

International economic instability - an outline of some major issues

Niels Thygesen:

The purpose of the present conference is to review the very major international economic imbalances that have emerged in the form of recession, inflation and external disequilibria over the past two or three years. They have resulted in a far reaching search for a restructuring of international economic relationships, a search which is only beginning. In analyzing these imbalances we shall make use of a separation of the world into three major regions: (1) the industrial market economies – the OECD countries, (2) the major oil exporters – the OPEC countries, and (3) the non-oil developing countries.¹ Each of these regions is ill-defined and internally heterogeneous; indeed, inequalities inside each of them have become more important in the present crisis. Nevertheless, the separation into the three major regions is a helpful point of departure for the analysis.

Each of the three following sessions deals with one major set of issues in international economic policy. It so happens that each of these sets of issues are dealt with in a specific institutional and negotiation framework. The first session – economic prospects and interrelations in the Atlantic area – reviews

current policy issues in the trade and monetary fields between the United States and Europe. The second – embodied into the so-called North-South dialogue, reviews the relations of the OECD countries with the major oil exporters with special emphasis on energy cooperation. Finally, the third session reviews current issues in the relations of both the former areas with the non-oil developing countries.

It would, of course, be folly to pretend that one could give any deeper insight into any one of these three major problem areas even in the course of several conferences. To attempt to cover them all in one day appears to compound that folly. The justification for this is that much emphasis needs to be given to the interrelationship of the problems. To take the most obvious example, the resumption of “normal” economic growth in the OECD area is essential to the prospects of the less developed countries. Similarly, some minimum of arrangements with the oil exporters on energy supplies and financial cooperation would appear to be a prerequisite for the kind of economic policies in the industrial countries that can sustain long-term growth. It is the purpose of this conference to review these vast problems in their interrelated setting.

Demand management in the OECD area. At first a short diagnosis of how we got into the present crisis state in the international economy. To do so requires looking back beyond the boom of 1972/73 which may be regarded as the immediate cause of the present international slump and of much of the inflation and external disequilibria. The main causes of that boom might be listed as follows:

1. This classification leaves out the socialist countries, which have been linked more peripherally with the economic issues here discussed and with the debate on their possible solutions, and a small number of other non-OECD industrial countries.

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(1) Industrial countries had gradually come to operate at very high capacity utilization levels during the 1960's. Most dramatically this was the case in the United States where unemployment was virtually removed during this period. Despite this many countries individually continued to pursue expansionary policies, aiming for even higher capacity utilization and employment. In retrospect, these were truly overambitious policies; and the awareness now that they were casts a long shadow over what is attempted.

(2) The boom of 1972/73 was to an unprecedented degree a simultaneous one. This multiplied inflationary pressures in raw material markets where supply could not expand elastically because of the past low investment levels in these sectors in developing countries.

(3) There were no financial constraints in the form of inadequate international liquidity to check the forces of expansion. On the contrary, the growth of national money supplies was fed by the vast external deficit of the United States and by factors derived therefrom. The impression that there were no external constraints furthered the high ambitions in national economic policy mentioned under (1) – a process of which a Danish audience will be aware.

(4) At the very peak of the boom in 1973 at least two major events accelerated inflation further: large crop failures and the increase of oil prices.

It is arguable that this latter event was unrelated to the first three mentioned; in any case it is now the general view that it was not the decisive factor in determining

the size of the recession which we are now witnessing. These various factors add up to a coherent picture of why the boom took on such unprecedented magnitude and why the subsequent down-turn had to be larger than any other experienced since the second world war. The picture is that the present slump is mainly a cyclical phenomenon explainable in terms of traditional economic factors. Its severity may have been conditioned by the fact that the 1972/73 boom appears to have ended a very long upward trend, but the explanation is still largely a cyclical one.

