularly sharp rate of inflation of early-1974 induced many governments to go beyond the action which they had taken in 1973 to curb aggregate demand; and in some cases balance-of-payments worries, aggravated by the price of oil, provided an added inducement. As a result, the middle of 1974 onwards saw the level of activity being contracted, simultaneously, by the effects of demand-management policies, by the spontaneous deceleration of the boom as speculative stockbuilding began to be unwound, and by the contractionary effect of the shift of income from OECD to OPEC countries.

• *Current Account Deficits*

The sudden change in the structure of the current account of the OECD area and the size and likely duration of the overall deficit impressed policy makers. Up to 1973 the OECD was running a small surplus on current account with all developing countries taken together. In 1974 the surplus with non-oil producing countries increased further from some $5 billion to some $17 billion but the deficit with OPEC rose suddenly from some $3 billion to some $50 billion resulting in an OECD current account deficit of about $33½ billion. This was less than expected early in 1974, but the better out-turn reflected largely the slowdown of imports from third countries, both OPEC and other LDC's, in the wake of the recession. Mainly for the same reason, the aggregrate deficit is likely to be further reduced in 1975, but it will take a number of years before it is completely eliminated.

The current account deficit of the OECD as a group with OPEC is "unavoidable", in the sense that it cannot be reduced by exchange rate adjustments or by demand management policy. Such measures can only shift the deficit from one country to another.

Having recognised that, as a group, they had to accept such large deficits for several years, the OECD countries rejected "beggar thy neighbour" policies. They adopted in May 1974 the Trade Pledge, committing themselves to refrain, for one year, from import restrictions and export subsidies to improve their trade balance individually. They also maintained in real terms the level of aid to developing countries.

It is not enough to accept collectively the current account deficit: it still has to be financed. For the OECD area as a whole this does not raise an insoluble problem. Distributed proportionally to the national income of individual countries, a current account deficit of the order of 1 per cent of GNP is well below the levels reached at various times since the war in a number of industrial countries without constituting a fundamental disequilibrium.

It is frequently argued that our countries cannot go on piling debt on debt of these proportions for a number of years. Here again it would appear that, for the OECD as a group, the burden vis-à-vis OPEC is manageable. According to recent projections the cumulative surplus of OPEC will probably reach its peak somewhere in the early 1980s at a cumulative sum of perhaps $225 to $250 billion in 1974 prices. This corresponds to some 6 per cent of our GNP in 1974. There have been numerous examples of much higher levels of foreign indebtedness in the economic history of industrial countries.

• *Sectoral Problems*

Beyond its implications for the balance of payments, the macro-economic impact of the oil price increase and of its timing does raise serious problems for the OECD countries, both for global demand management and sectorally. It is generally known that the OPEC surpluses represent a rise in world savings without an equivalent rise in the propensity to invest because this takes time and, more importantly, the world is in a recession.

Hence there is at present need for temporary measures to support not only investment, but even consumption. But as soon as the OECD economy picks up, the pressure on resources could increase rapidly as more investments will be needed for energy production and conservation, improvement of the environment and possibly production in basic industries including food. In this context it will be necessary to shift resources away from consumption to investment and to exports to OPEC. The pattern of the goods needed for this purpose is such that it might create sectoral problems, particularly in countries with insufficient capacities in heavy engineering and basic industries.

2. EXPORTS OF SELECTED OECD COUNTRIES TO OPEC AND NEIGHBOURING COUNTRIES (a)

(most recent 3 month period)

	$ million at annual rates not seasonally adjusted			*Percentage changes over the same period in previous year*		
	Total Exports	*Exports to OPEC*	*Exports to Egypt, Syria, Jordan*	*Total Exports*	*Exports to OPEC*	*Exports to Egypt, Syria, Jordan*
Canada (b)	34,750	500	38	+ 45½	+ 152½	+ 274½
United States (b)	101,250	7,750	466	+ 34	+ 112½	+ 48
Japan (c)	58,500	6,000	205	+ 62½	+ 115	+ 311½
France (d)	47,500	3,000	637	+ 20	+ 69	+ 136
Germany (b)	89,500	4,500	406	+ 14½	+ 68½	+ 43
Italy (b)	31,250	2,500	475	+ 28	+ 93½	+ 287
United Kingdom (e)	41,750	3,250	241	+ 28	+ 69¾	+ 88½
Belgium (b)	29,250	750	86	+ 14½	+ 26	— 8½
Netherlands (d)	35,500	750	143	+ 45	+ 80½	+ 98½
Sweden (b)	17,750	500	50	+ 37½	+ 71	+ 70½
Switzerland (e)	12,250	750	81	+ 19½	+ 72½	+ 73½

(a) These countries are included because the spillover effects from the OPEC market via official aid flows, private transfers, etc., are thought to be potentially important.

(b) August, September and October, 1974.

(c) June, July and August, 1974.

(d) July, August and September, 1974.

(e) September, October and November, 1974.

Impact on OPEC Countries

The export earnings of the producing countries rose last year by about $70 billion, from $35 to $105 billion. They were only able to spend a little under a quarter of this increased revenue on imported goods and services (see Table 2 for OECD exports to these and neighbouring countries). Around another tenth was made available to other developing countries through grants and loans. The remainder was very largely invested in the OECD area in one form or another.

Thus, the rise in the oil price has produced a significant shift in the world distribution of income and wealth. To the extent that this has benefited poorer countries—and some of the oil producing countries are still quite poor—one cannot, from the moral point of view, feel very upset about this, particularly as the industrialised countries have lagged behind their development assistance targets of the Second Development Decade. As things stand, however, the greatest part of oil reserves are concentrated in a few countries with very small populations. Moreover, there is much evidence from economic history that attempts to shift the distribution of income through intervention in the price mechanism, however desirable this may seem on welfare grounds, are likely to work badly or break down if they run counter to strong underlying forces of supply and demand.

• *Oil Imports*

One important question facing the oil producing countries, therefore, is whether the price of oil may not have risen by too much in relation to likely trends in supply and demand in the energy sector over the short and medium run. OECD oil imports, under the combined impact of much higher prices and widespread recessionary trends, fell by about 4 per cent last year. They are unlikely to pick up again this year, keeping very much below earlier trends and output capacity in the producing countries. The OECD's recently completed assessment of Energy Prospects to 1985 indicates that at present prices these trends are likely to continue. In these conditions market forces could, in time, bring a sharp downward break in oil prices, with the risk of a self-perpetuating cycle of excessive upward and downward fluctuation in prices typical of some other primary products, and highly detrimental to the interests of both producing and consuming countries.

• *How to Invest the Surplus*

The other major problem facing the oil producing countries is how to invest their rapidly accumulating surplus funds—about $55 billion in 1974. In a highly inflationary world with floating exchange rates and much monetary uncertainty this is a far from easy task. Preliminary information suggests that there was a significant shift in the investment policies of OPEC countries in the closing months of last year away from direct placement in dollar denominated assets in the United States and the Eurodollar market. This change no doubt partly reflects adjustment to changing monetary conditions and interest rate differentials. However, it may also suggest a more fundamental desire of OPEC countries to diversify their portfolio, to acquire more real assets and longer-term financial assets, and more assets denominated in the stronger European currencies.

Impact on Non-Oil Producing Developing Countries

From the outset, the impact of higher oil prices on non-oil producing developing countries has attracted considerable attention. Although these countries are not large-scale importers of crude oil, their balance on current account was likely to suffer a setback of similar proportions, in relative terms, to the OECD countries.

Naturally, most of them were expected to be simply unable to put up with the new burden.

The actual developments turned out to be somewhat different. In the first place, developing countries with large natural resources benefited until mid-1974 from the commodity boom. Since they managed to accumulate substantial reserves during this period, they could continue to finance their imports without serious difficulties until very recently. Second, these and some other developing countries managed to continue large-scale borrowing on the Euromarkets. Third, countries politically or geographically close to the OPEC and/or those simply unable to pay for the oil have received from the oil producers substantial loans and grants, as well as special terms of payment for oil. Fourth, non-oil LDCs have benefited from the IMF oil facility and other international financial assistance.

These factors explain that non-oil LDCs were able to finance an increase in their trade deficit of some $15 billion in 1974, two-thirds of which with OPEC and one-third with the OECD.

With the fall in industrial raw material prices and the decline in the volume of exports of both commodities and manufactures, export receipts of non-oil LDCs started to diminish in the second half of 1974 and will continue to do so this year. Since the cushion of reserves is by now practically exhausted, the volume of their imports will decrease in 1975. Needless to say, some LDCs could have serious resource problems and be compelled to cut essential imports. Thus, after supporting activity in the industrial countries in 1974, trade with non-oil LDCs is likely to become a depressing factor in 1975 unless there is an improvement in commodity markets and a rise in non-trade financial flows.

Impact on Individual Industrial Countries

The actual impact of the oil crisis on individual industrialised countries varied considerably. The additional import bill and its contractionary effect were of comparable proportions for all the main European countries, significantly more for Japan and much less for North America. But the rise of oil prices exacerbated the already existing contrasts among OECD countries in inflationary and balance-of-payments trends. Countries in a weak starting position tended to experience an aggravation of their difficulties while the stronger countries improved their relative position.

Although the "oil deficit" (i.e. the increase in the oil bill minus increased exports to OPEC) can still be identified for the OECD as a whole and the concept remains useful as an instrument for analysis, it is rapidly becoming more difficult to identify for individual countries. In 1974, four countries (France, Italy, Japan and the United Kingdom) accounting for 30 per cent of GNP of the OECD as a whole, accounted for 81 per cent of the OECD current account deficit (see Table 3). Addition of a few small countries would bring the total up to 90 per cent.

• *Financing Mechanisms for the Weaker Countries*

In a situation of such extreme imbalance, the financing problems of the weak countries were bound to assume considerable proportions, and their indebtedness has become a matter of concern.

So far existing financing mechanisms have enabled these countries to overcome their problems without acute difficulties. The Euromarket, helped by central bank support, stood up well to the strain, and additional financing has become available through the IMF oil facility and bilateral credits from OPEC countries and within the OECD. In addition, an OECD Financial Support Fund of $25 billion is being arranged (2).

3. ESTIMATED CURRENT BALANCES 1974

(US$ billion)

Canada	— 1¾	United Kingdom	— 9
United States	— 1¾	Belgium Luxembourg	— ¼
Japan	— 4½	Netherlands	+ 1¾
France	— 6	Sweden	— ½
Germany	+ 9½	Other OECD Countries	— 13½
Italy	— 7½		
		Total OECD	**— 33½**

The basic principle of the OECD Support Fund is that although the overall deficit of the area is the result of the rise in oil prices, the deficits of the individual countries reflect essentially the weakness of their underlying position, aggravated by the oil crisis. Hence the OECD Support Fund will only provide conditional financing, subject to a continuous monitoring by the lending countries of the demand management and energy policies of borrowing governments. It will not help to prolong imbalance among OECD countries.

The existence of the new OECD facility will enable the weak countries to avoid unduly heavy reliance on bilateral borrowing. Participating countries in external deficit will be protected from undesirable forms of pressure from their creditors wherever these may be. By adopting a multilateral approach to financing, OECD countries will show their financial solidarity, strengthen their bargaining position as a group and lessen the scramble for OPEC funds.

The OECD Support Fund is essentially a defensive mechanism designed for a specific purpose. It is not intended as a substitute for other existing forms of financing or recycling. Indeed, it is understood that before a country resorts to it, fullest appropriate use will be made of other means of financing. On the other hand, obviously, one would not wait until countries were on the brink of disaster before making a loan.

It follows that the Support Fund is not meant to solve all the problems arising from the accumulation of petrodollars. It is intended rather to provide a firm basis on which co-operative solutions to these problems can be sought, notably by strengthening confidence in the ability of governments to pursue appropriate policies to deal with current inflationary and recessionary tendencies.

• *The Problems of the Stronger Countries*

As to the stronger industrialised countries—those who do not seem likely, in the foreseeable future, to experience problems in financing their imports—the group includes the United States (the recent tendency for the dollar to weaken in no way reflects the underlying competitive strength of American producers) Japan, Germany and probably Belgium, the Netherlands and Switzerland.

The effect of the energy situation may be rather special for these countries. They are faced with the same rise in price for imported oil. Indeed, of the $65 billion increase in OECD's oil bill in 1974, some $40 billion fell on these "stronger" countries.

(2) See page 9.

The essential difference lies in two clearly-linked phenomena. First, before the oil crisis started, Germany, Belgium and the Netherlands were already in very substantial balance-of-payments surplus on current account. And the United States, thanks to the exchange rate changes and booming farm exports, were swinging fast from deficit to surplus. Second, most of these countries experienced—and are still experiencing—an inflation rate that compares favourably with those afflicting other industrialised countries. This is true for the United States which, though suffering from a price rise which is clearly excessive, has at least kept below the average OECD rate of inflation. And it is particularly true for Germany and the Benelux partners in the European "Snake".

But as we all know, success can bring problems, which may be no easier to solve than those which result from failure: the resource burden that a highly competitive industrial structure can entail, and the complications, from the point of view of those responsible for managing the economy, that result from capital inflows. Surpluses attract surpluses—even, apparently, when one is no longer in a regime of fixed exchange rates. A country gets a name for industrial efficiency and relative price stability. And the result is an inflow of capital from abroad that may force the exchange rate up to unrealistic levels but which certainly makes the conduct of monetary policy as an instrument for domestic stabilisation extremely difficult.

• *The Influx of Oil Funds*

And now, quite clearly, there is a new source of funds. The OPEC countries are accumulating massive funds which they are obliged to invest in the industrialised countries (see Table 4), and the problem is to ensure that these funds are spread reasonably equally between host-countries and are not over-concentrated in a few "blue-chip" economies. Some of the problems that over-concentration of these funds will cause resemble those resulting from the dollar flows of earlier years: destabilising effects on domestic monetary conditions and unwelcome pressures on exchange rates. One has only to look at Switzerland's recent experience in this respect. But other problems associated with foreign ownership and control are now beginning to be felt in some OECD countries.

They are not necessarily unmanageable, and one should not, perhaps, extrapolate indefinitely into the future certain new tendencies which have made themselves felt in recent weeks. Nor are they overwhelming in terms of the world as a whole. One must assume that the oil producers are going to want a reasonable spread of their portfolios as between countries: these are funds which they have to invest for future generations, and something like the rules of normal investment prudence will apply. And they will want a spread between short- and long-term assets, and between investment in real assets on the one hand and in fixed interest instruments on the other.

But the way that these assets are distributed as between instruments and markets is capable of causing problems for the host-countries. Within the rules of prudence, the oil countries will want to participate in the more advanced industries and the strongest economies. The flows will be big enough to risk being upsetting for the strong economies.

Possible Solutions

What can the OECD countries do to mitigate this problem? It would be quite unfortunate to attempt to deal with it by widespread controls on international capital movements. OECD's code for capital movements strives to ensure freedom for international flows of long-term capital, on the grounds that freedom to invest abroad plays an important role in the maximisation of welfare. If the basic principle of economic freedom of capital movements were partly

4. FLOW OF FUNDS FROM OPEC COUNTRIES IN 1974

(Estimates)

	First half		*Second half*		*Year*	
Recipient	*Amounts ($ billion)*	*Per Cent*	*Amounts ($ billion)*	*Per Cent*	*Amounts ($ billion)*	*Per Cent*
1. United States	4	20	7	19	11	19
2. United Kingdom (Sterling assets only)	2	10	4	11	6	11
3. Eurocurrency markets	9½	49	11½	30	21	37
of which London	(7)	(36)	(6)	(16)	(13)	(23)
4. Others	4	20	15	40	19	33
a. International institutions (1)	..	..	..	..	(3½)	(6)
b. Developing countries	..	..	..	..	(2½)	(4)
c. Residual (2)	..	..	..	..	(13)	(23)
5. Total external financial surplus (3)	19½	100	37½	100	57	100

Preliminary estimates on flows of funds from OPEC countries in 1974 are shown in the table above. The oil-producing countries' overall *external financial surplus* is currently estimated to range between $50 and $60 billion. Because of time lags between oil deliveries and payments, the distribution of this total over the year was markedly uneven, with around $19½ billion falling in the first half of the year and over $37 billion into July-December period.

(1) Including the IMF oil facility.

(2) Government loans; direct investments, acquisition of securities, real estate, etc., other than in the U.S. and U.K.; unidentified operations.

(3) Estimates concerning OPEC countries' overall financial surplus are still highly tentative. Preliminary statistics seem to indicate that the overall surplus is unlikely to deviate much from the $55-60 billion rate.

sacrificed in order to deal with oil funds, OECD countries might well be putting in jeopardy their ability to adapt their economies to the real economic challenge now facing us: investment efforts must be made in the next few years in respect of energy production and conservation, and in respect of our export capacity. It is important to realise that an attempt to solve the problem of oil funds primarily through controls would, in fact, amount to a frontal attack on this Code, because the controls would, to be effective, have to apply to all international capital movements: one cannot, effectively, discriminate against funds from one particular source.

However, some use of surveillance may not be out of order. Without having restrictions extended over international capital flows in general, there may be scope for appropriate mechanisms to deal with investments in particular sensitive areas.

• *The Need for Co-operation*

Since recent developments in the oil markets are likely to create difficulties for individual countries it is not likely that individual countries, acting alone, can solve these problems; what is needed is a number of international, co-operative solutions.

One important thing that industrialised OECD countries must do is to ensure that there is a sufficient harmonisation of the attitudes of their individual governments towards capital inflows. Without wanting to seek *uniformity* of attitudes (circumstances must alter cases), there are certain fields in which we must avoid too large discrepancies—or destructive competitive elements—in the ways in which countries treat foreign capital. It is desirable to avoid undue national competition to *attract* investment, through concessional treatment of taxes or dividends; and in particular one must avoid the risk that bilateral agreements in respect of capital transactions leads to growing bilateralisation of trade.

On the other side of the coin, some harmonisation of whatever surveillance mechanisms are designed to deal with foreign investment inflows is desirable: otherwise, some countries will be more vulnerable than others to undesirable foreign investments and to the adverse monetary effects of foreign capital inflows, the burden being carried by the countries who adhere most faithfully to the precept of freedom of international capital movements. I would like to suggest that OECD countries consider the possibility of agreeing on certain common guidelines, or guiding principles, for their attitudes in respect of foreign investment flows.