This view clearly plays down the role of the oil price increase itself. Looked at in retrospect, what that amounted to, was approximately a transfer of 2 per cent of the collective gross national product of the OECD area to the oil exporters. The longer-term trend of growth which the OECD countries had come to regard as normal during the preceding decade was above 4 per cent; thus the transfer required amounted to giving up less than six months of GNP growth. It may well be asked how this comparatively minor shift in international economic relations has contributed to the loss of a further couple of years' normal growth in the OECD area. To get an impression of this one must relate the oil price increase to the general inflationary climate and, particularly, to the imbalances it has created or aggravated among the industrial countries – not to speak of the blow to the prospects of the less developed countries to which we shall return later.

The three tables and the chart relating to the external and internal imbalance together give main indications why the demand management situation is now in a state of deep

freeze. The salient features to retain from Tables 1-3 and the chart seem to be:

Table 1. An initial (1973) approximate balance on the total OECD current account has passed through a violent deterioration in 1974 because of the oil increase back to a level which is not *in the aggregate* and by itself of any frightening magnitude. The deficit of the non-oil developing countries, larger in absolute amount and infinitely larger in proportion to their trade flows and other economic variable, is clearly the main danger signal in the 1975-76 constellation.

Table 2. The pattern of trade imbalances *inside the OECD area* is, however, frightening. Comparing 1973 and the 1976 forecasts, the huge German surplus has stayed, mainly because Germany has preserved its 1973 terms of trade despite the oil price explosion. The combined small surplus of North America and Japan also closely matches that of 1973. France remains in near balance on its trade account, while Italy has considerably reduced and the UK slightly increased their respective deficits. What this implies is that more than the whole of the deterioration of the collective OECD trade balance has fallen on the smaller countries, here listed as "other OECD", which were already in large initial deficit. The picture would be even starker, if the Benelux countries, which have tended to be in slowly rising trade surplus throughout, were taken out of this group. Other Northern and Southern European countries have a forecast collective trade deficit of some \$ 13 billion. This is by any standard abnormal and unsustainable.

Table 3. A significant part of the explanation of this highly uneven external development lies, as regards 1974-75, in the differential growth of real demand. In both of these two years demand increased or declined significantly less in the smaller European countries than in North America, Japan and the four large European countries taken together; the trade balance, being above all sensitive to swings in relative income trends, responded accordingly. What is alarming about the prospects for 1976 is that, despite a reversal of the 1974-75 pattern with the smaller countries now experiencing a growth of real output well below that of the larger countries, the collective trade balance is projected about unchanged from 1975 at the above staggering figures.

The degree of under-utilization of resources in the United States, Japan and the four largest European countries is of the order of 10 per cent, except in Japan where it is more than twice as high. No significant inroads on that slack are in prospect in 1976 except for the United States. While it is arguable that the extrapolation of past growth trends overestimates present productive capacity, there can be no doubt that the degree of slack is now well beyond anything experienced during the post-war period.

The general question raised by this outline is a simple one: Is there scope for more expansionary policies in the larger countries than those presently followed which form the basis for the forecasts? If not, is the level of deficits projected for the smaller countries (and possibly of the United Kingdom and Italy) financeable?

There are two philosophies with which one may approach the former question. The

first may be labelled "stimulationism"; it would be attributed by economists to the Keynesian tradition and in the political world most clearly to leading spokesmen for the US Democratic Party. It claims that one would not run the risk of repeating past mistakes by adding to present fiscal and monetary stimuli. The major past mistake has been to conduct gradually more expansionary policies during an upswing; what is now suggested is large once-and-for-all increases in the policy stimuli; particularly in the monetary field. The second philosophy is of a more pessimistic nature. Among economists it would be labelled as monetarism; politically it finds expression in the German government and, almost as forcefully, in the US administration. It argues that an intended once-and-for-all stimulus would not easily be removed and that it would bring in its wake still higher and more variable rates of inflation with the ensuing high social costs.

Even if one's sympathies are with the stimulationists – which mine are not given the precarious state of slowly decelerating but still high inflationary expectations and the extremely large public sector deficits – it must be recognized that the views of the governments in the three major economies of the world – the US, Germany and Japan – make it highly likely that the answer to the first question is in the negative as regards 1976. This brings up the second question.

The small country deficits are with few exceptions, such as Finland and Spain², probably manageable over the next year or so, though hardly without calling into play official borrowing and intergovernmental re-

channelling mechanisms to a larger extent than in 1974-75. On the other hand neither national public opinion in the deficit countries, nor the existing mechanisms for international economic coordination appear at present quite prepared for such international actions which require a mixture of tact and firmness. There is too much politeness in the relations of most national governments to their electorate as well as in intergovernmental relations (in the European Communities, OECD and IMF).

Can these issues be handled among the OECD countries over the next one or two years through a mixture of continued stimulatory policies in North America, Japan and Germany and internationally coordinated actions to finance and gradually phase out the external deficits in most of the rest of the OECD area? The answer to this – at least as much as the ongoing discussions on international monetary reform in the IMF and further trade liberalization to which Dr. Jones and Mr. Gundelach address themselves – will determine whether the industrial countries can handle in a constructive way their relations with the oil exporters and the non-oil developing countries.

The position of the oil exporters in the world economy. It is possible to be brief here in view of the opportunity in a later session to go into the analysis of the main determinants of this position, viz. the longer-term outlook for oil consumption and prices. The main points to be retained are:

The oil exporters have their problems of inequalities. The surpluses of the OPEC countries with large populations, urgent import needs and/or major development plans – the "high" absorbers – are already back

2. Spain has subsequently devalued.

in approximate collective balance on current account. The surplus is concentrated on four countries, the major one being Saudi Arabia. This process has moved even more swiftly than anticipated and has obvious implications for OPEC strategy.

For the next few years the collective OPEC surplus will decline only very slowly. A surplus in 1980 of \$ 25-30 billion on OPEC's current account is a likely order of magnitude, *if* growth resumes at 5 per cent p.a. from 1976 onwards in the OECD area and the price of oil relative to the price of OECD exports does not change. A few years hence the most important single factor will have become the elasticity with which the demand for imported oil responds to the shift in the relative price of oil as a result of conservation efforts and a larger role for non-oil energy sources. But whatever optimistic assumptions one makes about the import demand elasticity, the scope for reduction in relative oil prices etc., a substantial OPEC surplus will be with us in 1980. This does not contradict Norman Macrae's thesis that the longer-run prospect is for a glut in oil.

Table 4. So far the OPEC surplus has not given rise to the severe crisis in world financial markets anticipated two years ago. The investment pattern of the OPEC countries can now be roughly assessed for 1974 and 1975 with the help of IMF data. While bank deposits and money market placements continue to be the most important channel, longer-term lending in OECD countries and, even better, bilateral or multi-lateral development assistance, constitute a rapidly rising share. And the short-term placement have not shifted violently between

currencies. There is still a need for strengthening the institutional framework for OPEC longer-term investment in the form of trust funds or otherwise, but basically it should be possible for the discussions in the financial commission during the forthcoming North-South Dialogue to proceed in a relaxed atmosphere.

One major question which I propose for discussion is that of indexation – not in the sense of the oil price and other raw material prices, which is anathema to economists (because the locking of important relative prices in international trade blocks the allocative efficiency of a market system) and obviously to OECD policy makers, but indexation of financial claims. This, too, is firmly resisted by the OECD countries, but I hope that the discussion in the afternoon session could bring out clearly the issues involved. Would not adoption of some form of financial indexation encourage the low absorbers in OPEC to keep up production thereby facilitating a longer-term agreement on oil price and supplies?