• *Positive Initiatives*

But there are grounds for going well beyond this sort of defensive co-operation, and for thinking in terms of more positive initiatives which could ease the problems of absorbing oil capital in ways which will be beneficial to oil producing and oil consuming countries alike. The time may now be ripe to consider seriously, within the OECD, whether there is not room for some new institutional arrangement in co-operation with OPEC governments. I am referring to recent suggestions made notably in Germany and in the United States to establish some sort of international investment fund which would gather part of the funds that oil producers wish to invest in real assets in the OECD area, and steer them, on the basis of the technical expertise that is so abundant in our financial community, to outlets which would be profitable to the investor, which would be guaranteed perhaps against political risk, but which would not raise—in the acute forms suggested by certain recent events—the problems of foreign ownership and control of national resources.

There may be difficult problems here. The problem of transparency of ownership may be important, though—to the extent that the mechanism envisaged is a truly intergovernmental one—the size of this problem can be reduced. And while such an institutional development can help solve some problems, it cannot solve all. In particular, insofar as the institution were run according to commercial market criteria, the extent to which it would alleviate any tendency for the funds to flow, in concentrated fashion, to the stronger economies would be limited.

But the benefits of such an arrangement could be far-reaching. It would reduce the potential volatility of oil funds. And in particular, it would serve to forge—or reinforce—links of common interest between investing and receiving countries, expressing in tangible form the sentiment—propounded already by leaders of oil-producing states—that the fortunes of oil exporters and oil importers are indissolubly linked.

I have tried to show that although the problems facing us are complex and serious, they should be manageable if there is an adequate response.

At the national level, first, a major responsibility lies with the countries with high rates of inflation and large current payments deficits. Successful efforts to reduce inflation in these countries are not only essential in their own interest; continuing weakness would seriously undermine collective efforts to restore better equilibrium in the world economy. Second, a major responsibility lies with the stronger countries to ensure that the present decline in world trade and output is halted before it goes too far.

At the international level, good progress has been made in elaborating a collective response on the part of OECD countries. The main elements already in place or nearly so are:

- Additional defences against self-defeating restrictions on trade and payments;
- Arrangements for sharing oil in an emergency;
- Co-operative policies to encourage increased production and conservation of energy;
- A major new financial mechanism to provide a safety net in the event of serious difficulties, and work is also getting started on:
- Reviewing together policies with regard to foreign investment.

At first the response of the industrialised countries was essentially defensive, but it is gradually evolving into a clear positive strategy. Thus the way has been cleared to seek co-operative solutions at the broader level of the oil consuming and oil producing countries. Here the two closely interrelated questions are:

- How to avoid a massive over-adjustment of supply and demand in the oil and energy markets, and excessive price fluctuations over the medium run.
- How to find investment outlets for surplus oil funds which reconcile the producing countries' desire for security and a good yield with the needs of the consuming countries to finance their payments deficits and promote productive investment.

Finally, the OECD and the OPEC countries should see what can be done not only to help the non-oil developing countries minimise this difficulty but to enable them to benefit from the redistribution of world income and increase in world savings which has taken place.

Despite dire predictions, international economic co-operation survived the strains of the 1974 crisis and OECD Member governments stood up to the challenge in a constructive and realistic spirit. We can therefore look forward to new initiatives and a continued improvement of our co-operation in 1975.

NEW INITIATIVES IN INTERNATIONAL CO-OPERATION

THE FINANCIAL SUPPORT FUND OF THE OECD

Ministers from OECD Member countries, meeting at OECD headquarters in Paris on 9th April, signed an Agreement on the $25 billion OECD Financial Support Fund.

Finance Minister Willy De Clercq of Belgium, Chairman of the Ministerial Meeting, presented the new Agreement:

"The Financial Support Fund of OECD is extremely important in many respects. First it demonstrates the will of Member countries to co-operate and to show solidarity in the face of the present economic situation, one of the most difficult that the world has seen since the Second World War, and to seek common solutions to common problems.

We sincerely believe that this will to co-operate will help promote a dialogue with the oil producing countries and with the non-oil producer developing countries, for the solidarity which has just been so dramatically demonstrated is not directed against anyone. It is not a means of confrontation but rather a way to promote international solidarity.

Greater cohesion between industrialised countries is beneficial not only to the countries themselves, but to the world as a whole. If, through this Agreement we are able to decrease economic instability and avoid the vicious circle of restrictions-recession, the entire world economy will benefit, the developing as well as the developed countries.

This Agreement is basically a supplementary mechanism. After the crisis of the thirties, many of our countries realised that it was not acceptable to let financial intermediaries which were suffering from liquidity problems collapse. Most countries then created a lender of last resort at the national level. Today we have transposed this idea on to the international level.

The mere fact that this Fund exists should strengthen confidence and permit us to hope that it will in fact never have to be used."

In his reply to the Belgian Finance Minister, OECD's Secretary-General noted that the Agreement's significance has two aspects:

It is important in itself for the financial mechanism that it puts into place. It is also important as a further link in the chain of co-operative response to entirely new economic problems which has been forged over the last fifteen months.

The Agreement was prepared by an *Ad Hoc* Working Party of the OECD Council under the Chairmanship of Jacques van Ypersele de Strihou of Belgium. The main features of the Agreement, as summarised in a report of the Working Party's Chairman, are shown below.

Left to right: *Jacques van Ypersele de Strihou (Belgium), Chairman of OECD Council* ad hoc *Working Party created to prepare the agreement establishing the Financial Support Fund; Belgian Minister of Finance Willy De Clercq, Chairman of the meeting, Emile van Lennep, OECD Secretary General; and Stephen Marris, Economic Adviser to the Secretary General.*

MAIN PROVISIONS OF THE AGREEMENT ESTABLISHING A FINANCIAL SUPPORT FUND OF THE OECD

Membership

The Financial Support Fund is to be set up in the framework of the OECD. Membership of it will be open to all OECD countries. Founding members may sign the Agreement between 9th April and 31st May, 1975.

The Objectives and Nature of the Fund

The principal objectives of the Fund are to encourage and assist its members:

- to avoid unilateral measures which would restrict international trade or artificially stimulate exports, and
- to follow appropriate domestic and international economic policies, including adequate balance-of-payments policies and co-operative policies to promote increased production and conservation of energy.

The Fund will provide a framework in which its members will reinforce their economic co-operation and provide mutual financial support. An essential feature is that the risks on loans by the Fund will be shared among all members, in proportion to their quotas and subject to the limits of their quotas, however the loans are financed.

The Fund is intended to help deal with the difficulties inherent in the current economic situation. It has the capacity, established for a period of two years from the entry into force of the Agreement, to grant loans, in exceptional cases, to supplement other sources of credit to which members encountering serious economic difficulties have had recourse. Thus, it will be in the nature of a "safety net", to be used as a last resort. A member will be expected, before calling on the Fund,

- to have made the fullest appropriate use of its reserves;
- to have made best efforts to obtain capital, on reasonable terms, from other sources; and
- to have made the fullest appropriate use of other multilateral facilities, such as those of the IMF and the EEC (so far as members of the EEC are concerned).

That does not, however, mean that a member should have exhausted such other resources before it has recourse to the Fund.

Quotas

Members will haye quotas which will determine :

- their shares in the risks on loans,
- their voting rights and,
- their maximum financial liability to the Fund,

and which will be the basis for determining,

- their shares in the financing of loans and
- the amount they may borrow from the Fund.

The total of the quotas is 20 billion SDR, or approximately 25 billion U.S. dollars. The distribution of the quotas (see table) is based on a formula giving about equal weight to countries' GNP and foreign trade, with some adjustments. (In particular, in the case of countries with an exceptionally large volume of foreign trade relative to GNP, allowance was made for this factor, which would otherwise have produced too large a quota).

Loans

• *The Conditions for Borrowing*

A country requesting a loan will be required to demonstrate that:

- it is encountering serious external financial difficulties;
- it has made the fullest appropriate use of other resources (as specified above); and
- its economic policies are consistent with the objectives of the Fund and include the measures needed to redress its external financial situation.

The borrower will undertake to carry out the policies needed to redress its external financial situation over an appropriate period and to fulfil the objectives of the Fund. Its economic policies and its observance of the conditions on which the loan is granted will be kept under review.

• *Decision on the Granting and Financing of a Loan*

The granting of a loan will require a single decision on the following matters, taken together:

- the eligibility of the borrower,
- the conditions relating to the borrower's economic policies,
- the amount and maturity of the loan,
- the method of financing the loan, and
- the basis for determining the interest rates to be paid to members which provide direct financing, and to be charged on the funds loaned to the borrower.

The precise financial terms and the date, or dates, of transfer of funds will be specified in the final text of the loan agreement between the Fund and the borrower.

The decision will require a two-thirds majority if, following the loan, the member's outstanding borrowing would not exceed its quota, a 90 per cent majority if its outstanding borrowing would be between 100 per cent and 200 per cent of its quota, and unanimity if its outstanding borrowing would be in excess of 200 per cent of its quota. These majorities have to be fulfilled both in respect of all members of the Fund, excluding the prospective borrower, and of the members called upon to provide the financing for the loan (1). These majorities must include at least half of the members of the Fund.

• *Maturity and Interest Rate*

Loans will have a maturity of not more than seven years. The rate of interest on loans will be decided in the light of conditions at the time, having due regard to the interest rate paid by the Fund on the related financing, and will not be less than the latter rate.

(1) Members may be exempted, for balance-of-payments reasons, from calls for one type of financing (see below).

• *Advance Repayment of Loans*

Should the balance-of-payments situation of a borrower improve substantially, it may be required by a two-thirds majority of the votes, excluding its own votes, to repay all or part of the loan in advance of maturity. A borrower may also make advance repayments voluntarily, on condition that the advance repayment of the corresponding financing provided to the Fund is acceptable to the lenders.

The Two Main Methods of Financing the Fund's Loans

There will be two main methods of financing the Funds' loans:
• firstly, *individual commitments*, under which each member called upon provides either *direct financing* (i.e. a transfer of funds), or an *individual guarantee for borrowing by the Fund in financial markets* (i.e. an undertaking to transfer funds to enable the Fund to meet its obligations should the loan which is financed not be repaid on the due date),
• secondly, *borrowing by the Fund in financial markets* on the basis of a collective guarantee by all members (i.e. an undertaking shared by all members to transfer funds to enable the Fund to meet its obligations).

QUOTAS

Countries	*As per cent of total quotas*	*Amounts established in SDR (million)*
Australia	1.5	300
Austria	1.0	200
Belgium	2.4	480
Canada	4.2	840
Denmark	1.2	240
Finland	0.8	160
France	8.5	1,700
Germany (Federal Republic of)	12.5	2,500
Greece	0.6	120
Iceland	0.1	20
Ireland	0.6	120
Italy	7.0	1,400
Japan	11.7	2,340
Luxembourg	0.1	20
Netherlands	3.0	600
New Zealand	0.8	160
Norway	1.0	200
Portugal	0.6	120
Spain	2.5	500
Sweden	1.5	300
Switzerland	2.0	400
Turkey	0.6	120
United Kingdom	8.0	1,600
United States	27.8	5,560
Total	**100.0**	**20,000**

Calls for financing will be proportional to the quotas of the members called, unless a member agrees to provide a higher proportion (but any additional amount must not exceed its uncalled quota). All transfers of funds to the Fund in response to calls for financing will be in the form of actually convertible currency.

First Method: Individual Commitments

Under this method, each member has an option to provide its share, either by making an immediate transfer of funds, called *direct financing*, or by giving an *individual guarantee*, on the basis of which the Fund can borrow in domestic or international capital markets.

• *Exemption from the Calls for Financing*

Under this method the borrower will be excluded from the calls for financing, and there are special provisions under which other members may be exempted from the calls, in view of their present or prospective balance-of-payments situation. Such exemption will be decided upon, by a two-thirds majority, prior to the decision on the granting of a loan and its financing referred to above. The majority must include at least half the members.

• *Direct Financing*

A member which provides direct financing will transfer actually convertible currency to the Fund, obtaining such currency in whatever way it chooses. It may, for example, draw on its reserves, or its central bank may apply to the Bank for International Settlements (BIS) for a credit, or it may borrow from other sources. Should its balance-of-payments situation subsequently deteriorate, a member will be able to mobilise its direct financing claim (see below).

• *Individual Guarantees*

If a member opts for an individual guarantee, in response to a call for individual commitments, the Fund will seek to raise the requisite funds in international or domestic financial markets, taking due account of market conditions and other relevant factors. (The general conditions for such borrowing are specified below.) If the Fund is unable to raise the required amount within a reasonable period of time, on terms reasonably comparable to those available to a borrower of a good name, or otherwise acceptable to the Fund, the member which is offering the individual guarantee will allow borrowing by the Fund, after consultation between the Fund and that member, in its currency (which is to be made convertible) and in its domestic financial market, including borrowing from public institutions, up to the amount covered by its guarantee.

By providing an individual guarantee, a member undertakes to stand behind the Fund's obligations to lenders The individual guarantee will cover, in addition to the amount borrowed by the Fund under that guarantee, an allowance relating to the payment of interest and other charges on that borrowing. This allowance will involve a drawing on the member's quota, additional to its share in the financing; and, for reasons of equity,

the quotas of all the other members participating in the financing will be drawn on by an additional amount which represents the same proportion of each member's share in the financing (so that their liability to provide further financing is reduced in the same proportions).

Second Method: Borrowing by the Fund on the Basis of Collective Guarantee

Under this method of financing, the Fund will borrow in financial markets on the basis of a collective guarantee provided by all members. If it is decided to finance a loan in this way, no member will be exempted from participation in the collective guarantee.

A member's participation in a collective guarantee means that, up to its share in that guarantee, it stands behind the Fund's obligations to lenders. In addition to guaranteeing to provide the Fund, if needed, with funds equal to its share in the total amount borrowed by the Fund, the member will guarantee two other amounts: its share in an allowance for interest payments and other charges, and its contingent liability (i.e. the extent to which it backs up other member's guarantees). The contingent liability will be a uniform percentage, up to 50 per cent, of each member's share in the amount borrowed by the Fund and in the allowance for interest payments and other charges. As repayments of principal are made by the Fund in respect of its borrowing, proportional reductions will be made in the allowance and the contingent liability.

Flexibility of the Fund's Financing Arrangements

The Fund can grant relatively substantial financial assistance to any member in case of need—borrowing in excess of the quota being subject to a decision by a 90 per cent majority or to a unanimous decision, but not to any quantitative limit.

The financing arrangements allow individual members to choose the method of raising the funds required from them which is best suited to their financial situation and their domestic legal procedures. These arrangements are also sufficiently flexible to enable the Fund to adapt its financing methods to the economic situation at the time. If a few members are experiencing external financial difficulties, while the others are able to obtain adequate funds on reasonable terms, financing mainly in the form of individual commitments might be the best response. Whereas, if a few countries are in a strong financial position, and the others are experiencing difficulties, it might be better for the Fund to obtain financing by borrowing, on the basis of a collective guarantee, in the financial markets of the countries in a strong financial position (or, indirectly from those countries, by borrowing in international markets).

It takes time to arrange large-scale borrowing in financial markets and it may be necessary to wait for the right conditions. Consequently, if there was need to provide substantial financial assistance without delay, it might be best, in the first stage, to call for financing by individual commitments and, at a later stage, to replace such financing by borrowing on the basis of a collective guarantee. There are provisions enabling the Fund to do this.

The practicability of financing, in the initial stage, by individual commitments, will be considerably enhanced by the facilities offered by the Bank for International Settlements (BIS). The Bank could give credits to the central banks of members called upon to provide direct financing and, under certain conditions, could make loans to the Fund in connection with financing based on the individual guarantees of members.

Mobilisation of a Member's Direct Financing Claim

Should the balance-of-payments situation of a member which has provided direct financing deteriorate, it will be able to mobilise all or part of its claim on the Fund. For this purpose it can request a loan from the Fund; provided it has first sought to obtain the consent of one or more other members to take over its claim, or to obtain alternative financing by its central bank receiving a credit from the BIS. The granting of such a loan will be subject to a decision by a two-thirds majority confirming that the member's request is justified on balance-of-payments grounds and providing for the financing of the loan. The majority must include at least half the members.

General Conditions for Borrowing by the Fund in Financial Markets

Borrowing by the Fund will be done within the territories of members. Such borrowing may be in domestic financial markets, including public institutions, or in international financial markets, or from international institutions. The Fund will take due account of market conditions and other relevant factors. A member in whose territory the borrowing is to take place will give favourable consideration to any proposal by the Fund to borrow in international financial markets. The Fund, before borrowing in a member's domestic market, will have obtained the member's authorisation and, before borrowing in international financial markets, will, if so requested, have obtained the authorisation of the member in whose currency the borrowing is to take place. Subject to those conditions, members will make best efforts to assure that financial institutions within their territoires are eligible to purchase securities issued by the Fund.

Organisation and Management

The Fund will have its own decision-making and managerial bodies. Decisions will be taken by the Governing Committee, in which all members of the Fund will be represented by senior financial officials. There will also be an Advisory Board, composed of financial officials nominated by members, acting in their capacity as experts. The number of members of the Advisory Board, which will not exceed half of the number of members of the Fund, will be decided by the Governing Committee. The Advisory Board will prepare the work of the Governing Committee, with the assistance of the Secretariat. The OECD Secretariat will serve as the Secretariat of the Fund. A representative of the Commission of the European Communities will participate in meetings of the Governing Committee and the Advisory Board. The Governing Committee will make appropriate arrangements for liaison with the International Monetary Fund and the Bank for International Settlements and for the participation of representatives of these institutions at meetings of the Governing Committee and the Advisory Board.

It is envisaged that the Fund will enter into an agreement with the B.I.S. whereby the Bank will act as Agent of the Fund, for administrative purposes and for the technical arrangements in respect of the Fund's borrowing in financial markets.

All the costs of the Fund's operations will be met out of funds received by it in payment of interest and other charges, including service charges, and not needed for making payments to lenders. The Fund will have a separate juridical personality and will be entitled to the privileges and immunities which are necessary for its transactions.

Denomination of the Fund's Claims and Obligations

The Fund's obligations in respect of direct financing will be denominated either in Special Drawing Rights (SDR) or in the currency transferred to the Fund by the member providing such financing, at the option of the latter. In the case of individual and collective guarantees, the obligations of the Fund and the guarantees will be denominated either in SDR or in the currency or currencies borrowed by the Fund, as decided by the Fund. Loans by the Fund will have the same denominations as for the corresponding parts of the financing.

Risk-Sharing

In the extremely unlikely event of a borrower being unable to make a payment on the due date, the Fund will obtain the amount required to meet its obligations to lenders, in respect of its borrowing in financial markets, by calling on the guarantors to provide the funds and by drawing on the balance on its income and expenditure account. It will then meet its obligations (in respect of direct financing or transfers under guarantees) to the members which financed the loan concerned, by calling on all members, including borrowers and those exempted from calls for financing; it being an essential feature of the Fund that the risks on its loans are shared between all members. This multilateral sharing of risks will be based on the obligations and claims calculated as if they had been denominated in SDR. The differences between amounts as denominated in currency and the amounts calculated on this basis will be carried over, to be repaid as a result of subsequent payments by the borrower, or to be settled on liquidation, bilaterally between the borrower and the members concerned.

Interpretation and Amendment

Any question of interpretation of the provisions of the Agreement, arising between any member and the Fund, or between members, will be referred to an ad hoc committee of three experts designated by the Governing Committee on the proposal of its Chairman. The opinion of the majority of the ad hoc committee will be accepted by the Governing Committee, unless the latter decides otherwise by a majority vote. (The majority must include at least half of the members.)

Amendments to the Agreement may be proposed by unanimous decision of the members of the Governing Committee and will to the extent required by their constitutional procedures, be subject to ratification by member countries.

Liquidation

The Fund will remain in existence until it has discharged all its obligations to third parties and the last repayment of any loan made by it has fallen due. At that time the Fund will be liquidated, unless the Governing Committee decides otherwise by a 70 per cent majority. Under the liquidation provisions, any remaining assets and liabilities of the Fund will be converted into bilateral claims and debts.

Entry into Force of the Agreement

When countries holding at least 90 per cent of the quotas have deposited instruments of ratification, the Agreement will enter into force for those countries. Moreover, if at least 15 countries, holding at least 60 per cent of the quotas, have deposited such an instrument, they may bring the Agreement into force among themselves.

ENERGY CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE SOURCES

Progress has been made on several fronts by OECD's International Energy Agency (1) in carrying out a programme of long-term co-operation to reduce the dependence of Member countries on imported oil.

Energy Conservation

The Agency's Governing Board has adopted the objective for the group as a whole of reducing oil imports of the group by 2 million barrels per day or about 10 per cent below the level they would have reached in the absence of conservation and

(1) *Two more countries have now joined the IEA: New Zealand, which became a Member on 21st March, and Norway, under the terms of an agreement dated 7th February which states that, in case of an emergency involving a serious shortage in oil supplies, the Norwegian Government would contribute, by government decision, to a sharing programme.*

other measures now in force or planned for 1975. The result will be a level of imports for 1975 which is no higher than that of 1973, namely about 22 million barrels a day. Compared to the projections made before the oil price increase, the saving amounts to some 6 million barrels a day.

This target is based on a collation of national estimates. The same procedure will not necessarily be used for establishing the conservation targets for 1976 and 1977 which are now being considered within the Agency.

The escalating cost of energy has prompted most governments to look for ways of reducing energy consumption on their own. The target set by the Agency is designed to encourage partici-

ENERGY PROSPECTS for Members* of OECD's International Energy Agency

	1973	*1975 (estimated)*	*Change %*
	million barrels per day		
Total primary energy requirements	65.5	66.9	+ 2.1
Oil consumption	35.0	34.6	— 1.1
Oil imports	21.8	21.7	— 0.4

** Excludes New Zealand and Norway.*

pating countries to intensify their efforts. The means employed to conserve energy differ from country to country ranging from publicity and information campaigns to recommendations to compulsory control measures.

As oil prices went up so did those of other forms of energy and in some cases government subsidies have been withdrawn or cut back and taxes and duties increased. Some countries, like Ireland, have revised their energy pricing systems so as to discourage users from consuming more energy at certain hours. An interesting measure has been taken in Spain: any fuel oil consumed over and above 80 per cent (home heating) or 90 per cent (industrial heating) of the 1973 level is subject to a 25 per cent surcharge.

The imposition of maximum temperature and lighting levels is generally restricted to the public sector, but such measures are usually accompanied by publicity campaigns designed to induce private consumers to do likewise and to accept lower indoor temperatures. Another widely used measure consists in giving grants or tax concessions for improvements in thermal insulation. In the transport sector, apart from the deterrent effect of higher petrol prices, the step most frequently taken to reduce consumption has been the introduction or reduction of speed limits. Even before the energy crisis, some countries had inaugurated systems in which vehicle tax (i.e. the vehicle licence or VAT on new vehicles) increased with vehicle size; such provisions however are by no means general. Many countries provide financial aid or allow tax concessions to industries for industrial investment projects designed to conserve energy. One specific measure taken by certain countries to reduce oil imports is to convert their power stations to coal burning installations. Long-term projects often include the combined generation of electricity and heat.

Development of Alternative Sources of Energy

A new policy concept adopted by the Agency's Governing Board provides for three interlinked measures of co-operation:

• Encouraging and safeguarding investment in conventional energy sources—fossil fuels, hydroelectric and nuclear. This implies a minimum common safeguarded level of price below

OECD'S COMMITTEE ON INTER

To reinforce co-operation in matters related to international investment and the activities of multinational enterprises, a new Committee has been created within OECD. The aim is to make progress in these two fields in a generally balanced way. Two types of issues will be examined:

• *What Can be Done to Deal with the Issues Raised by Multinational Enterprises?*

More specifically the Committee will investigate how to promote the exchange of information and improve and harmonise national statistics on such firms. It will also seek to develop uniform standards of behaviour applicable to the enterprises and intergovernmental procedures for dealing with possible complaints.

• *Issues Pertaining to International Investment*

OECD's Code of Liberalisation of Capital Movements was developed in the 1960's as a way of freeing such capital flows at a time when there were many restrictions. The Committee will explore whether it is possible to supplement this Code with principles that ensure more equitable national treatment of foreign owned enterprises.

There are circumstances in which a government may feel itself obliged to encourage or discourage international investment—that of its own investors or of foreigners in its own territory. The problem is to prevent such measures from distorting international economic relations or harming other national economies.

Finally new patterns of international investment may evolve with large inflows into OECD countries from outside the area. It may therefore be necessary to take measures to reconcile specific national requirements with the principle of liberalisation of capital movements.

In opening the first meeting of the new Committee OECD's Secretary General, Emile van Lennep, drew attention to some of the main problem areas:

Multinational enterprises have been the object of a great deal of comment in recent years, but the discussion has often been emotionally charged and hampered by a lack of qualitative and quantitative information or of agreement on the real political nature of the problem.

which imported oil should not be sold on domestic markets. Each country will choose its own means of ensuring that the price of imported oil does not go below this minimum level which has yet to be fixed.

- Establishing an overall framework of co-operation on the development of alternative sources to provide assistance on a project-by-project basis.
- Implementing an initial research and development programme focussing on co-operation in three areas:
  - utilisation of waste heat
  - utilisation of municipal and industrial waste
  - production of hydrogen from water.

In addition, members of the Agency have agreed that three further R and D programmes—coal technology, nuclear safety and the management of radioactive wastes—are subjects of priority interest. The members envisage promptly pursuing co-operation in these three, as well as other R and D areas covering thermonuclear fusion, energy conservation and solar energy. Now that the policy concept has been agreed to, the decision to implement it must be taken in accordance with the International Energy Programme. The system then adopted will take into account whatever technical adjustments are found to be necessary by the Agency's Standing Groups as well as developments in consumer-producer relations.

NATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

Chairman of the new Committee: Helga Steeg, Ministerial Director, Ministry of Economics, Federal Republic of Germany.

The rise of multinational enterprises and the increasing foreign involvement of business have been deplored by some as likely to limit substantial elements of national sovereignty. Others have hailed multinational enterprises as agents for the establishment of a pattern of international economic relations characterised by an optimum allocation of resources.

One should certainly not lose sight of the positive contribution made by multinational enterprises to the welfare of both the countries in which they operate and those in which they are based. The rapid growth in the number of these firms over the last decade, however, their increased size and scope, as well as the discrepancies which may exist between the transnational structures of these enterprises and the national character of governments have given rise to concern.

How to deal with these problems? First, there is of course a clear need for improved exchange of quantitive and qualitative information which should be translated, however, in a fairly short time into recommendations for *action*.

Two approaches to the reduction of tensions between multinational enterprises and national sovereignty can be envisaged: first, multinational enterprises themselves can agree on some sort of principles of conduct on a purely self-regulatory basis without involving governmental action. Second, governments can agree on some sort of *standards of behaviour* applicable to the enterprises—as necessary on a regional basis—and *guidelines* which could serve as a basis for governmental action and also, as appropriate, *intergovernmental consultation procedures* as a stage in a continuing process aiming at the harmonisation of national laws and administrative procedures. Without dismissing the idea that self-regulation may be useful, the Council of OECD has instructed the new Committee to follow the second approach: to prepare at this stage action proposals aimed at developing uniform standards of behaviour applicable to the enterprises and to develop intergovernmental procedures for dealing with possible complaints. In the long run, however, the objectives will be strengthening intergovernmental co-operation through harmonising national laws and procedures and possibly even establishing equitable international rules—if possible in a wider context than the OECD area. For, unless fast progress is made in adapting the *political* structures to modern reality by strengthening intergovernmental co-operation, goverments might on the one hand be unable to take the measures necessary to safeguard the public interest and welfare; on the other hand multinational enterprises might find themselves increasingly harassed by unnecessary obstacles and restrictions that could seriously reduce their potential and therefore hinder them from making an optimum contribution to the welfare of nations.

There is therefore a clear need for action-oriented co-operation in this field. Such action, however, should not impair the level of liberalisation which OECD Member countries have already been able to achieve in the field of international investment. The second major area with which the Committee will have to deal, therefore, is encompassed in the phrase *issues pertaining to international investment*. In this field, the Committee, according to its mandate, will first have to consider the organising of *consultations* regarding the reduction of harmful effects on Member countries' economies which may result from the use of investment incentives and disincentives in other countries. Second, the Committee will have to consider the possibility of implementing the principle of national treatment of enterprises under foreign control.

FLOWS TO DEVELOPING COUNTRIES: RECENT CHANGES

What changes took place in development assistance in 1974? What can be said about the future? What is and what will be the role of the oil-exporting countries in the group of donor countries? (1) To answer such questions in a preliminary way OECD's Secretariat has made some numerical estimates which are summarised in the following article. Development Co-operation - 1974 Review, *the most recent report of the Chairman of OECD's Development Assistance Committee (DAC), is also a source of information.*

The Increase in the Transfer of Resources . . .

Official Development Assistance (ODA) from all sources (bilateral aid, grants and capital subscriptions to multinational agencies from DAC countries, OPEC and Communist countries) are estimated to have increased considerably between 1973 and 1974, rising from some $11 billion to $15 billion in money terms; addition of "other official flows" brings the total to $20 billion (2). Private flows from DAC countries in 1974 probably exceeded $13 billion on a net basis: private direct investment was over $7 billion, export credits and other lending around $4.5 billion and grants by voluntary agencies some $1.5 billion. This does not include Euro-currency lending to developing countries which exceeded $9 billion on a commitment basis.

... and in Requirements

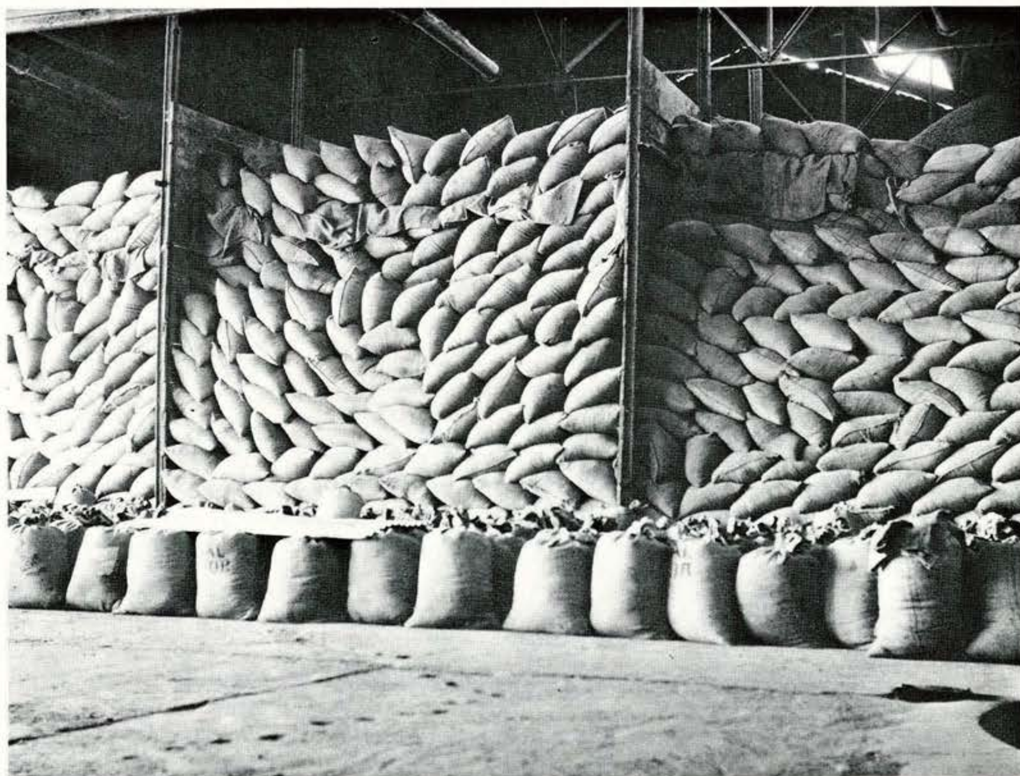
Although part of the increase, in money terms, in the flow of resources to the developing countries has been absorbed by inflation, there has been an increase in real terms as well. Unfortunately it has not kept pace with the requirements of the recipient countries which have risen much faster: the oil bill alone for these countries is estimated to have risen by some $10 billion (Table 1 a).

In the food sector alone requirements also outweigh aid. FAO estimates that the cost of commercial imports of cereals (i.e. imports that are not part of food aid) rose by approximately $6 billion between 1972/73 and 1973/74. Merely to maintain the purchasing power of 1973, it can be estimated that financial flows would have had to increase by at least $3 billion, and this on the assumption that import prices

Figures quoted in this article are in part estimates which indicate orders of magnitude.

(1) A paper on this question is available from the OECD Development Assistance Directorate.

(2) These figures do not include net Euro-dollar lending from or through DAC countries which, in 1973, was estimated at approximately $10 billion. Nor does it include contributions to the Oil Facility of the IMF.



The developing countries have been faced with rising prices for imported cereals as well as for oil.

have not risen by more than 10 to 15 per cent. These figures do not take account of the changes that have taken place in the trade balance of the developing countries (taken as a group) as a result of changes in relative prices recorded in 1974 for products other than oil and cereals (Table 1 b).

The Emergence of the OPEC Countries

The emergence of the OPEC countries is the most important change to have taken place in the composition of the group of donor countries. They arrived in strength; ODA disbursements from these countries probably increased five-fold between 1973 and 1974 reaching some $2.5 billion.

This enormous increase in aid from these countries has altered their position relative to the other two main groups of donor countries: DAC Members and the Communist countries, with the latter falling from second to third place after the DAC and OPEC countries. In absolute terms, their flows remained about the same in 1974 (Table 2).

As far as DAC countries are concerned, their aid disbursements increased in monetary terms by some $2 billion in 1974 and they remain by far the largest source of aid. However their share of total aid naturally decreased following the increase in the aid given by the oil-producing countries. Thus it is probable that the share of DAC countries in ODA disbursements fell from approximately 85 to 76 per cent between 1973 and 1974 (Table 2).

The criteria used by the three main donor groups (DAC, OPEC, Communist countries) in allocating their aid are apparently very different and this, in conjunction with the change in the composition of the donor group as a whole, has produced a shift in the geographical distribution of aid.

The DAC countries traditionally distribute their aid among a large number of countries, of which forty receive more than $10 per capita. The three largest recipients (Indonesia, India, Republic of Vietnam) received less than 20 per cent of the total in 1973.

On the other hand, the aid given by the Communist countries has always been highly concentrated, mainly on Cuba and the Democratic People's Republic of Vietnam (which together received roughly half of the total in 1973). This does not, however, prevent a country like China, whose aid is liberal compared with that of the other Communist countries, from assisting almost 50 countries, the bulk of them in Africa.

Turning to the OPEC countries, the geographical concentration of their aid should not be overlooked in view of the absolute and relative increase in such flows. Although they are at present diversifying their commitments, it is probable that in 1974 the four main recipients—Egypt, India, Pakistan and Syria—received 70 per cent of the OPEC countries' bilateral aid disbursements. However, it is worth noting that, despite the particular way in which the oil-producing countries distribute their aid, more than two fifths of bilateral commitments in 1974 (approximately $2.7 billion) were for the "most

1. INCREASED IMPORT COSTS

(a) A HIGHER OIL BILL IN 1974

(Increase as % of 1971 GNP)

Country	%	Country	%	Country	%
Korea (Rep. of)	9.0	Lebanon	4.6	Nicaragua	3.5
Afghanistan	8.5	Sri Lanka	4.8	Turkey	3.3
Thailand	5.4	Philippines	4.5	Mauritania	3.3
Jamaica	5.3	Vietnam (Rep. of)	4.1	Guinea	3.2
Liberia	5.1	Sudan	3.8	Kenya	3.1
Uruguay	4.9	Taiwan	3.7		

(b) INCREASED COST OF GRAIN IMPORTS 1973 AND 1974

(By comparison with the 1970-1972 average)

Country		*Cost in $ million*	*% of total imports in 1970-72*	*% of GNP 1971*
Total developing countries	73	+ 5,176	8	—
	74	+ 8,376	13	—
Bangladesh	73	+ 337	—	7
	74	+ 413	—	8
Sri Lanka	73	+ 85	21	7
	74	+ 111	27	9
India	73	+ 255	11	0
	74	+ 667	28	1
Pakistan	73	+ 105	13	1
	74	+ 303	36	4
Egypt	73	+ 369	44	5
	74	+ 603	73	8
Philippines	73	+ 84	7	1
	74	+ 167	13	2
Senegal	73	+ 79	32	8
	74	+ 70	28	7
Korea (Rep. of)	73	+ 430	19	5
	74	+ 564	25	6
Brazil	73	+ 221	6	1
	74	+ 125	3	0
Mexico	73	+ 179	7	1
	74	+ 283	11	1
Chile	73	+ 142	15	2
	74	+ 323	33	4

Source: World Bank and OECD Secretariat.