The position of the non-oil developing countries. Here, too, it is possible to be brief, since the issues for discussion are clearly outlined in Professor Nyboe Andersen's paper. The overall magnitude of the external imbalance of the developing countries (LDCs) was already outlined in Table 1. The reason it has become and remained so overwhelmingly large is the product of five factors:

- (a) the collective deficit in 1973 and before was already very sizeable;
- (b) the extra oil bill was larger in per cent of total initial imports in most of the significant LDCs than for the OECD area;

(c) the oil price shock followed (or coincided with) large increases in food and fertilizer prices, commodities in which the LDCs are major net importers; and

(d) the adjustment mechanisms brought into play by the OECD countries – substitution away from oil, temporarily slower economic growth, and automatic reflow of a very large part of OPEC current surpluses because of the near-monopoly of the OECD area in supplying internationally attractive financial assets – are not available to LDCs; on the contrary;

(e) the recession in the OECD area has greatly aggravated the crisis for the LDCs.

Inequalities among the LDCs are even greater than in the other two groups and it is a gross oversimplification to treat them as one aggregate. Nevertheless, one is forced to do that to obtain up-to-date and comprehensive data.

Table 5. During the years 1968–73 it was possible to finance sizeable deficits on trade, services and private transfers out of official transfers (overwhelmingly from the OECD countries), net direct investment and long-term borrowing, leaving room for some build-up of the international reserves of the LDCs. Ratios of debt to exports and of interest plus repayments to exports began to decline in the aggregate. In retrospect, though this will be a surprise to those who have worked in the area of economic development, these were the good years in which growth was beginning to live up to expectations and external problems were manageable. In 1974–75 the trend has been reversed; growth is sharply reduced, external deficits large and debt levels and ser-

vicing back to 1970–72 averages – and rising further therefrom. One of the most urgent initiatives coming out of the UN Special Session is the suggestion for UNCTAD to convene a debt conference. If one is concerned with some rules of the game in international financial transactions as a means of assuring in the long run large transfers of resources through lending, one can hardly contemplate a series of uncoordinated defaults or last-minute efforts to reschedule debt. Outright repudiation of debt, though obviously in the short run the most efficient and charitable method for transferring resources would have too serious financial and political implications.

Table 6. The absolute figures on aid look deceptively good, but bilateral flows from the OECD countries have only roughly kept pace with the rise in the prices of goods and services entering into development assistance; in real terms the aid effort of the OECD area has stabilized and that is very far from adequate in a period when development plans have been impaired by declining export revenues. The only encouraging figures in Table 6 are those relating to the rapidly increasing role of multilateral institutions and OPEC.

Development assistance in the traditional sense of governmental appropriations for bilateral or multilateral aid, though vitally important, is clearly taking second place in the strategy of the LDCs to their pressure to improve directly their trade balance through a cartellization of raw material markets and easier access for their manufactured exports to OECD countries. This is realistic in the sense that the potential gains here

are greater and the hopes of overcoming political resistance probably no smaller.

The ideal prescription, given the current constellation of economic prospects in the three broad regions here surveyed, would seem to have the following main ingredients: (1) stimulation by the OECD countries in strong balance of payments positions not of their own domestic demand, but of activity in the non-oil developing countries through a mixture of further import liberalization and direct investment; the latter would shift some of the industries that have tended to become uncompetitive after the explosion of wages in Europe and North America; (2) greater specialization on food production and exports in the OECD area.

Such a policy would initially further aggravate unemployment in North America and Europe; but it would inject additional demand where it was most needed, viz. in the non-oil developing countries, and it might get around the objections to additional fiscal and monetary stimuli in the inflation-conscious economies of the OECD. We have

run into a dilemma in the leading industrial economies. The main methods for boosting domestic demand – larger public expenditures or higher private consumption through lower taxes – do not accord well with longer-run preferences as to the composition of demand; and they both entail a considerable risk of rekindling inflation. Is it too much to hope that such considerations will push policy-makers into a policy of the above type which cannot be met with the objections to a traditional expansionary policy at home? If so, the resolution from the UN Special Session and the papers now being presented in the commissions under the North-South Dialogue contain much digestive food for thought about the specifics of such a policy.