2. FLOWS FROM PRINCIPAL DONOR GROUPS 1970-1974*

($ million)

	1970	1971	1972	1973	1974
Total official flows					
DAC	8,006	9,054	10,253	11,995	(14,000)
Communist countries	1,150	1,150	1,000	1,400	(1,400)
OPEC countries	410	560	525	850	(4,800) (a)
Other countries (b)	46	16	34	40	(50)
Total	**9,612**	**10,780**	**11,812**	**14,285**	**(20,250)**
DAC as a % of total	*83*	*84*	*87*	*84*	*(69)*
*of which : **ODA***					
DAC	6,845	7,776	8,672	9,408	(11,400) (c)
Communist countries	(1,000)	(1,000)	(850)	(1,100)	(1,100)
OPEC countries	379	473	(418)	(531)	(2,500)
Other countries (b)	27	13	21	40	(50)
Total	**8,251**	**9,262**	**9,961**	**11,079**	**(15,050)**
DAC as a % of total	*83*	*84*	*87*	*85*	*(76)*

** Figures are Secretariat estimates apart from those for the DAC countries for 1970-73. Those shown in brackets are highly conjectural.*

(a) Contributions to the IMF oil facility amounting to $ 3.2 billion are excluded.

(b) Finland (which became a member of the DAC in January 1975), Ireland, Luxembourg and South Africa.

(c) Excludes Portugal.

3. RECIPIENTS OF BILATERAL CONCESSIONAL ASSISTANCE COMMITMENTS FROM OPEC COUNTRIES IN 1974

	$ million	% of total
Afghanistan	85	1.4
Argentina	200	3.3
Bahrain	79	1.3
Bangladesh*	199	3.2
Chad*	8	0.1
Dahomey	4	0.1
Egypt	1,820	29,6
Equat. Guinea	1	n.a.
Ethiopia*	1	n.a.
Gambia	1	n.a.
Guinea*	16	0.3
Guyana*	15	0.2
Honduras*	5	0.1
India*	873	14.2
Jordan	139	2.3
Lebanon	75	1.2
Lesotho*	1	n.a.
Malagasy Rep.*	114	1.9
Mali*	1	n.a.
Malta	5	0.1
Mauritania*	62	1.0
Morocco	90	1.5
Niger*	1	n.a.
Oman	3	0.1
Pakistan*	867	14.1
Sahel*	6	0.1
Senegal*	11	0.2
Somalia*	194	3.2
Sri Lanka*	32	0.5
Sudan*	205	3.3
Syria	757	12.3
Thailand	40	0.7
Tunisia	82	1.3
Uganda	12	0.2
Yemen AR*	73	1.2
Yemen PDR*	33	0.5
Zaire	26	0.4
Zambia	2	n.a.
TOTAL	**6,138**	**100.0**
of which most seriously affected countries	*2,721*	*44.3*

Data are subject to revision.
** Denotes most seriously affected countries.*
(1) Not including one regional loan from Saudi Arabia.

seriously affected countries" (3) (Table 3) mainly for Sudan, Bangladesh and Somalia in addition to India and Pakistan.

Future Commitments

Data concerning aid commitments, which are more reliable in the case of the OPEC countries than estimates of disbursements for 1974, are particularly interesting in that they point to future trends. And to judge from available figures, the trend would appear to be rather favourable. In 1974, for example, the OPEC countries' aid commitments increased substantially: they reached $8 billion, of which over $6.1 billion were bilateral and $1.8 billion multilateral commitments. Neither the $2.1 billion made available to the World Bank nor the $3.2 billion to the IMF in connection with its oil facility (which is not intended only for the developing countries) are included in the above figures.

As regards bilateral commitments the largest donors are: Iran ($2.5 billion), Saudi Arabia ($1.5 billion), followed by the United Arab Emirates ($0.7 billion), Kuwait ($0.6 billion), Libya($0.5 billion), Iraq ($0.3 billion), Qatar ($0.1 billion). Multilateral commitments in 1974 were made to the Islamic Development Bank ($0.7 billion), the Arab Bank for Africa ($0.2 billion), the Special Arab Fund for Africa ($0.2 billion), the UN Emergency Operation Special Account ($0.2 billion), and several other institutions.

For their part, aid commitments of the DAC countries for the whole of 1974 could amount to between $14 and $15 billion. Compared with 1973, this represents a nominal increase of the order of 10 per cent which should roughly ensure that the level of aid does not fall in real terms. This result is not negligible when one considers the difficult economic and financial situation confronting most donor countries.

It is the relative magnitude of these aid commitments, combined with the appearance of a new group of donors—the OPEC countries—which give a glimmer of hope in the present, often catastrophic, situation of the populations of the Third and Fourth Worlds.

(3) List drawn up by the United Nations of the 33 countries most seriously affected by the increase in import prices: Cameroon, Central African Republic, Chad, Dahomey, Ethiopa, Guinea, Kenya, Lesotho, Madagascar, Mali, Mauritania, Niger, Sierra Leone, Somalia, Sudan, Tanzania, Upper Volta, Bangladesh, India, Khmer Republic, Laos, Pakistan, Ruanda, Sri Lanka, Yemen Arab Republic, Yemen P.D.R., Haïti, Salvador, Ghana, Republic of Guyana, Honduras, Ivory Coast, Senegal.

(Continued on page 27)

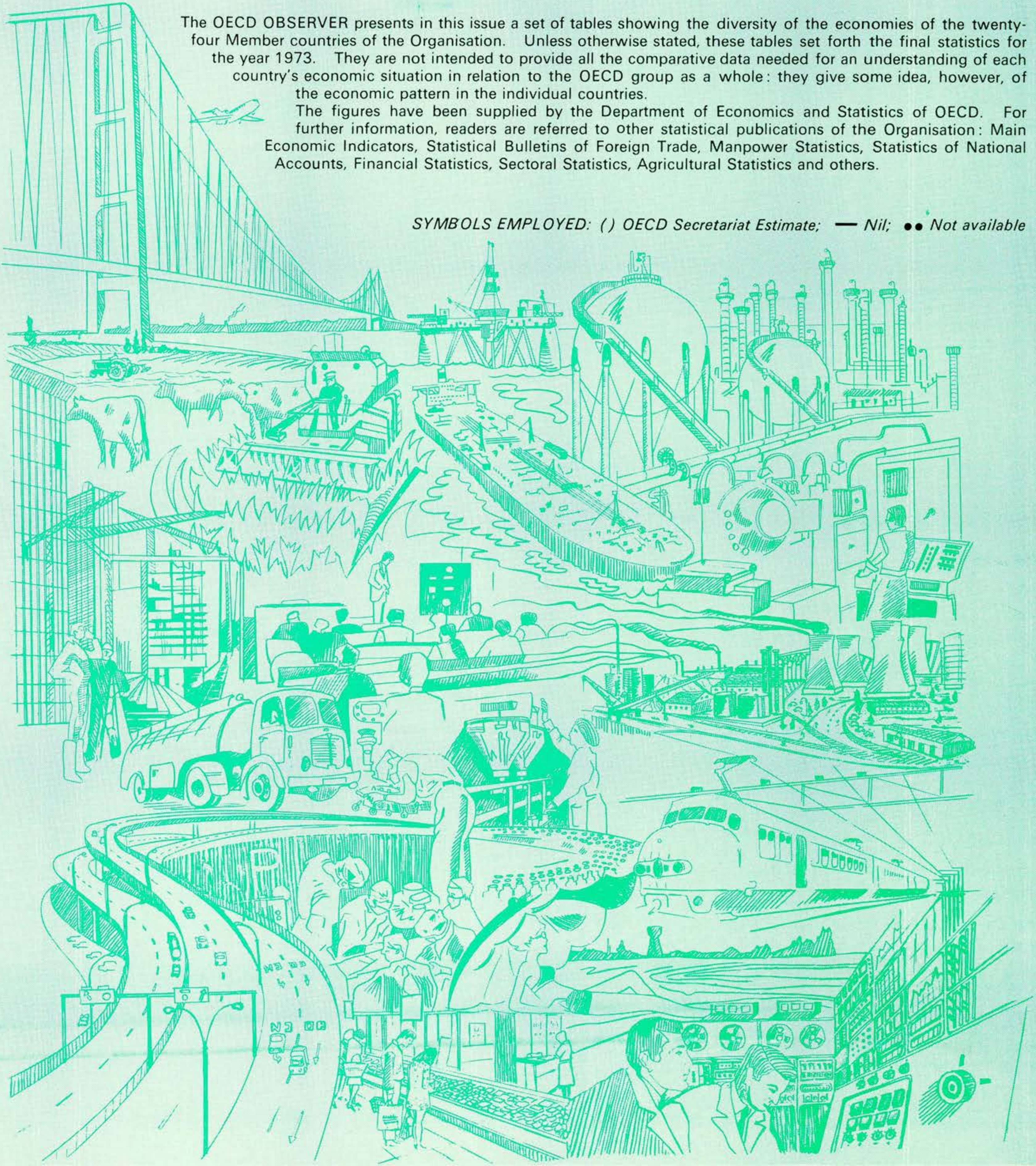
THE OECD MEMBER COUNTRIES

1975 Edition - 11th year

The OECD OBSERVER presents in this issue a set of tables showing the diversity of the economies of the twenty-four Member countries of the Organisation. Unless otherwise stated, these tables set forth the final statistics for the year 1973. They are not intended to provide all the comparative data needed for an understanding of each country's economic situation in relation to the OECD group as a whole: they give some idea, however, of the economic pattern in the individual countries.

The figures have been supplied by the Department of Economics and Statistics of OECD. For further information, readers are referred to other statistical publications of the Organisation: Main Economic Indicators, Statistical Bulletins of Foreign Trade, Manpower Statistics, Statistics of National Accounts, Financial Statistics, Sectoral Statistics, Agricultural Statistics and others.

SYMBOLS EMPLOYED: ( ) OECD Secretariat Estimate; — Nil; •• Not available



Because of statistical revisions, figures for population and employment may be noticeably different from those published in the preceding "OECD Member Countries".

	AREA (1,000 sq. km)	AGRICULTURAL AREA (1,000 sq. km)	TILLAGE and temporary grassland (1,000 sq. km)	POPULATION (thousands)	INHABITANTS per sq. km
AUSTRALIA	7,686.8	4,995.5 1971-1972	447.7 1971-1972	13,132	2
AUSTRIA	83.8	37.9	16.1	7,521	90
BELGIUM	30.5	15.7	8.3	9,742	319
CANADA	9,976.1	686.8 1971	386.5 1971	22,125	2
DENMARK	43.1	29.9	26.7	5,027	117
FINLAND	337.0	27.7	27.1	4,656	14
FRANCE	549.1	325.0	187.4	52,177	95
GERMANY	248.5	134.3	80.8	61,967	249
GREECE	132.0	88.7	38.8	8,972	68
ICELAND	103.0	23.8	—	212	2
IRELAND	70.3	48.4	11.4	3,051	43
ITALY	301.2	175.1 1972	123.1 1972	54,888	182
JAPAN	372.3	56.5	52.2	108,350	291
LUXEMBOURG	2.6	1.3	0.6	350	135
NETHERLANDS	36.7	21.0	8.3	13,438	366
NEW ZEALAND	268.7	135.1 1970	8.2 1970	2,979	11
NORWAY	323.9	9.0	7.9	3,961	12
PORTUGAL	91.6	(49.0) 1972	(43.7) 1972	8,564	93
SPAIN	504.8	350.1	211.7	34,730	69
SWEDEN	450.0	37.2	30.2	8,138	18
SWITZERLAND	41.3	20.2	3.7	6,431	156
TURKEY	780.6	535.1	282.9	37,930	49
UNITED KINGDOM	244.0	189.9	71.6	56,021	230
UNITED STATES	9,363.4	4,353.3 1969	1,910.5 1969	210,404	22

TOTAL INCREASE IN POPULATION ercentage (annual average 1963-1973) (%)	CRUDE BIRTH RATES (per thousands)	TOTAL CIVILIAN EMPLOYMENT (thousands)	of which:		
			AGRICULTURE, FORESTRY AND FISHING (%)	INDUSTRY (%)	OTHER (%)
1.9	18.9	5,640	7.2	35.5	57.3
0.5	13.0	3,039	16.1	40.1	43.8
0.5	13.2	3,818	3.9	43.3	52.8
1.6	15.7	8,759	6.5	31.3	62.2
0.7	14.3	2,385	9.5	33.8	56.7
0.3	12.2	2,153	17.1	35.7	47.1
0.9	16.4	20,953	12.2	39.3	48.5
0.8	10.3	26,202	7.5	49.5	43.0
0.6	15.4	(3,320)	(34.1)	(25.7)	(40.2)
1.4	21.7	(88)	(15.9)	(37.5)	(46.6)
0.7	22.3	1,042	25.1	30.7	44.2
0.7	16.1	18,310	17.4	44.0	38.6
1.1	19.3	52,330	13.4	37.2	49.4
0.8	10.9	154	9.0	48.6	42.4
1.2	14.5	4,564	6.8	36.2	57.1
1.6	20.5	1,137	12.1	34.7	53.2
0.8	15.4	1,654	11.4	33.9	54.7
— 0.5	20.1	(3,109)	(28.8)	(33.8)	(37.4)
1.1	19.2	12,844	26.5	38.0	35.5
0.7	13.5	3,879	7.1	36.8	56.1
1.1	13.7	3,097	(7.3)	(46.2)	(46.5)
2.5	(39.6)	13,810	63.4	15.1	21.5
0.4	13.9	24,553	3.0	42.3	54.7
1.1	14.9	84,409	4.1	(31.7)	(64.2)

Notes:
a) GDP at factor cost.
b) Including statistical discrepancies
c) Fiscal year starting 1-4-1973

BLEU: Belgium Luxembourg Economic Union

* New SNA (Standardised Nationalised Accounts)

		AUSTRALIA*	AUSTRIA	BELGIUM	CANADA*	DENMARK*	FINLAND	FRANCE	GERMANY	GREECE	ICELAND	IRELAND	ITALY
GROSS DOMESTIC PRODUCT at market prices	at current prices and exchange rates (billion US $)	64.35	26.69	45.27	119.65	27.44	17.29	255.88	347.90	16.04	1.03	6.50	137.86
	at 1970 prices and exchange rates (billion US $)	39.78	17.08	29.57	98.36	17.64	12.06	171.53	210.19	12.39	0.61	4.53	103.35
	per capita at current prices and exchange rates (US $)	4,900	3,550	4,650	5,410	5,460	3,720	4,900	5,610	1,790	4,870	2,130	2,510
STRUCTURE OF GROSS DOMESTIC PRODUCT (%) at market prices	agriculture	(a) 7.1 1971-72	5.8	3.9	(a) 5.2	(a) 8.2	(a) 12.0	6.0 1972	2.9	(a) 20.4	. .	(a) 18.0 1972	8.8
	mining and quarrying, manufacturing industry, construction, electricity, gas and water	(a) 41.4 1971-72	50.1	40.1	(a) 36.2	(a) 39.9	(a) 44.2	. .	52.1	(a) 32.4	. .	(a) 33.8 1972	41.2
	other activities	(a) 51.5 1971-72	44.1	(b) 56.1	(a) 58.6	(a) 51.9	(a) 43.8	. .	(b) 45.0	(a) 47.2	. .	(a) 48.2 1972	(b) 50.0
GROSS FIXED ASSET FORMATION	percentage of GDP at current prices	22.9	31.5	20.8	22.1	23.4	28.0	27.9	24.7	27.7	30.7	23.4	21.2
	US $ per capita at current prices and exchange rates	1,120	1,120	960	1,200	1,280	1,040	1,370	1,390	490	1,500	500	530
PRIVATE CONSUMPTION EXPENDITURE	percentage of GDP at current prices	58.1	52.8	60.5	56.9	55.9	51.3	59.4	53.4	67.2	61.3	64.4	64.5
	US $ per capita at current prices and exchange rates	2,850	1,870	2,810	3,080	3,050	1,910	2,913	3,000	1,200	2,990	1,370	1,620
CURRENT GOVERNMENT EXPENDITURE AND REVENUE (% of GDP)	current expenditure	23.7 1972-73	29.2	35.5 1972	33.4	36.4	28.9	33.6 1972	34.9	23.1 1972	24.9 1968	33.8 1972	37.6
	current revenue	28.2 1972-73	36.6	35.8 1972	36.2	44.8	39.0	38.0 1972	41.0	26.6 1972	33.2 1968	33.7 1972	33.3
OFFICIAL HOLDINGS of gold and foreign exchange 30th November 1974 (million US $)		4,052	2,862	4,082 BLEU	4,725	636	542	8,223	29,529	883	34	1,142	6,196
OFFICIAL DISCOUNT RATE 31st January 1975 (with date of last change)		. .	6.50 15-5-74	8.25 30-1-75	8.25 13-1-75	9.00 13-1-75	9.25 1-7-73	12.00 9-1-75	6.00 19-12-74	8.00 3-9-74	7.25 Aug.-74	12.00 30-4-74	8.00 23-12-74

		JAPAN	LUXEMBOURG	NETHERLANDS*	NEW ZEALAND	NORWAY*	PORTUGAL	SPAIN	SWEDEN*	SWITZERLAND	TURKEY*	UNITED KINGDOM*	UNITED STATES*
GROSS DOMESTIC PRODUCT at market prices	at current prices and exchange rates (billion US $)	406.88	1.82	59.23	(c) 12.15	18.91	10.68	60.71	49.93	39.83	20.55	173.42	1 297.51
	at 1970 prices and exchange rates (billion US $)	252.23	1.20	35.85	. .	12.79	7.69	39.71	35.11	22.78	15.55	134.72	1 136.90
	per capita at current prices and exchange rates (US $)	3,760	5,200	4,410	(c) 4,080	4,780	1,250	1,750	6,140	6,190	540	3,100	6,170
STRUCTURE OF GROSS DOMESTIC PRODUCT (%) at market prices	agriculture	5.9	(a) 4.4 1970	5.4 1971	. .	5.6	(a) 16.3	(a) 12.7	4.2 1972	. .	26.1	(a) 2.9 1972	4.4
	mining and quarrying, manufacturing industry, construction, electricity, gas and water	48.3	(a) 57.5 1970	38.3 1971	. .	33.4	(a) 43.2	(a) 35.5	40.3 1972	. .	28.8	(a) 42.6 1972	33.9
	other activities	(b) 45.9	(a) 38.1 1970	(b) 56.3 1971	. .	(b) 61.0	(a) 40.6	(a) 51.8	55.5 1972	. .	(b) 45.1	(a) 54.5 1972	61.7
GROSS FIXED ASSET FORMATION	percentage of GDP at current prices	36.7	27.0	23.9	(c) 21.4	30.1	20.1	21.7	22.1	28.7	17.6 1972	19.6	18.2
	US $ per capita at current prices and exchange rates	1,380	1,410	1,050	(c) 870	1,440	250	380	1,350	1,770	80 1972	610	1,120
PRIVATE CONSUMPTION EXPENDITURE	percentage of GDP at current prices	51.0	53.4	55.2	(c) 59.2	53.0	72.3	66.8	52.8	58.7	72.2 1972	63.4	62.3
	US $ per capita at current prices and exchange rates	1,910	2,780	2,430	(c) 2,410	2,530	900	1,170	3,240	3,640	320	1,960	3,840
CURRENT GOVERNMENT EXPENDITURE AND REVENUE (% of GDP)	current expenditure	14.8	32.0 1972	43.9	. .	41.0	20.1	20.1 1972	40.8 1972	22.2 1969	18.3 1972	35.1 1972	29.6
	current revenue	22.4	39.1 1972	49.9	. .	49.4	23.0	23.4 1972	50.1 1972	27.1 1969	27.5 1972	37.9 1972	30.2
OFFICIAL HOLDINGS of gold and foreign exchange 30th November 1974 (million US $)		12,483	4,082 BLEU	6,130	354	1,882	2,301	5,975	1,450	7,563	1,847	6,848	11,701
OFFICIAL DISCOUNT RATE 31st January 1975 (with date of last change)		9.00 22-12-73	8.25 30-1-75	7.00 28-10-74	7.00 oct.-74	5.50 30-3-74	7.50 23-12-74	7.00 10-8-74	7.00 16-8-74	5.50 18-1-74	8.75 26-11-73	11.00 24-1-75	7.75 9-12-74