References:

- CHENERY, H. B. "Restructuring the World Economy", *Foreign Affairs*, January 1975.
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TABLE 1. *Trade and Current Balances of Major Regions*¹. (in billions of US dollars)

| Current balance (including official transfers) | | | | |
|--|------|-------|-------|-------|
| OECD | 2½ | - 33¼ | - 6 | - 17½ |
| OPEC | 3½ | 67 | 43 | 46½ |
| Non-oil developing countries | - 2½ | - 17½ | - 27 | - 21¼ |
| Other ² | - 4 | - 10 | - 14½ | - 13½ |
| Discrepancy | - ½ | 6¼ | - 4½ | - 5¾ |

NOTES: 1. OECD estimates and forecasts based on data recorded by OECD countries. 2. Sino-Soviet area, South Africa, Israel, Cyprus, Malta and Yugoslavia.

SOURCE: *OECD Economic Outlook* 18, December, p. 64.

TABLE 2. Trade Balances of OECD Countries and Components of Change 1973-76. (in billions of US dollars)

| | 1973 | | | Changes from 1973 to 74 | | | Changes from 1974 to 75 | | | Changes from 1975 to 76 | | | 1976 |
|----------------------|---------|----------|-----------|-------------------------|---------|---------|-------------------------|----------|----------|-------------------------|----------|----------|---------|
| | Total | Volume | Oil Price | Other | Total | Volume | Terms of Trade | Total | Volume | Terms of Trade | Total | Volume | |
| Canada | 3 | - 1/4 | 3/4 | 2 | - 2 3/4 | - 1 1/2 | - 1 1/4 | 1 3/4 | 1 | 3/4 | 1 3/4 | 1 | 3/4 |
| United States | 1 | - 6 1/4 | - 17 1/4 | 3 | 15 1/2 | 12 | 3 1/2 | - 6 1/4 | - | 6 3/4 | - 6 1/4 | - | 6 3/4 |
| Japan | 3 1/2 | - 2 | 7 1/2 | 4 1/2 | 4 | 7 1/2 | - 3 1/2 | - 3 | - 3 | 0 | - 3 | - 3 | 0 |
| France | 1 | - 4 3/4 | - 6 3/4 | - 3/4 | 6 | 3 3/4 | 2 1/4 | - 1 3/4 | - | 1 3/4 | - 1 3/4 | - | 1 3/4 |
| Germany | 15 | - 6 3/4 | - 7 1/2 | 5 3/4 | - 4 | - 11 | 7 | - 1 1/2 | - | 1 1/2 | - 1 1/2 | - | 1 1/2 |
| Italy | - 4 | - 4 1/2 | - 5 1/4 | - 3 | 7 1/2 | 7 | 1/2 | 0 | - | 1/4 | 0 | - | 1/4 |
| United Kingdom | - 5 1/2 | - 6 3/4 | - 6 1/4 | - 1 3/4 | 5 1/4 | 2 1/2 | 2 3/4 | 1/2 | - | 1 1/4 | 1/2 | - | 1 1/4 |
| Other OECD | - 6 3/4 | - 15 1/2 | - 11 3/4 | - 1 | 2 | 4 1/4 | - 2 1/4 | 0 | 2 1/4 | - 2 1/4 | 0 | 2 1/4 | - 2 1/4 |
| Total OECD | 7 | - 34 | - 68 | 8 1/2 | 33 3/4 | 24 1/4 | 9 1/2 | - 10 1/4 | - | 9 1/4 | - 10 1/4 | - | 9 1/4 |
| of which with | | | | | | | | | | | | | |
| OPEC | - 50 | 9 1/2 | - 62 1/2 | 5 | 19 | 23 1/2 | - 4 1/2 | 0 | 4 1/2 | - 4 1/2 | 0 | 4 1/2 | - 4 1/2 |
| non-oil developing | | | | | | | | | | | | | |
| countries | 5 | 8 | - 2 1/2 | - 1/2 | 9 1/4 | 1/2 | 8 3/4 | - 5 3/4 | - 10 1/4 | 4 1/2 | - 5 3/4 | - 10 1/4 | 4 1/2 |
| other non-OECD | 5 3/4 | 6 | - 3 | 2 3/4 | 5 1/4 | 0 | 5 1/4 | - 2 1/4 | - 2 1/4 | 0 | - 2 1/4 | - 2 1/4 | 0 |

NOTE: Detail may not add, due to rounding.