BLEU: Belgium Luxembourg Economic Union

		AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
CURRENCY	monetary unit	Australian Dollar	Schilling	Belgian Franc	Canadian Dollar	Krone	Finnish Mark	French Franc	Deutsche Mark	Drachma	Krona
	currency units per US $ 31st December 1974 market rates	0.754	17.130	36.120 BLEU	0.991	5.650	3.560	4.445	2.410	30.000	118.700
IMPORTS (goods only)	total (CIF) (million US $)	6,892	6,770	21,935 BLEU	23,306	7,704	4,341	37,380	54,496	3,473	356
	from other OECD countries (million US $)	5,665	5,637	18,616 BLEU	20,865	6,634	3,308	28,318	42,026	2,671	314
	from rest of world (million US $) (excl. unspecified)	1,160	1,133	3,322 BLEU	2,438	1,071	1,033	9,048	12,425	802	41
	total imports as percentage of GDP at current prices	10.7	25.4	46.6 BLEU	19.5	28.1	25.1	14.6	15.7	21.7	34.6
	increase in volume of total imports from 1968 to 1973 (percentage per year)	46.6	12.1	11.8 BLEU	9.3	9.2	11.5	12.6	11.9	11.3	• •
EXPORTS (goods only)	total (FOB) (million US $)	9,583	5,021	22,412 BLEU	25,196	6,119	3,837	35,948	67,437	1,454	289
	to other OECD countries (million US $)	7,048	3,838	19,870 BLEU	22,839	5,295	2,985	27,404	53,430	1,050	259
	to rest of world (million US $) (excl. unspecified)	2,517	1,183	2,447 BLEU	2,356	801	852	8,542	13,872	403	30
	total exports as percentage of GDP at current prices	14.9	18.8	47.6 BLEU	21.1	22.3	22.2	14.0	19.4	9.1	28.1
	increase in volume of total exports from 1966 to 1973 (percentage per year)	9.2	12.4	12.8 BLEU	8.5	6.7	7.8	12.6	10.7	16.8	• •
FOREIGN TOURISM (international transport excluded except for Canada and Turkey)	receipts (millions of US $)	216	2,190	654 BLEU	1,443	578	287	1,923	2,183	515	13
	percentage of change over 1972	+ 38.0	+ 30.2	+ 48.0	+ 15.7	+ 18.5	+ 19.6	+ 10.9	+ 17.8	+ 31.1	+ 54.9
	expenditures (millions of US $)	453	821	1,093	1,741	499	208	1,735	6,504	73	13
	percentage change over 1972	+ 26.0	+ 48.5	+ 51.0	+ 17.7	+ 34.4	+ 31.6	+ 12.0	+ 44.1	+ 10.3	+ 57.8

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
Pound	Lira	Yen	Luxembourger Franc	Guilder	New Zealand dollar	Krone	Escudo	Peseta	Krona	Swiss Franc	Lira	Pound	Dollar
0.426	649.430	300.950	36.120 BLEU	2.507	0.752	5.220	24.710	56.110	4.081	2.550	14.000	0.426	1.000
2,789	27,815	38,313	21,935 BLEU	24,364	1,531 1972	6,219	2,864	9,628	10,585	11,621	2,098	38,749	69,121
2,479	19,345	19,477	18,616 BLEU	18,836	. .	5,419	2,215	6,868	8,977	10,409	1,636	27,641	47,596
270	8,464	18,836	3,322 BLEU	4,387	. .	800	634	2,752	1,608	1,212	462	11,049	20,544
42.9	20.2	9.4	46.6 BLEU	41.1	20.0 1972	32.9	26.8	15.9	21.2	29.2	10.2	22.3	5.3
9.5	11.5	15.1	11.8 BLEU	10.9	. .	7.8	. .	10.4	5.6	9.4	. .	7.4	7.2
2,129	22,239	36,930	22,412 BLEU	23,954	1,765 1972	4,680	1,750	5,178	12,114	9,525	1,318	30,452	71,314
1,978	17,034	18,610	19,870 BLEU	20,918	. .	3,827	1,383	3,841	10,252	7,335	949	21,921	46,226
126	4,980	18,320	2,447 BLEU	2,753	. .	853	356	1,320	1,862	2,190	369	8,423	24,411
32.8	16.1	9.1	47.6 BLEU	40.4	23.1 1972	24.7	16.4	8.5	24.3	23.9	6.4	17.6	5.5
7.2	8.7	12.8	12.8 BLEU	13.7	. .	8.2	. .	14.0	9.2	7.8	. .	7.6	8.8
193	2,373	209	654 BLEU	973	99	242	491	3,091	219	1,389	172	1,678	3,250
+ 22.8	+ 9.1	+ 4.0	+ 48.0	+ 32.0	+ 60.2	+ 16.7	+ 17.7	+ 18.5	+ 21.0	+ 30.8	+ 65.4	+ 23.7	+ 19.6
145	1,459	1,252	1,093	1,193	183	282	222	271	718	589	93	1,683	5,371
+ 27.5	+ 39.0	+ 61.8	+ 51.0	+ 37.8	+ 61.4	+ 32.8	+ 36.0	+ 42.1	+ 5.7	+ 34.5	+ 56.8	+ 28.5	+ 8.6

INFANT MORTALITY
deaths in 1st year per 1,000 live births

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
16.7 1972	23.7	17.0	16.8	13.5 1971	10.1	12.9	20.4 1972	27.8 1972	11.6 1972

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
17.8	25.7	11.7 1972	13.5 1972	11.6	16.2	11.3 1972	44.8	15.1	9.6	12.8	153.0 1967	17.5 1972	17.6

ACCESS TO HIGHER EDUCATION
percentage of relevant age group

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
28.5 1972	15.6 1972	(28.5) 1970	49.8 1972	34.3 1972	21.5	30.0 1971	15.8 1970	. .	. .

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
. .	28.2	23.8 1970	. .	20.5 1971	. .	27.5 1970	6.6 1970	27.1 1972	(31.1) 1972	. .	. .	21.3 1971	43.8 1972

DWELLINGS COMPLETED
number per 1,000 inhabitants 1972

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
11.1	6.4	5.4 started	10.6	10.0	10.8	10.5	10.7	14.0 1971	9.0

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
6.9	4.7	16.8 started	5.3 1970	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3

ANIMAL PROTEIN
grams per inhabitant and per day, 1972

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
71	55	BLEU 57	66	66	67	68	58	45 1967	. .

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
63	45	31	BLEU 57	56	74	57	34	46	58	58	. .	56	75

Per Capita ENERGY CONSUMPTION
total primary energy requirements in tons of oil equivalent

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
4.62	2.85	5.38	8.25	4.24	3.82	3.54	4.75	1.52	4.51

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
2.19	2.57	3.21	12.88	6.01	. .	4.27	0.87	1.64	4.75	3.17	0.44	4.35	9.06

TELEPHONES
number per 1,000 inhabitants 1972

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
340	226	240	499	377	295	199	268	160	370

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
114	206	315	361	299	458	320	99	164	576	535	19	314	628

TELEVISION SETS
number per 1,000 inhabitants 1972

AUSTRALIA	AUSTRIA	BELGIUM	CANADA	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	ICELAND
227	226	236	349 1971	282	256	237	293	58	220

IRELAND	ITALY	JAPAN	LUXEMBOURG	NETHERLANDS	NEW ZEALAND	NORWAY	PORTUGAL	SPAIN	SWEDEN	SWITZERLAND	TURKEY	UNITED KINGDOM	UNITED STATES
173	202	225	220 1971	243 1971	250	241	63	145	333	239	4	305	474

THE CHANGING CONTEXT FOR PRIVATE CAPITAL FLOWS TO DEVELOPING COUNTRIES

In 1974, the overall capital needs of developing countries were greater than ever before. Because the poorer of these countries have first claim on the limited official development funds from DAC countries, the middle and higher income countries will in the future be increasingly dependent on commercial and largely private capital for their economic development.

Flows from DAC Countries

Commercial flows from DAC Members to developing countries continued to rise in 1974 and may have reached around $14 billion on a net basis. About one half of this amount was private direct investment. Some important investment projects which have recently been planned or carried out in non-oil producing developing countries include the following:

- an increase in the capacity of *aluminium* smelters in Ghana by the U.S. and Japan. A Japanese consortium is building one of the world's largest aluminium plants in Brazil with total investments foreseen at about $3 billion.
- a *copper* investment by Canadian, British and Japanese firms to exploit deposits in Panama; and by U.S. companies in Peru, at a cost of $600 million, in what is expected to become one of the world's largest copper mines.
- a U.S. firm, the International Finance Corporation (IFC) and Pakistan will finance a *fertilizer* plant in the Punjab.
- Belgium, in an agreement with Korea, expects to enter into a wide-ranging series of jointly financed investments in that country's locomotive, steel, machinery and petrochemical industries; the reported cost is to total $10 billion by 1980.

Recent events, however, seem to suggest a deterioration of the investment climate in some of the developing countries which may negatively affect future direct investment flows to these countries.

The OPEC Contribution

Given the enormous accumulated oil revenues of the OPEC countries, the question arises as to whether and how a part of these funds can be recycled to the capital-poor developing countries rather than being fully pre-empted by OECD countries' capital needs and OPEC countries' own development plans.

Some of the non-oil producers in the middle and upper income brackets have been able to attract substantial financial flows and probably will continue to do so: Brazil, South Korea, Malaysia, Mexico, the Philippines, Peru and Taiwan are examples. Much of the investment has been Euro-currency borrowing through Western banking systems. Recently, however, an entirely Arab syndicate made a direct loan to Brazil; further loans of this nature can be expected as OPEC financial institutions develop. Moreover, long-term investments in the middle and high income developing countries may in part be underwritten by the numerous Arab funds and development banking institutions, such as the Islamic Development Bank, which have been created to provide long-term finance, largely to Moslem countries.

Planned or actual direct investments by OPEC countries in non-oil producing developing countries have, to date, been largely "downstream"—in petroleum refineries and distribution and in oil using industries—with the oil producers contributing the bulk of the capital for the projects. Examples include an Iranian joint venture with *India* to produce nitrogen fertilizer; a Saudi Arabian joint venture with Japan to build crude oil terminal and storage facilities in *Korea*; and a Libyan participation in refineries in *Yugoslavia*, *Chad*, and *Cyprus*.

Not all direct investments planned by OPEC countries will be of a downstream nature, however. Thus a joint venture of four Arab countries to exploit bauxite in *Guinea* has been reported as has a plan for *Libya*, with the World Bank, and the European Investment Bank, to increase production of copper and cobalt in *Zaire*.

Brazil has been negotiating with Kuwait a package deal of direct investment, joint ventures and loans expected to amount to about $1 billion. *Turkey* plans to open up its universities to Saudi Arabian students and to send technicians to that country. Saudi Arabia and Libya plan to set up a holding company to manufacture rubber, paper and sugar products in *Liberia*. A Saudi Arabian commission is being set up to implement joint ventures in *India* which would include pharmaceutical and fertilizer plants.

There have also been some reverse flows from developing countries into OPEC states: *Pakistan* is planning to provide assistance in the construction of a steel rolling mill in Abu Dhabi, and *Taiwan* is planning a joint refinery, methanol plant and fertilizer project in Saudi Arabia.

A Triangular Pattern

In most cases OPEC investments require Western expertise even if increasingly separated from Western equity participation. Thus with the growing availability of OPEC capital, new types of "triangular arrangements" are coming into being, in which DAC Member firms supply the expertise, OPEC the capital, and the non-oil developing countries the land and manpower.

To some extent, projects already underway in the OPEC countries themselves provide a model of this new pattern in that the importance of equity participation by DAC Member firms is tending to diminish in relation to the provision of technical and managerial assistance by Western firms. However, equity participation is often required by OPEC countries as a manifestation of good faith without necessarily implying a commensurate degree of foreign control. *(Continued on page 28)*

Similarly, DAC countries are beginning to provide technical and managerial services for the non-oil producers, sometimes associated with capital participation.

These triangular arrangements may take several forms: OPEC countries may, for example, purchase shares in DAC parent companies or in their subsidiaries and use their shareholdings to influence the types and amounts of investments made by the parent companies in non-oil developing countries. Iran's acquisition of a substantial share in Krupp, and Kuwait's in Lonrho may be of this type.

In a somewhat more direct fashion, OPEC capital contributions may also be used to acquire a dominant interest in LDC-based firms. In this case the direct capital contribution of DAC Member firms may be relatively limited, their major role being supplier of management and technology (and possibly trade names).

This seems to be the direction being taken by British Leyland, with a £50 million capital contribution from Saudi Arabia, in planning the establishment of a vehicle assembly plant in a duty free zone in Egypt which would supply Arab markets with Land Rovers. The Saudi contribution would represent the bulk of the foreign exchange costs involved, while British Leyland's contribution would be its technical know-how. Skilled Egyptian workers would be employed.

In a potentially similar arrangement, Pilkington, the UK glass manufacturer, has entered into discussions with Kuwait and Egypt bearing upon the construction of a glass plant, the output of which would be used to supply Egyptian and other Arab markets. These negotiations reflect Kuwait's decision actively to use its capital resources to invest abroad—largely in the Arab world—in conjunction with Western technology.

It is also possible that participation by international financial institutions, such as the International Finance Corporation, may attract OPEC investments into triangular arrangements. One such arrangement has, for example, been reported in Jordan for a chemical fertilizer plant. Capital would be subscribed by a U.S. firm, the I.F.C., Jordan and other, mainly Arab, investors.

Possible Action by OECD Countries

In view of the intense competition for capital in the international markets—and for technical expertise as well—it may be necessary to take deliberate policy measures so that non-oil producing nations can have greater access to private capital flows. In the past, DAC Members have encouraged private capital flows to developing countries through a number of specific incentives which could be further developed or expanded:

• *Investment Guarantees*

Investment insurance coverage could be extended for projects which are financed by DAC-country based firms with equity participation of oil producing countries. There may also be scope for co-operation between these countries and investment insurance agencies of DAC Members.

• *Public Development Finance Corporations*

Co-operation in joint financing of projects by PDFC's with oil producing countries could be encouraged as could collaboration with institutions in OPEC countries having similar interests.

• *Technical Co-operation*

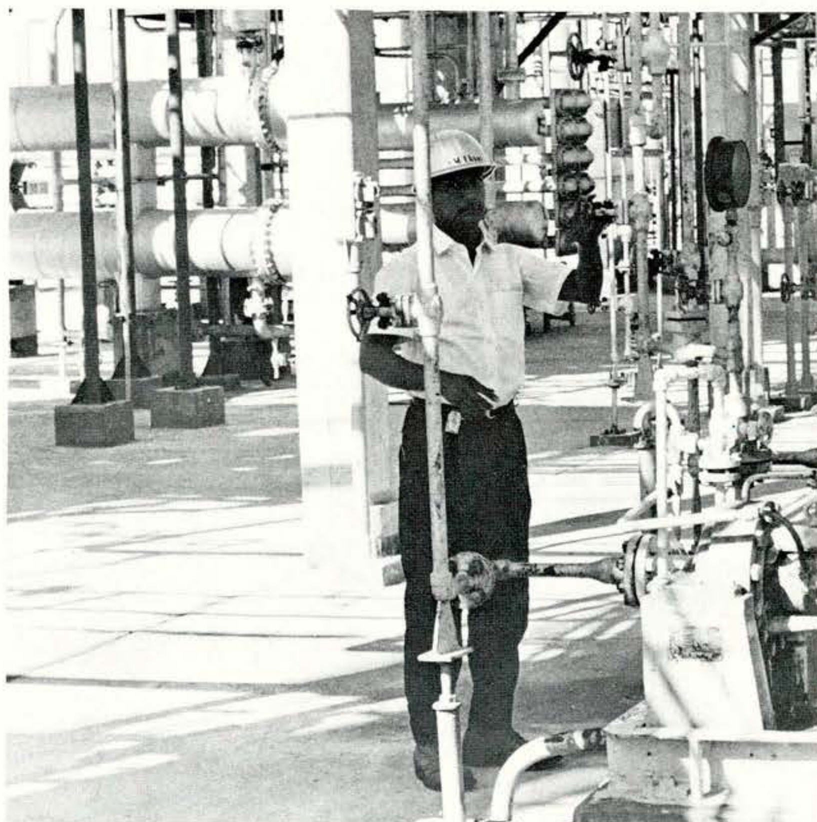
It would be desirable to stimulate the transfer of scarce technical resources from OECD countries in association with capital from oil producing countries. Areas where OECD countries could make a contribution include investment identification and feasibility studies and the encouragement of the transfer of technical and management skills.

• *Access to International and OECD Country Capital Markets*

Many developing countries seek access to the national capital markets of OECD countries as well as to international capital markets—the main advantage being the relatively long-term and untied nature of the resources secured. Measures which would help overcome existing barriers might therefore merit further examination, in particular by those OECD Members benefiting from OPEC capital inflows or having balance of payments surpluses. Possibilities would include the removal of administrative restrictions, legal impediments and possibly the extension of a preferential place in "queuing" arrangements where these exist.

• *Improvement of Domestic LDC Capital Markets*

Improvement of the functioning of these markets would be of particular importance in the light of current circumstances since it would allow certain LDC's more effectively to bid for non-concessional capital from the OPEC countries. DAC Member countries could help LDC's towards the improvement of their domestic capital markets by providing technical assistance in the form of banking expertise and possibly by supplying a share of the equity needed to set up local institutions or joint banking ventures.

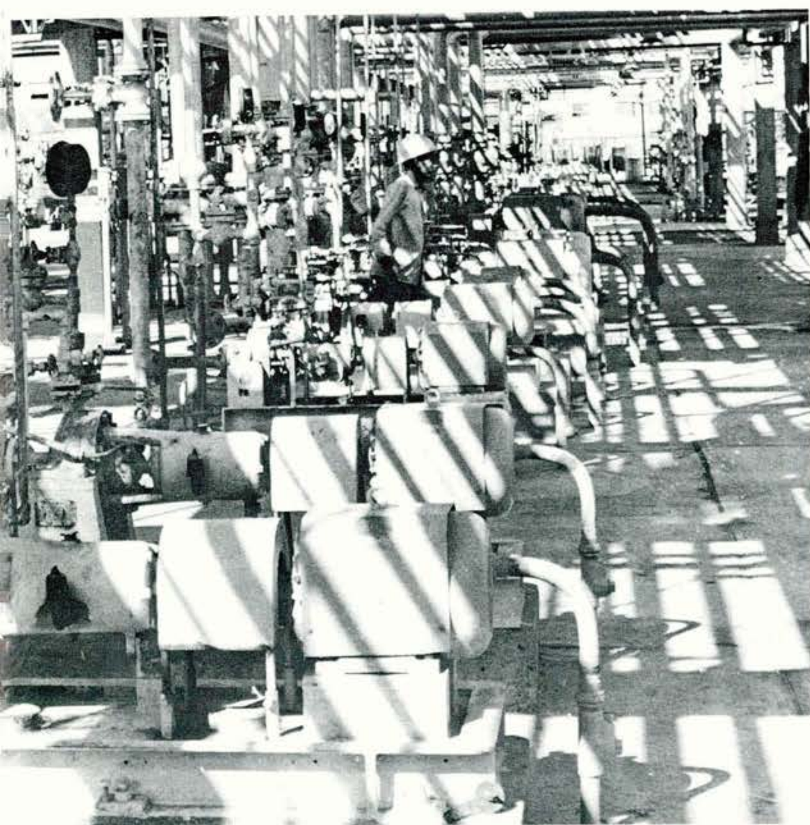


Direct investments by OPEC countries in developing nations have so far

DEBT PROBLEMS OF DEVELOPING COUNTRIES

If developing countries have to rely increasingly on commercial capital for their economic development, their debt problems — which were already causing concern among both aid donors and recipients — are likely to be compounded. In the article which follows, Edgar Kröller, Head of the Financial Policies Division of OECD's Development Assistance Directorate, discusses this and other aspects of the debt problem (1).

During recent years, a growing number of developing countries have experienced debt crises which warranted debt relief operations: Argentina, Bangladesh, Brazil, Chile, Ghana, India, Indonesia, Pakistan, Peru and Turkey for example. Multilateral debt renegotiations for these countries were carried out in "creditor clubs" or similar forums. In order to meet the desire of the debtor country to share its experience with other developing countries before facing its creditors at the actual debt renegotiations, the UNCTAD Debt Group, in its report to the Trade and Development Board, has just reached an important conclusion: a debtor country, acting through and with the assistance of UNCTAD or any other appropriate international institution, could convene an *ad hoc* meeting, inviting the major creditor countries concerned and a number of developing countries, as well as the international institutions concerned as observers. This meeting could emerge with a report, for consideration by the debtor country and creditors, on domestic economic policies, prospects for new capital inflows, for exports and for other elements of the balance of payments, without, however, making recommendations with regard to the volume, terms and conditions of eventual debt re-organisation agreements.



been largely " downstream " — in petroleum refineries for example.

Debt crises have disruptive effects on the economies of developing countries and a disturbing influence on creditor/debtor relationships. Those who provide the resources and recipients alike should therefore ensure that the transfer of international resources is effected in such a way as to avoid debt difficulties for the developing countries.

This problem has gained in importance because of the slowdown of economic growth in the industrialised countries, high prices for oil, commodities, food and fertilizers, rising inflation and interest rates, and a general uncertainty in world monetary and trade relations. While some developing countries have on balance gained from the events of the recent past, others have on balance lost, and among the losers are a number of very poor countries whose prospects were already unsatisfactory.

For many of these countries to maintain even minimum rates of economic growth in the future, substantial additional capital transfers will be necessary as well as internal efforts to adjust to the structural changes in the current situation. Since only a part of the required external resource flows can be secured at concessionary terms, the bulk will have to be in the form of commercial capital, thus accentuating the debt service burden of the developing countries in the years to come.

If debt problems arise, they manifest themselves through a liquidity crisis in a country's balance of payments. However, debt problems may have various causes. It is necessary to distinguish between fundamental problems which arise because the cost of external finance exceeds the benefit to the debtor's economy, more technical "roll-over" problems (e.g. due to " bunching " of debt service payments), and short-term problems (due for example to a bad harvest). *(Continued on page 30)*

(1) A fuller analysis of the subject is to be found in an OECD study on "Debt Problems of Developing Countries" available from OECD's Development Assistance Directorate. See also Chapter X of the 1974 Report of the Chairman of OECD's Development Assistance Committee just published under the title of "Development Co-operation — 1974 Review".

Basic Considerations

• *Growth and Debt*

Some of the central questions which arise in the context of debt analysis are: why and how countries get into debt situations; to what extent external capital is beneficial for their economic development; where the limits are beyond which debt becomes a burden, and what respective roles are to be played by resource providers and recipients in fostering proper economic and debt management. To deal with these questions, a point of departure is the relationship between economic growth and external debt.

In the absence of foreign capital inflow, a country's GNP growth rate can be assumed to be determined by the degree to which it can mobilise national resources for investment (the savings rate) and the efficiency with which it can translate investment into growth. Since most developing countries, however, feel the need to step up their growth, they seek to supplement their national savings with foreign savings (capital inflow). To the extent that foreign capital consists of loans, rather than grants, and is extended in larger amounts than are repaid, external debt is created, entailing service charges in the form of interest and amortisation payments.

There is nothing wrong with debt in itself: a country in debt is one that has received foreign resources, other than grants, for its development. Whether foreign capital benefits or improverishes the borrowing country depends upon the cost of this borrowing, as compared with the productivity of the investment programme and on whether foreign borrowings supplement or substitute for domestic savings. Since external debt has to be serviced in a currency which the debtor must earn through its exports, costs and benefits have to be evaluated in prices which reflect the true foreign exchange scarcity of the factor inputs and outputs involved. Moreover, costs and benefits have to be compared at the marginal, rather than the average, level: the rate of return of the marginal investment, e.g. the least productive project, must be higher than the cost of the most expensive loan if the country is not to be worse off than without the loan and the marginal investment.

• *Debt and Debt Service*

At first sight, the indebtedness of developing countries seems to have assumed impressive levels. At the end of 1972, their outstanding debt (disbursed and undisbursed) exceeded $ 100 billion which, together with some $ 50 billion of private foreign investment, constitute their total external liabilities.

On the other hand, global figures on the volume of outstanding debt are of limited significance for economic analysis. The economically relevant charge is *debt service* which is dertermined by the debt pattern of individual countries and varies widely from one to the other.

Even with respect to the debt service, it is useful to distinguish between amortisation and interest payments. Amortisation charges can in most cases be rolled over through new borrowing because donors and recipients see the resource transfer from the richer to the poorer countries as a feature of international co-operation which will continue for a long time to come. This means that on an aggregate basis, total developing countries' outstanding debt is likely to increase in the foreseeable future. Of course, creditors expect individual loans to be repaid, and some developing countries may even make net capital repayments overall. But assuming

1. DEBT OF DEVELOPING COUNTRIES, DISBURSED AND OUTSTANDING END-1972 AND THEIR DEBT SERVICE IN 1972

The difference in softness of the various debt components shows up when comparing their relative shares in debt outstanding and debt service. Bilateral debt resulting from ODA loans extended by DAC countries amounted to $28 billion at the end of 1972. This constitutes 37 per cent of the total disbursed debt but accounts for only 20 per cent of the total debt service. In contrast, debt arising from suppliers and other commercially-termed credits accounted for around one-half of the debt outstanding but for over two-thirds of the debt service.

Creditor	*Debt Outstanding*		*Debt Service*		*Interest payments*		*Amortisation payments*	
	$ bill.	*%*	*$ bill.*	*%*	*$ bill.*	*as per cent of debt outstanding*	*$ bill.*	*as per cent of debt outstanding*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
1. DAC countries	51,949	69	6,415	71	1,815	3.5	4,600	8.9
• *Government loans*	*30,625*	*41*	*2,151*	*24*	*777*	*2.5*	*1,374*	*4.5*
• *Supplier credits*	*10,077*	*13*	*2,404*	*27*	*524*	*5.2*	*1,880*	*18.7*
• *Other*	*11,247*	*15*	*1,860*	*20*	*514*	*4.6*	*1,346*	*12.0*
2. Multilateral organisations	11,023	15	1,055	12	499	4.5	556	5.0
• *Concessional*	*2,832*	*4*	*24*	*0*	*21*	*0.7*	*3*	*0.1*
• *Other*	*8,191*	*11*	*1,031*	*11*	*478*	*5.8*	*553*	*6.8*
3. Centrally planned economies	5,553	7	520	6	68	1.2	452	8.1
4. Developing countries	2,398	3	308	3	72	3.0	236	9.8
5. Other	4,123	6	707	8	165	4.0	542	13.1
TOTAL	**75,046**	**100**	**9,005**	**100**	**2,619**	**3.5**	**6,386**	**8.5**
For reference *ODA*	*27,988*	*37*	*1,800*	*20*	*600*	*2.1*	*1,200*	*4.2*

Source : SND and SEN

net repayments of debt for the developing countries as a group would mean that there could no longer be the positive *net* flow of aid (other than grants) and other financial resources to which the donor countries are committed under the Strategy for the Second Development Decade.

• *Aid and Debt*

It is often alleged that aid terms have been a major source of the debt problems of developing countries. This view is misleading and detracts attention from the real problem: Official Development Assistance (ODA) accounts for over one-third of external debt outstanding but for only one-fifth of total debt service. Moerover, ODA is already extended at very soft terms (2) and it is uncertain whether in the near future a further substantial softening of ODA terms can be achieved — notwithstanding continued efforts on the part of DAC Members in this area.

The greatest part of debt service is related to export credits and commercial bank lending so that effective debt management must give particular attention to the control of these categories of debt.

Many developing countries have — no doubt, deliberately — engaged in commercial borrowing in order to maintain or increase the momentum of development over and above the rate made possible by the current availability of soft aid funds. While increased concessional funds would mitigate the temptation of developing countries to take up foreign capital on terms and amounts which are hard to service, the capital needs of developing countries are such that only a very substantial rise in aid funds and substantially increased exports and savings would alleviate their predicament — having to choose between a desired rate of economic growth and the avoidance of debt problems.

Moreover, one could reasonably take the view that any increase in soft aid funds ought to go to the poorer developing contries, e.g. the ones with per capita incomes of below $ 375 (roughly the standard of eligibility for funds of the International Development Agency). These countries, however, account for only one-quarter of total debt at commercial terms outstanding. Therefore an additional volume of aid would, so to speak, leave three-quarters of the overall debt burden of LDCs unaffected and notably that of the main debtor countries in the higher income bracket. On the other hand, if concentrated on the poorer developing countries, the additional amount of aid, if used for productive purposes, would substantially increase their growth potential and minimise their debt servicing difficulties.

The Current Debt Situation (3)

Total debt of developing countries from all sources — DAC Members, other countries and multilateral institutions — amounted to $ 75 billion at the end of 1972, the last year for which consistent data are available (see Table 1). This is disbursed debt. Including committed but undisbursed amounts, the figure rises to $ 103 billion. The present value (discounted at 10 per cent) of the debt is $ 63 billion on a commitment basis. If this amount were paid, the debtor countries could eliminate their debt in one stroke, on the assumption that the creditors would accept the smaller payment now, instead of the larger sum due over time, because they could invest it at 10 per cent and obtain the same benefit as on the original debt service due.

These global figures are not of course very meaningful when it comes to assessing the impact on individual countries. One half of the total debt outstanding is concentrated on only nine countries: India, Brazil, Iran, Indonesia, Mexico, Pakistan, Israel, South Korea and Argentina. Another eleven countries account for one half of the remaining debt: Chile, Turkey, Yugoslavia, Algeria, Colombia, Spain, Egypt, Greece, Peru, Venezuela and Taiwan. Each of these countries had a total debt outstanding of over $ 1.5 billion (including undisbursed amounts).

Short of a country-by-country assessment, a useful intermediate step is to examine the distribution of debt among countries in different income groups. This shows that debt tends to be concentrated on the relatively better-off countries: countries with per capita incomes of below $ 200 accounted for 51 per cent of the total population of developing countries but for only 23 per cent of their total 1972 debt. Moreover, debt contracted at relatively hard conditions — often the source of debt problems — is even more concentrated on the richer developing countries. This is evident from examining the distribution of the discounted amount of debt, of which only 17 per cent is owed by the poorer developing countries (under $ 200 per capita).

This pattern of geographical distribution is neither surprising nor undesirable. Moreover, it is important when considering appropriate measures for avoiding debt crises or action in the event of crises. The use of increased flows of concessional funds to bail out a debtor in a higher income bracket may not be appropriate since it could divert limited ODA resources from poorer countries which may not have debt difficulties because of their inability to borrow commercially.

Debt Problems in the Context of Recent Economic Developments

• *The Effect of Inflation*

Rising rates of inflation have had some important repercussions on the relationship between creditor and debtor countries. To the extent that the inflation rate is not fully taken into account in setting the interest rate of a loan (which is the case for ODA loans, export credits and probably even Euro-currency lending), inflation reduces the real burden on the debtor because he services his debt with money which is worth less than it was

(2) *In 1973, two-thirds of ODA commitments consisted of grants and the remaining loans had, on average, an interest rate of 2.5 per cent, 33 years maturity and 9 years grace.*

(3) *There are two main sources of debt statistics: first the IBRD Debtor Reporting System (DRS) which collects data on all public and publicly guaranteed debt in those almost 100 developing countries to which the World Bank Group has made loans; second the OECD/IBRD Expanded Reporting System (ERS) which collects figures on debt owed to, or guaranteed by, the official sector in DAC countries. Both systems overlap in part but still leave some debt uncovered, notably all debt with less than one year maturity, most private unguaranteed debt and some military credits. Moreover, for the non-DRS countries, no information is available for debt owed to countries which are not members of the DAC. Most of the published Euro-currency loans are now believed to be included in the DRS. By "marrying" the information generated from both systems it is possible to arrive at an estimate of total debt outstanding of 140 countries and territories which comes as close to the truth as is currently possible.*

when the debt was contracted. The effect of inflation is of course more complicated and depends on how the prices of developing countries' exports and imports are affected, as reflected in their terms of trade. While inflation generally is translated immediately into higher prices for exports and imports, debt service is a contractually fixed charge over a long period of time.

• *The Effect of the Rise in Commodity Prices, Particularly of Oil*

The economic consequences of higher oil and commodity prices have added a further dimension to the geographic disparity of indebtedness: there have emerged winners and losers in balance-of-payments terms, and some of the losers already had precarious developmental prospects before the crisis.

• *The Winners*

Countries which have gained from higher oil prices of course include the oil exporters, but here again there is a need for differentiation. Only the high-income and some of the middle-income countries in this group face no debt problems at all and they might even contribute to alleviating the burden thrust on the losers. This could be done in various ways. For example, some oil producers could make pre-payments of their debt making available to creditors additional resources which could be channeled to needy countries. Moreover, the oil-surplus countries no longer resort to the Euro-currency market, as in the past, thus leaving more resources for countries which have additional capital needs.

Of course, not all of the oil producing countries are in such a favourable situation. The countries which still have low per capita incomes and unsatisfied development needs can absorb most of their immediate oil revenues, but even these countries (e.g. Indonesia and Nigeria) are now unlikely to constitute serious debt cases.

• *The Losers*

For those countries whose imports have been made more costly by higher commodity prices, especially for oil, without any compensating gains for their exports, the effect of the higher prices on their indebtedness may be two-fold: first an immediate and indirect effect on their balance of payments; second a retarded and direct effect resulting from the additional external borrowing which may be required.

Taking the immediate effect first, the higher cost of oil and other commodities leaves the amount of debt and debt service unchanged. Still, the balance of payments of developing countries has to adjust in some way to meet the additional import bill, if the reduction in foreign exchange availabilities is not to curb the growth momentum. The adjustment process may take various forms. First, developing countries may be able to improve their domestic efforts to increase exports (and savings) and to eliminate unessential items from their import bill. Secondly, they would use their reserves and available short-term finance (e.g. IMF facilities) to absorb the shock. Once these defences are exhausted, however, these countries may be left with foreign exchange needs which cannot be further compressed because they have to maintain a minimal level of imports and pay contractually fixed interest and amortisation charges.

These resource needs can be met through either an increased inflow of foreign capital or debt relief. The economic effect of both is essentially the same: they provide the required external resources, but debt relief has the advantage of making available free, untied foreign exchange. It also has disadvantages: it entails lengthy negotiations and usually hinges upon a burden sharing agreement among the creditors which is based in some way on the amount of debt or debt service owed by a particular debtor to each of the creditors.

The second effect of higher oil and commodity prices on the indebtedness of developing countries arises when the countries concerned are obliged to seek additional external resources — at commercial terms — to bring their external accounts into balance. Depending on the amount and the conditions of this resource inflow, new indebtedness and service charges are created. A country, in order to safeguard its development momentum, may well be tempted to take on external borrowing at amounts and terms which cannot be serviced safely.

The group of countries identified by the United Nations as "most seriously affected" by higher prices for oil, raw materials, food and fertilizer includes several which, even before the recent economic events, faced acute debt servicing difficulties, as evidenced by their need for debt relief. It is clear that the added burden further aggravates their balance of payments situation. This group of countries is therefore in special need of additional measures on the part of aid donors to provide additional assistance. Unlike some of the better-off developing countries they cannot resort to additional borrowing at commercial terms to offset the higher oil prices: neither their credit standing nor their debt servicing ability would allow this.