SOURCE: OECD Economic Outlook 18, December 1975, p. 61 (Tables 25 and 26).

TABLE 3. *Growth of real GNP (per cent).*

| | Weight in total ³ | Average 1959/60 to 1972/73 | From previous year | | |
|--|------------------------------------|-------------------------------------|--------------------|-------------|-----------|
| | | | 1974 | 1975 | 1976 |
| Seven major countries | | | | | |
| Canada | 4.0 | 5.1 | 2.8 | - 1 | 4¼ |
| US | 39.6 | 4.2 | - 2.1 | - 3 | 5¾ |
| Japan | 12.6 | 10.9 | - 1.8 | 1¼ | 4¼ |
| France ¹ | 7.6 | 5.9 | 3.9 | - 2 | 3 |
| Germany | 10.7 | 4.9 | 0.4 | - 3¾ | 3¼ |
| Italy ¹ | 4.2 | 5.6 | 3.2 | - 4½ | 1½ |
| UK ¹ | 5.2 | 3.3 | 0.1 | - 2¼ | 0 |
| Total of seven | 83.9 | 5.5 | - 0.6 | - 2¼ | 4¼ |
| Other OECD: | | | | | |
| Australia ¹ | 2.2 | 4.9 | 1.0 | 1¾ | 4¼ |
| New Zealand ¹ | 0.4 | 3.5 | 4.5 | 1 | ½ |
| Austria | 0.9 | 5.2 | 4.4 | - 3 | 1 |
| Belgium | 1.5 | 4.9 | 4.0 | - 2½ | ½ |
| Denmark ¹ | 0.9 | 4.7 | 1.3 | - 1½ | 4 |
| Finland ¹ | 0.6 | 5.4 | 4.2 | - 1 | 0 |
| Greece | 0.6 | 7.8 | - 3.1 | ¾ | 2½ |
| Ireland | 0.2 | 4.1 | 0.2 | - 3¾ | ¼ |
| Netherlands ¹ | 2.0 | 5.2 | 3.3 | - 2 | 1¾ |
| Norway ¹ | 0.7 | 4.9 | 3.7 | 4 | 5 |
| Spain | 2.4 | 7.3 | 5.0 | - 1 | 1 |
| Sweden ¹ | 1.6 | 4.1 | 4.2 | 0 | ¼ |
| Switzerland | 1.3 | 4.6 | - 0.8 | - 4 | 1 |
| Total of other OECD² ... | 16.1 | 5.5 | 2.7 | - 1 | 1¾ |
| Total OECD | 100.0 | 5.5 | - 0.1 | - 2 | 4 |

NOTES: 1. GDP. 2. Includes also Ireland, Luxembourg, Portugal and Turkey with a total weight of 0.8. 3. 1974 GNP/GDP weights and exchange rates.

SOURCE: *OECD Economic Outlook* 18, December 1975, pp. 13 & 15.

TABLE 4. OPEC's use of surplus (per cent)