Policy Suggestions

In the light of recent economic events, a number of measures designed to avoid debt difficulties have gained in importance. There is full consensus among all parties concerned that the developing countries themselves must bear the fundamental responsibility for their debt management. The initiative for most of the required policies lies with them, rather than with the providers of capital. On the other hand, it is inherent in the very notion of development co-operation that donor countries will do what they can to help poorer countries steer the difficult course between accelerating their development to the maximum and avoiding a collapse in their external payments position. The need for such co-operation has become particularly acute in the present situation in which the external payments position of various developing countries is endangered by events beyond their control, such as a rapid deterioration of their terms of trade. Some practical steps could be taken in this field by both those who provide the resources and those who receive them.

• *Debtor Policies*

The key to avoiding debt problems for the developing countries, whatever the circumstances, lies in the efficient management of their resources, both domestic and external, for economic growth and development. This involves a wide range of policies, fiscal, monetary, exchange rate, export promotion and project selection within an overall development programme.

In particular, developing countries have an interest in:

- securing a sufficiently high volume of savings and export earnings in order to meet their external obligations;
- ensuring that foreign capital inflow provides a net addition to their own investible resources rather than replacing their national

savings effort;

- not taking up commercial capital in amounts greater than can be safely serviced;
- providing for sound reserve management as a safeguard against short-term pressures on the balance of payments.

• *Aid Policies*

Within the constraints imposed at any one time by the limited total volume of aid, the first objective of aid policies is of course to promote the economic development of developing countries. Since aid constitutes the cheapest source of external finance, any increase in the volume of assistance helps developing countries towards this goal without exposing them to debt problems. In general, the case for more aid to poorer developing countries, however, rests upon their poverty rather than their indebtedness.

ODA funds contain transactions having different degrees of softness, ranging from outright grants to loans with a 25 per cent grant element. Since the poorer developing countries are under the greatest pressure to accelerate their economic growth, the softest part of aid should go to them, thus mitigating their temptation to supplement soft aid funds with harder commercial flows.

If debt problems arise nevertheless, appropriate remedial measures must be sought. The fact that debtors can be in very different stages of development has obvious repercussions for the type of approaches which are appropriate in a particular case.

For poorer developing countries, increased concessional flows in appropriate forms, including debt relief where necessary, will be a desirable means of avoiding debt problems.

When the debtor in question is one of the relatively affluent developing countries — those which carry the bulk of the debt servicing obligations of developing countries as a whole, because of their ability to attract commercial funds — the case for more concessional funds is dubious. The use of ODA for debt relief in better-off developing countries may result in the diversion of limited concessional funds from countries which have first claim on soft resources because of their intrinsic poverty.

• *Export Credit Policies*

Apart from aid, export credits constitute an important resource flow to the developing world but their main purpose is export promotion. With respect to the terms of export credits, there is only limited scope for lessening their impact on the indebtedness of the borrower. Their interest rates are already subsidised in most countries (which hurts developing countries' exports) and the creditors are anxious to avoid a credit race among themselves. Similarly, with respect to volume, competition among suppliers in international trade makes it difficult to limit the amount of commercial lending from the creditor's side.

On the other hand, creditor countries could assist developing countries in their debt management, which requires up-to-date information on the totality of their debt incurred, by subjecting the extension and guarantee of export credits to prior approval by the central financial authorities of the recipient countries in the case of public sector projects, and to prior notification or registration with these authorities in the case of private sector projects. This proposal comes from a staff study of the IMF and now has wide support in various countries, including the developing ones. In many credit-providing countries, compliance with such measures is already a legal requirement for the validity of guarantees.

The Role of the EUROCREDIT MARKET

While new international channels for financing current account deficits arising from higher oil prices were being planned or explored, a large part of the recycling from balance-of-payments-surplus to balance-of-payments-deficit countries in 1974 was carried out by the Euro-market. Much of this lending took the form of internationally syndicated medium-term bank loans, the so-called Euro-credits.

Information on activity and trends in this market has been collected regularly by OECD's Financial and Fiscal Affairs Directorate since the beginning of 1974 (1). These statistics are a part of the basic material prepared for the government experts who discuss conditions on international and domestic financial markets in the framework of OECD's Committee on Financial Markets.

The volume of Euro-credits, which was around $10 billion in 1971 and 1972, grew to $ 24 billion in 1973 and to $30 billion in 1974 as governments, both in the OECD area and in the developing world, increasingly had recourse to the Euro-credit market to cope with the large current account deficits caused by oil price increases. Longer term loans were virtually unavailable since high levels of short-term interest rates, often higher than long-term rates, were more attractive for investment than long-term Euro-bonds.

The third quarter of 1974 saw a sharp contraction of Euro-credits as a result of the uncertainties and difficulties facing the financial institutions operating on the Euro-currency markets. Several loans to less developed countries and to private corporations were withdrawn, and the size of individual loans was cut while terms hardened. In September and October the expansion was resumed at a more moderate pace.

The sources of funds used by Euro-banks for loans and credits are difficult to trace but it is widely believed that Arab financial institutions and multinational banks with large Arab participation are now a major source.

Clearly, the Euro-credit market cannot alone solve the problem of recycling the surplus funds of the OPEC countries back to those oil importing countries which need them to finance their current account deficits. But as part of the range of solutions this market has its importance. Since the beginning of 1975, interest rates at short-term have dropped sharply as countries turned to easy credit conditions to fight unemployment. Interest rates at long-term are now higher than short-term rates once more and the Euro-bond market for medium and longer-term bonds has revived.

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(1) *The complete list of these loans is published every two months in "OECD Financial Statistics", Table II B2.*

WHY MERGERS SHOULD BE CONTROLLED

There has been an almost continuous upward trend in merger activity over the last ten years in OECD Member countries—at least those for which data are available—and the mergers involved have often aroused public concern. Increasing evidence is coming to light showing that the very large firms resulting from merger have not always achieved the increases in efficiency which were expected to offset their unfavourable effects on competition. These developments have led many Member governments to contemplate the introduction or strengthening of public control over mergers and have prompted the OECD Committee of Experts on Restrictive Business Practices to prepare a report, for the benefit both of Member countries which already control mergers and of those which may be contemplating new legislation.

The report, the conclusions of which are presented in part in this article, has now been published (1). It devotes particular attention to the economic aspects of mergers and their implications for government policy and makes certain suggestions for action by governments to which the Council of OECD has recently drawn the attention of Member Countries.

Four major factors which have influenced the development of mergers are identified by OECD's report (2):

- Encouragement of mergers by governmental or non-governmental bodies.
- The increasing integration of national markets, because of the high and sustained rate of growth of international trade.
- The growing importance of the multinational firms in national and international trade.
- The acceleration in the rate of development of technology which makes the security derived from diversification more attractive.

These four major factors have important repercussions on the structure of national economies. The financial and technological forces which tend to promote the growth of the larger firms are reinforced by the growth of world trade since one barrier—the absolute size of market—is removed. To counterbalance these tendencies, increasing imports and the growth of the multinational corporations have probably intensified competition in national and international markets by providing opportunities for new firms and new products to be established. While it is difficult, in the absence of detailed studies, to be certain about the overall direction and strength of these forces, it would appear reasonable to suppose that the net result is likely to be an increasing degree of concentration in national and international markets. This raises the policy questions of the public control over this phenomenon.

The Policy Issues

In considering the question of increasing concentration and its effects, the principal economic issues are:

- The existing level of overall and market concentration and the rate of growth of this concentration.
- The relative importance of merger, as distinct from the internal growth of firms, as the cause of increasing concentration.
- Identification, measurement and balance of the beneficial and detrimental effects of merger.
- The principles determining the type of machinery which may be used to operate merger control.

The Level and Growth of Concentration

Concern over increasing concentration arises in part because of the effects which it may have on economic structure and performance and thereby on the attainment of national economic objectives. Sufficient evidence is available to show that deficient economic performance often results directly from situations of high concentration. It may take the form of very high prices and profits or, alternative-

(1) "Mergers and Competition Policy"; Report by the Committee of Experts on Restrictive Business Practices, OECD, 1974. It is designed as a follow-up to an earlier report by the Committee entitled "Market Power and the Law" published in 1970.

(2) A distinction is often made between "merger" and "takeover", "merger" being used to describe the process of voluntary fusion between two or more companies, and "takeover" the acquisition of control through purchase of shares without the agreement of the company's directors. However, the term "merger" as used in this article and in the OECD report is applied to any acquisiton of control, however obtained, and includes both processes.

ly, high costs with excessive product differentiation and selling expenditures, low technical efficiency, a lack of technical aggressiveness and poor international competitiveness.

Because of the differing relative importance in national economies of economic factors which offset or restrain the exercise of market power, it is not possible to give a general rule as to what levels of concentration produce detrimental effects. But while the precise definition of high concentration is essentially a matter for national decision, what can hardly be disputed is that merger appears to be a major cause of it and may therefore be a potential major source of economic detriment.

Mergers vs. Internal Growth

While the measurement of concentration is generally considered to be essential, it is, nevertheless, only a starting point for consideration of the policy issues.

A very real distinction must be made between *internal* growth, which can occur when a firm recognises, and adapts itself more efficiently to, changing consumer demands at lower real costs, and *external* growth by merger which may merely result in the growth of the firm with no corresponding improvement for consumers or lowering of real costs. The internal growth of the firm, when it derives from lower costs and/or the more efficient meeting of consumer demands, will, at least during the growth stage, result in more competitive markets, and this will bring real economic benefits to society. External growth *may* also bring such benefits, but it may only result in an increase in market power with detrimental effects on economic performance, as well as adverse social and political consequences.

One qualification to this distinction may, however, be necessary. If a particular merger is likely to produce significant gains in terms of efficiency, the speed with which these gains are realised—as compared with internal growth—have to be weighed against the immediate market power consequences of the merger. A merger which results in the much earlier achievement of efficiency gains than internal growth may be socially preferable. It is worthwhile, however, to consider whether many efficiencies might not also be achieved by measures short of merger or by mergers which do not raise issues of competition policy.

Benefits and Detriments -A Balance Sheet

A distinction must be made between conglomerate or diversified mergers which increase overall concentration and horizontal or vertical mergers which also increase market concentration. The effects of these two types may differ and could lead to different policy options.

One of the issues to which the *horizontal* and *vertical* merger gives rise is the trade-off between a potential increase in efficiency and the increased market power which provides potential for abuses of competition. Increases in efficiency could result from such mergers through the opportunity to take advantage of economies of scale in production, sales, management, finance and research and development, and from multi-plant workings and other factors. In addition, the effects of the merger on growth prospects and, in particular, foreign trade may be important. There is however the danger that a higher degree of concentration, and hence market power, may lead to some kind of monopolistic or oligopolistic abuse, such as higher than normal profits which reduce overall economic welfare and perhaps adversely affect the distribution of income.

Alternatively, the economic performance of merged firms may deteriorate, causing a reduction in economic welfare as well.

One inevitable adverse result of every horizontal merger, except perhaps one between a viable and a failing company, is that it eliminates one competitor and reduces the independent forces operating in the market. If the merger triggers off other defensive groupings amongst firms which do not result in increased efficiency, the dynamic effects on industry structure must also be considered. For the purposes of policy analysis, therefore, the effects of each horizontal or vertical merger should be examined, subject, of course, to judicial, administrative or legislative rules based on accumulated experience.

Since the *conglomerate* or *diversified merger* involves no increase in concentration in individual markets, the issues are somewhat different. However, absolute size by itself may have two types of economic disadvantage: if the firm exceeds the size at which it can be efficiently operated with given techniques of production and management, the merger may result in an overall decline in performance. It may also give the firm the power to indulge in certain types of market behaviour which may have damaging consequences for competition. Size may bring increased overall financial power of a kind which permits cross-subsidisation in the markets in which the firm operates, reciprocal dealings with other large conglomerate firms, retrenchment of the dominant position of the acquired firm, and it may also permit the firm to alter market structures through the relatively easy acquisition of potential competitors.

On the other hand, the conglomerate or diversified merger may be a legitimate form of growth for the firm if it is based on existing specialities, skills and efficiencies which may be transferred to other markets at little or no real economic cost or if it facilitates the provision of capital for modernisation. In these cases the entry of the firm into a new market may disturb existing structures and behaviour patterns in such a way that the intensity or form of competition change so as to increase economic welfare. It would appear therefore that any particular conglomerate needs to be studied for its effects in individual markets before any overall judgment can be made.

However, there are many mergers which, because of their size or economic impact, are not likely to be the concern of public policy which deals with the diminution of competition. It is even possible that many of these mergers will further competitive ends. At what size and what kind of mergers the dividing line should be drawn is a matter which can only be decided in the light of the conditions within each country.

The Control Machinery

Although there are, in practice, substantial common elements in the systems of merger control in OECD Member countries, it is possible to distinguish two different, though related, approaches to problems of enhanced market power.

The first stresses the absolute value of competition as a regulator of economic activity and is to be found in the United States, where for example, one cannot plead the possible advantages of a merger to offset the disadvantages which would result from increased concentration. The second approach is where, as in the United Kingdom, the promotion of effective competition is only one of a number of desirable objectives, others being, for example, employment, the distribution of industry and the balance of payments.

One feature common to all systems of merger control is that they try to reduce

uncertainty about whether or not a proposed or existing merger will be acceptable. It has been found that prior notification whether formal or informal, is an extremely valuable method of reducing this uncertainty, though some countries have post-notification systems of control as well.

Whatever the system of control it is usually only concerned with the relatively few mergers which raise serious questions with regard to reduction of competition. It may be that no precise and generally applicable guidelines can be laid down; some nations state limits in terms of market share, others in terms of market share and size of enterprise, measured for example by assets or turnover.

The most difficult question is what considerations should be taken into account in any particular merger. There may be no ideal solution to the problems raised by increased concentration resulting from merger, and those which have been tried have had only limited success in halting major merger movements. But a limited number of mergers do involve social costs and only serve to confer private advantage through enhanced market power. The lack of an ideal and generally applicable solution is no argument for not attempting to regulate and reduce these costs.

International Mergers

According to data presented in OECD's report, international mergers may be a major component of all merger activity and therefore cannot be ignored. International mergers are a form of direct investment and, as such, raise problems of efficiency and competition that are basically similar to those involved in domestic mergers. There is evidence to suggest that this type of merger may result from the desire to exploit some differential advantage, whether it be efficiency or product differentiation; and as a consequence tend to be horizontal rather than vertical or diversified. These mergers may not, of course, raise concentration levels in host countries, but when the world market for the product is considered, it does so, and may therefore have long-term detrimental consequences.

In the short-term, on the other hand, the report suggests, international mergers based on differential efficiency may increase competition in host country markets because the foreign entrant wishes to exploit his advantage; nor will he have absorbed any prevailing non-competitive behaviour patterns. For these reasons it is not possible to reach any general conclusions about the effect of international mergers; like many domestic ones they need to be considered on an individual basis.

Although only relatively few international mergers have appeared to raise questions for competition policy so far, it is likely that the continual growth in international investment and the integration of world markets will lead to many more such cases in the future.

Suggestions for Action

The report concludes that there is not necessarily any single policy towards mergers which must be recommended to governments which are considering the introduction or amendment of legislation dealing with mergers. The wide differences in economic, social and legal environments between countries have to be recognised. While it can be agreed that some mergers have injurious economic, social and possible political effects, the relative importance of merger as a means of corporate growth differs as between countries and hence the extent and overall consequences as regards the impairment of economic performance could also be expected to differ. In addition, there are frequently many ways of offsetting or compensating for deficient economic performance, and hence remedies would also be expected to differ as between countries. Each particular merger must therefore be studied for its effects.

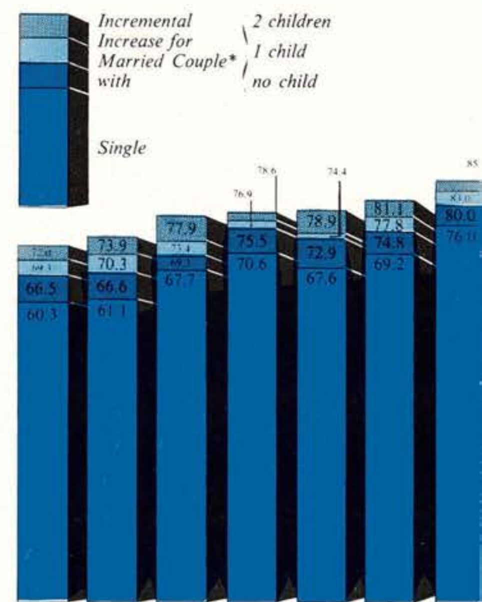
Despite these considerations it must also be stressed that there are major economic forces at work which do highlight the need for most countries with developed economies to recognise that the question of mergers and merger control does require consideration. The report suggests that Member countries which have not yet done so consider the adoption of an effective system of merger control, based on five principles:

- a procedure for registering mergers, wherever this is felt to be necessary;
- a system to facilitate obtaining information about occurrence of major mergers, e.g. requiring their prior notification;
- minimum quantitative criteria below which mergers would not be subject to control;
- objective criteria or presumptions for use in evaluating mergers;
- reasonable time limits for deciding initially whether to allow or challenge certain mergers.

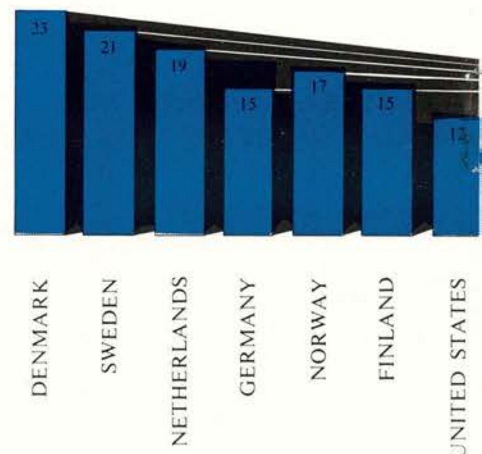
THE EF PROGRA

Many OECD governments are tr disposable income of the family an different countries' programmes — OECD's Committee on Fiscal Af position of a production worker w from this study, and also to the

A. DISPOSABLE O



Employees' Soc

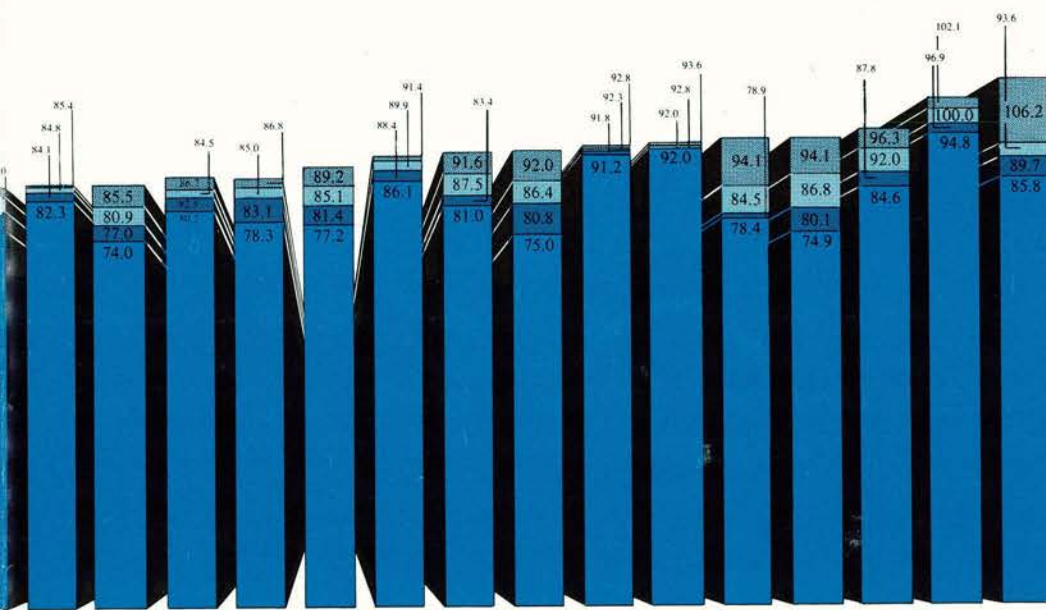


* *It is assumed the wife has no income.*
(1) Receipts from employees' social security n equal to one half total social security contributi

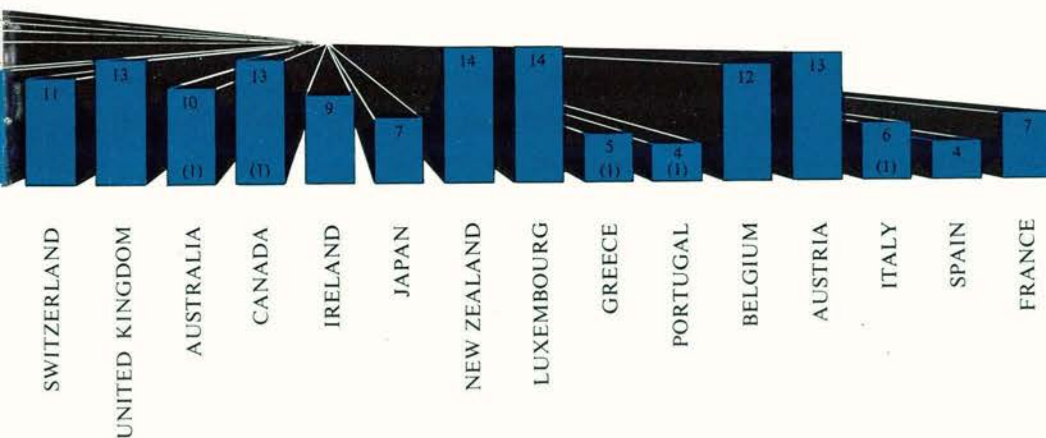
FECT OF TAX AND WELFARE
IMES ON WORKERS' INCOMES

ing to find out just what is the overall impact of their various tax and social welfare programmes on the whether it is in line with their general tax and social policy aims. Many difficulties arise in comparing establishing comparable taxation units for example and quantifying the data on taxes and benefits — but airs has taken a first step towards establishing comparable information by publishing data on the tax/benefit th average earnings (1). *The following article draws attention to some of the policy questions which arise mitations of this first attempt at empirical testing of data drawn from many country sources. (See Box.)*

INCOME AS A PERCENTAGE OF GROSS EARNINGS
F TYPICAL PRODUCTION WORKER



ial Security Contribution + Income Taxes as a % of GNP



ot available in Austria, Canada, Greece, Italy and Portugal but from rate structure it is assumed that they are ons in Austria, Canada and Greece, and one sixth in Italy.

OECD's data reveals striking differences between countries' taxation policies and their methods of taxing and subsidising family units.

Disposable Income of the Typical Worker

Chart A shows how much of his gross earnings a typical worker retains (under various assumptions about his family circumstances) after payment of income tax and social security contributions and after receipt of family benefits.

In the 22 OECD Member countries which participated in the study, the worker is left on average with disposable income ranging from 77 per cent (for a single man) to 91 per cent (for a married man whose wife does not work and who has two children). Three groups emerge. At one extreme are the Nordic countries, together with the Netherlands and Germany, where the single man retains between 60 and 70 per cent of his gross income and a married man with two children 72 to 81 per cent of his gross income. At the other extreme are France, Japan, Greece and Portugal, where the single worker retains 85 to 92 per cent of his gross earnings; in France a married couple with two children has a disposable income greater than his gross earnings—106 per cent, which means that social transfers are higher than direct taxes—while in Italy, Austria, Belgium, Greece, Portugal and Japan, disposable income ranges from 91 to 96 per cent of gross earnings. The remaining countries fall between the two groups.

The lower part of the Chart also suggests that if a country raises a large amount

(1) Recently published as the Annex to "Revenue Statistics in OECD Member Countries 1965-1972". The data cover all Member countries except Iceland and Turkey for the year 1972.

of revenue from income taxes and social security contributions, it cannot avoid relying heavily on workers with average earnings as a source of these funds even though higher income groups may be heavily taxed (2).

Subsidising the Family Unit

Countries' treatment of family composition may reflect a number of different policy objectives. A country may wish for example to ensure that the tax benefit system reflects differences in family needs which arise because of differences in composition. Or taxes and transfers may be used as part of population policy or to encourage traditional family patterns.

Traditionally tax systems have tried to ensure equity between families having the same income but differing family composition by giving tax allowances which differentiate between these different sorts of families and by exempting from taxation the amount of income which represents a subsistence level. The rationale for this approach is the " ability-to-pay " principle which exempts income required for subsistence from taxation.

Table 1 gives an indication of how a country's tax and transfer system affects family units of differing composition. They show the value of both tax allowances and cash payments (as a percentage of disposable income) obtained when a worker gets married and when he has a child and then another child.

The differences between countries cannot be taken to reflect the stress given to the various policy objectives outlined above, since governments may offset the effects of taxes and benefits through use of policies which are outside the scope of the present study, such as provision of special housing arrangements, free school meals, etc. Nevertheless the figures are of interest in that they show for example that, in roughly half the countries, the increase in disposable income received for a second child is approximately equal to that received for the first, while in the other half of the countries it is greater. The table also shows that France, which is generally believed to have followed a policy of actively encouraging population growth, does in fact have the largest discrepancy between disposable income of a single person and that of a married couple with two children.

It is also of interest that in terms of gains in disposable income resulting from marriage, the ranking order of countries is similar to that of Chart A, whereas it is entirely different for gains in disposable income due to having two children. This is largely due to the fact that, while marriage is generally subsidised through tax allowances—the higher the marginal tax rate, the greater the value of the allowance—children's benefits are frequently granted in the form of tax transfers.

There has been a considerable amount of debate as to whether family subsidies are best given via the tax system or via cash transfers, and, if through the tax system, whether through tax allowances or tax credits. The important distinction between tax allowances and tax credits is that the value of the former is a function of the taxpayer's marginal rate of income tax so that high income groups gain relatively more when tax allowances are granted and lose relatively more when they are withdrawn (e.g. when a child ceases to be a dependent). Tax credits on the other hand do not normally vary

(2) Thus countries whose workers retain a low percentage of their gross earnings tend to have a high ratio of personal income tax plus employees' social security contribution receipts in relation to GNP.

1. WHAT HAPPENS TO DISPOSABLE INCOME WHEN A WORKER MARRIES AND HAS CHILDREN?

*Index of Disposable Income**
(Single Worker = 100)

	Married	*1 Child*	*2 Children*
Australia	103	105	108
Austria	107	116	126
Belgium	107	107	120
Canada	106	108	111
Denmark	110	115	119
Finland	108	112	117
France	104	109	124
Germany	107	109	111
Greece	101	101	102
Ireland	105	110	116
Italy	104	109	114
Japan	103	104	106
Luxembourg	108	115	123
Netherlands	102	108	115
New Zealand	103	108	113
Norway	108	110	117
Portugal	100	101	102
Spain	103	105	108
Sweden	109	115	121
Switzerland	102	105	108
United Kingdom	104	109	115
United States	105	108	111

** Cumulative change from the earnings of a single man.*

Who is the Typical Production Worker in OECD's Study? What Taxes and Benefits are Included?

For the sake of international comparison OECD's study chose the manufacturing production worker with average earnings because:

- *comparable data about him are available in a number of OECD countries*
- *he represents a typical taxpayer.* (*)

Since it is also of policy interest to know what happens in different countries when a typical worker improves his income position, data are also given on taxes paid and benefits received by the worker when gross earnings are increased by 10 per cent.

A citizen makes various kinds of payments to governments and receives various kinds of government assistance—both in cash and in kind. The taxes and benefits included in this exercise are those which most directly affect the disposable income of the worker and for which information is available on an internationally comparable basis. As regards the worker's payments to the government, account is taken of his income tax liability and his compulsory contributions to social security, but not of other taxes such as those on his consumption (indirect taxes) or property. On the benefit side, deductions from taxable income and cash transfers in respect of marriage and children are covered in the study as are lump sum deductions from taxable income which are available to all employees; but in calculating the worker's disposable income, no account is taken of cash payments or deductions from taxable income in respect of particular expenditures such as those on health, education, housing, child-care, insurance or work-related transport, which are given to varying degrees in most OECD Member countries.

(*) To ensure comparability between countries it is assumed that the worker is not subject to unemployment or sickness during the year and that he receives average amounts of overtime rates of pay, extra bonuses, etc., that he has no income apart from what he earns, that, if he is married, his wife has no income of her own, and that if he has one or two children, they have no income either and are of school age.

with income, but people whose incomes are so low that they are not subject to income tax (or whose tax liabilityi s less than the credit) do not receive any payment either: their credit is in effect not utilised (3). Cash transfers on the other hand are given irrespective of the recipient's tax position. However, since potential recipients of cash transfers may have to initiate a claim for them, fewer of those eligible may actually take up their claims than if the transfer were granted automatically through the tax system. It also seems likely that as a general rule men receive tax aids, women cash transfers.

It seems that governments' choices (insofar as choices are deliberately made) between these various instruments for subsidising families may be influenced by a number of factors: relative costs of administration (which themselves may vary according to the type of income tax system in force); notions of equity (the case has been argued both ways as between tax allowances and tax credits); desire to reveal or conceal their cost (the cost of cash transfers is more transparent than benefits given through the tax system).

In practice marriage benefits take the form of a tax allowance in almost all countries, but in Italy there is also a cash transfer, worth far more than the allowance, and in Belgium and Sweden a tax credit is used instead. Methods of subsidising children are much more varied and take the form of tax provisions (usually allowances but tax credits as well in Belgium and Finland) or cash transfers or both. Table 2 illustrates the great divergence among countries in this respect by showing the value in relation to transfers of total assistance provided under the programmes included in the study.

Personal Income Tax and Employees' Social Security Contributions(4)

The results of OECD's study suggest that there is a two-fold relationship between the two levies. First, in most countries where the typical worker pays high marginal rates of income tax, marginal rates of social security contributions are low. The converse is also true. This reflects the fact that most of the countries which have a high ratio of income tax receipts to GNP have a low ratio of social security receipts to GNP, and conversely.

Another finding is that in all countries the marginal rate of income tax exceeds the average rate whereas for social security contributions the marginal rate is equal to or below the average rate. In other words the income tax is invariably more progressive than employees' social security contributions.

2. IMPORTANCE OF CASH TRANSFERS (family allowances, etc.)

(as percentage of Total Benefits Received)

Country	%	Country	%
Denmark	100	Finland	80
Norway	100	Austria	65
Sweden	100	Luxembourg	64
Spain	100	Canada	55
Portugal	100	Australia	40
Italy	95	United Kingdom	20
New Zealand	93	Ireland	19
Belgium	90	Greece	0
Netherlands	85	United States	0
France	83	Germany	0
Switzerland	81	Japan	0

3. HOW MUCH TAX DOES A WORKER PAY WHEN HIS EARNINGS INCREASE BY 10 %?

(% of increased earnings paid in income tax plus social security or "marginal tax rates")*

	Single	*Married with 2 children*
Australia	35	33
Austria	35	23
Belgium	29	24
Canada**	29	27
Denmark	61	54
Finland	45	38
France	21	14
Germany	38	26
Greece	15	13
Ireland**	26	26
Italy	24	23
Japan	21	18
Luxembourg	39	24
Netherlands	43	35
New Zealand	32	31
Norway	47	42
Spain	13	13
Sweden	62	62
Switzerland	28	23
United Kingdom	35	34
United States	34	28

** Income related transfers are not included. Thus marginal tax rates are = to tax/benefit rates.*

*** The income ceiling on social security contributions is reached at an earnings level below that of the typical production worker.*

Marginal Tax Rates: Their Implications for Income Distribution

As governments have come to accept increasing social obligations, their revenue needs have increased and thus marginal tax rates have been rising. This is a matter of increasing concern to both policy makers and the taxpayers themselves.

Table 3 shows the impact on taxes of an increase in gross earnings—10 per cent in this case—for a single worker, and for a worker with two children (5). Here too there are great differences as between countries: the marginal rates average 55 and 50 per cent for the Nordic countries while at the other end of the spectrum the least industrialised OECD countries have marginal rates averaging 14 and 13 per cent respectively. Countries with the highest marginal tax rates generally have the highest receipts from income tax plus employees' social security contributions in relation to GNP.

If one compares the typical worker with someone who earns 10 per cent more, it is possible to have an idea of the effects of the tax system on distribution of income. For example, in the Scandinavian countries the worker with 10 per cent higher gross earnings has a real disposable income that is only 4-6 per cent higher. Thus the tax system is used as a means of redistributing income—by decreasing differentials between gross earnings—even at income levels around those received by the typical production worker.

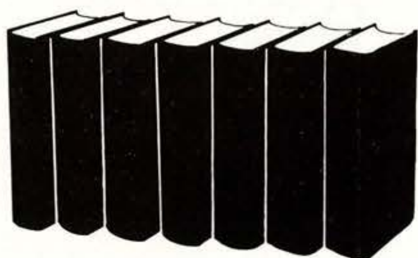
Future Work

As indicated earlier, these results are only the first step in a new kind of international comparison. Work is going on to supplement them in various ways. First, it is proposed to update the exercise to see how the average worker's tax/benefit position has been affected by inflation. Second, the earned income of working wives will be taken into account. Third, if possible, an international comparison will be made of taxpayers at income levels other than that of the production worker having average earnings. Finally, it is hoped that some of the more important income- and expenditure-related cash transfers can be brought into the study.

(3) Tax credits were in use in Austria, Belgium and Finland in 1972, the year for which the data are available.

(4) Employees' social security contributions are similar to personal income taxes in that both are compulsory payments and the amount being paid does not bear any direct relation to the benefits received. It may well be however that the contributions are more acceptable to the taxpayer than income taxes because they can be viewed as insurance payments from which the individual himself will benefit.

(5) Since none of the benefits considered are related to income, these figures also represent a worker's marginal tax/benefit position.



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Problems and

Since there is no single source of energy which unquestionably holds the most promise for the future, long-term strategies for energy R & D should be explicitly aimed at keeping open a sufficient number of alternative options. This is one of the recommendations of an OECD Report, entitled "Energy R & D" (1) *written in the context of OECD's Long-Term Energy Assessment under the guidance of an ad hoc Group of OECD's Committee for Scientific and Technological Policy, chaired by Umberto Colombo. The study is an overview of the scientific and technological aspects of energy problems, and outlines R & D needs and opportunities. Some of the policy conclusions reached in the report are summarised below.*

The incidence of political, economic and social factors, not to mention military ones, tempers the optimism that might otherwise be felt in OECD countries given the multiplicity and diversity of prospects, medium and long-term, offered by science and technology. Energy is, in the first place, related to the structure and choices of society. Its future development will mainly depend on the policy decisions that countries take with regard to the nature of their economic growth and social structure.

Within the framework of these socio-political decisions, science and technology can make a vital contribution, provided an immediate start is made on the vast R & D effort necessary to match the scale of the prospects. Moreover, to be fully effective, this effort must be based on coherent policies at both national and international levels.

Energy is a particularly good illustration of the kind of problem that is currently facing science and technology policy. Ever present but ever changing energy requirements constitute a typical example of the " moving target " which calls for continual progress. A further point which cannot be repeated often enough, is the need to take fully into account—at an early stage—the inherent timescale of all R & D activities. Research programmes started today cannot be expected to produce results for at least ten years, and more probably 15 or 20 years.

Consequently, nothing could be less appropriate in the field of energy than to undertake *"crash programmes"* in response to

y R & D

l Perspectives

already existing crises, the context of which is changing rapidly; such programmes are in fact likely to perpetuate the detrimental effects of "stop-go" policies. Priorities should be established as part of a long-term strategy based on evaluation of future problems and needs. Obviously, such evaluations, and the relevant strategy, will need to be periodically revised to take account of significant changes in trend. Moreover, since there is no single source of energy which unquestionably holds the most promise for the future—in terms of economic advantage, security of supply and environmental suitability—long-term strategies should be explicity aimed at keeping open a sufficient number of alternative options.

Furthermore, implementation of energy R & D strategies should be integrated into the broader framework of policies concerned with management of natural resources.

Finally, in view of the seriousness of the energy problems of developing countries—for themselves and for the industrial countries—it is important to undertake a thorough study of the ways in which science and technology can contribute to their solution, and of the possible role of international co-operation.

The following subjects are considered by the report as the most suitable for immediate international co-operation in R & D:

- *Exploration and evaluation of energy resources*
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- *Energy conservation*
- *Analysis of energy systems.*

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(1) *Published under the responsibility of the Committee for Scientific and Technological Policy, this study was carried out by a team (Gabriel Drilhon, Bruna Teso and Salomon Wald) in OECD's Directorate for Science, Technology and Industry, led by Jean-Jacques Salomon, Head of the Science Policy Division. Geneviève Schmeder contributed to the chapter dealing with the energy problems in developing countries.*

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