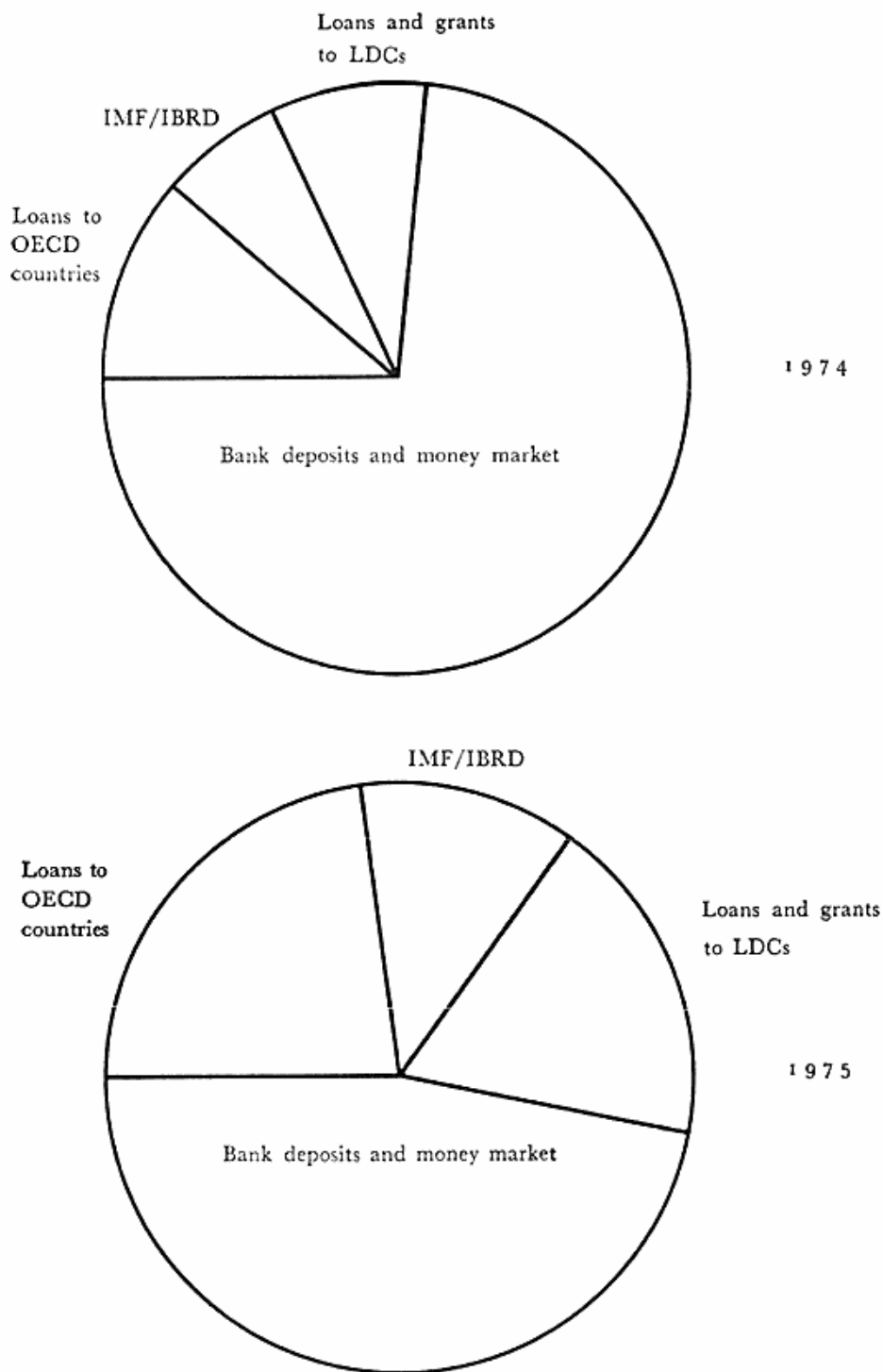


TABLE 5. *Non-Oil Developing Countries: Outstanding External Debt, Debt Service, and Export Earnings, 1968-75 (Billions of dollars or percentages, as indicated).*

| | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 Prel. | 1975 Est. |
|---|------|------|------|------|------|------|---------------|--------------|
| Outstanding external public debt (year-end value in billions of U.S. dollars) (1) | 31.5 | 35.2 | 40.1 | 46.4 | 53.0 | 62.5 | 78.0 | 95.6 |
| Annual exports of goods and services (in billions of U.S. dollars) | 33.6 | 37.1 | 40.1 | 42.4 | 50.6 | 71.4 | 98.3 | 92.5 |
| Ratio of year-end debt to annual exports (per cent) | 94 | 95 | 100 | 109 | 105 | 88 | 79 | 103 |
| Annual debt service payments: (2) | | | | | | | | |
| Value (in billions of U.S. dollars) ... | 3.6 | 4.1 | 4.6 | 5.0 | 5.8 | 7.4 | 8.6 | 10.8 |
| Ratio to annual exports (per cent) ... | 10.7 | 10.9 | 11.5 | 11.8 | 11.5 | 10.4 | 8.7 | 11.7 |

NOTES: (1) Including publicly guaranteed debt; net amounts disbursed by lenders. (2) Interest charges and repayments of principal.

SOURCE: International Monetary Fund unpublished estimates, December 1975.

TABLE 6. *Net flow of resources to developing countries 1970-74.*

| | 1970-72 average | 1973 | 1974 |
|--|-----------------------------|-----------------------------|------------------|
| | (in billions of US dollars) | | |
| Bilateral flows from | | | |
| DAC countries ¹ | 15.3 | 21.7 | 24.6 |
| OPEC countries | 0.4 | 0.5 | 2.2 |
| Centrally-planned economies | 1.1 | 1.3 | 1.4 |
| Other countries | 0.1 | 0.3 | 0.2 |
| Total | 16.9 | 23.8 | 28.4 |
| Multilateral institutions | 2.1 | 3.2 | 5.4 ² |
| Estimated Eurocurrency borrowing, net | 2.1 | 8.0 | 7.0 |
| Total, all flows | 21.1 | 35.0 | 40.8 |
| Net flow of DAC countries as percentage of total receipts | 84 | (in per cent) 71 69 | |
| Net flow as percentage of donor GNP | | | |
| DAC countries | 0.79 | 0.79 | 0.81 |
| OPEC countries | 1.10 | 1.00 | 2.80 |
| Centrally-planned economies | - | 0.15 | 0.15 |

NOTES: 1. 17 OECD-countries accounting for app. 96 per cent of OECD GNP. 2. Including \$ 1.1 billion through IMF Oil Facility.

SOURCE: *Development Cooperation: 1975 Review*, OECD, pp. 118-19.

are greater and the hopes of overcoming political resistance probably no smaller.

The ideal prescription, given the current constellation of economic prospects in the three broad regions here surveyed, would seem to have the following main ingredients: (1) stimulation by the OECD countries in strong balance of payments positions not of their own domestic demand, but of activity in the non-oil developing countries through a mixture of further import liberalization and direct investment; the latter would shift some of the industries that have tended to become uncompetitive after the explosion of wages in Europe and North America; (2) greater specialization on food production and exports in the OECD area.

Such a policy would initially further aggravate unemployment in North America and Europe; but it would inject additional demand where it was most needed, viz. in the non-oil developing countries, and it might get around the objections to additional fiscal and monetary stimuli in the inflation-conscious economies of the OECD. We have

run into a dilemma in the leading industrial economies. The main methods for boosting domestic demand – larger public expenditures or higher private consumption through lower taxes – do not accord well with longer-run preferences as to the composition of demand; and they both entail a considerable risk of rekindling inflation. Is it too much to hope that such considerations will push policy-makers into a policy of the above type which cannot be met with the objections to a traditional expansionary policy at home? If so, the resolution from the UN Special Session and the papers now being presented in the commissions under the North-South Dialogue contain much digressive food for thought about the specifics of such a policy.

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| Other ² | - 4 | - 10 | - 14½ | - 13½ |
| Discrepancy | - ½ | 6¼ | - 4½ | - 5¾ |

NOTES: 1. OECD estimates and forecasts based on data recorded by OECD countries. 2. Sino-Soviet area, South Africa, Israel, Cyprus, Malta and Yugoslavia.

SOURCE: *OECD Economic Outlook* 18, December, p. 64.