Oil, Commodities and Prices

Economic and Social Consequences of an Evolving World Situation

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TOWARDS the end of 1973 the Arab oil-producing nations embarked on a series of concerted cutbacks in production, large price increases and embargoes on supplies to certain groups of countries. While no doubt representing in part an attempt to influence the course of political events and diplomacy in the Middle East, these measures appear to have been dictated by other considerations as well—a desire by the governments concerned to conserve what in many cases was their sole, and finite, resource, to increase revenues and to achieve much greater control over the foreign-owned oil industries operating in their countries. The changes in the price and supply of oil, together with certain other commodities, which followed from this confluence of events in late 1973 have had pronounced effects throughout the international economic order. Most nations, developed and developing, oil-exporting as well as oil-importing, have seen their internal economic growth and balance of payments position affected in one way or another.

The widespread concern aroused by this situation, and by the oil " crisis ", in particular, has naturally focused attention on such matters as energy consumption requirements, production potential and alternative technologies, as well as on the actual and possible effects of higher-priced oil on production capabilities, real growth, and capacities to import goods needed for economic development.

All these are vital questions and as such they must comprise the basis of continuing research, debate and action. At the same time, however, there are very real social consequences which flow from the economic and financial effects of price decisions and market developments in oil and

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other important commodities. Most studies carried out to date have tended to focus primarily on the economic, technical and political dimensions of the problem. There has been much less attention given to the very serious threats to the achievement of such social objectives as full and stable employment and rising living standards. The purpose of this article is to examine the more critical economic impacts of the present and prospective situation in so far as they have actual and potential social consequences. Special emphasis is placed on the implications for labour.

Oil, commodities and the new international economic order

The scope of this article is not limited solely to consideration of the economic and social effects of higher-priced oil. At the special session of the United Nations General Assembly convened in April 1974 to study the larger problem of raw materials and development, the Group of 77 non-aligned nations persuasively argued that not just oil but the entire pattern of existing economic and trade relationships between the developing and industrialised countries should be the subject of discussion culminating in a bold and comprehensive programme of action for a new international economic order. Moreover, some have argued that the nearly fourfold increase in oil prices in late 1973 has to be seen in the light of an economic system in which developing countries—largely exporters of agricultural and industrial raw materials and importers of manufactured goods—have long suffered from a price structure that has impeded their development.

In addition, the economic crises experienced by a number of countries in 1973 and 1974 were caused in part by substantial price rises and in some instances considerable supply shortages of commodities other than oil. Natural phenomena such as the severe drought experienced in parts of Africa and Asia combined with rising demand to push up the prices of critical primary products such as wheat and soya beans to exceptionally high levels. During the course of 1973 the prices of certain raw materials, copper and rubber being notable examples, rose by amounts in excess of 70 or even 100 per cent. Higher commodity prices contributed to the larger inflationary phenomenon prevailing in most parts of the world.

Nevertheless, in this consolidated treatment of oil and other commodities, it is important to stress that no other single non-food commodity appears to represent so critical an input requirement. Notwithstanding the incentive thus provided to speed up the development of alternative energy resources, the productive capacity of most countries will remain dependent at least for the near future on large quantities of oil and oil derivatives. One can argue that oil has for too long been undervalued, or that the low relative cost of oil has inhibited more extensive exploration, development and utilisation of varied energy resources; still, and regard-less of the longer-run imperative to view oil pricing and trade in terms of the need for structural reform of the international economy, there can be no overstating the severe economic impact—and the concomitant social effects—that the higher price of oil is having at least in the short run.

Oil supply and price movements

In October 1973 the member States of the Organisation of Petroleum-Exporting Arab Countries (OPEAC) agreed to a system of progressive reductions in petroleum production, later followed by the placing of an embargo on oil supplies to the United States and the Netherlands among several other countries. In December it was decided to restore production to 85 per cent of the September level, and in March 1974 most countries lifted the embargo on oil to the United States. By August, the demand for oil had slackened, and world oil production was resulting in surpluses of between 3 and 4 million barrels a day. During that month, several members of the Organisation of Petroleum Exporting Countries (OPEC) [1] announced cutbacks in production in order to keep prices up. Thus 12 months after the initial cutbacks, it was high prices rather than a shortage of supply that caused most concern.

From about $3 a barrel in October, the posted price of oil rose to $11.65 per barrel in December 1973, and in July 1974 Venezuela increased its average posted price for export crude oil to $14.43 a barrel. At the June OPEC meeting in Quito, Ecuador, and again at the Vienna meeting in September, several of the oil ministers argued for further price increases to offset the higher cost of the goods purchased from industrialised nations.[2] While Saudi Arabia appears to have opposed these moves, the possibility of linking further oil price increases to an index of the cost of manufactures is an issue that is likely to be raised again at future OPEC meetings.

The demand for oil, however, is not infinitely inelastic. By June 1974, high prices had already begun to result in surpluses. Apart from increases for the purpose of offsetting, at least in part, the rates of inflation in major industrialised countries, further sharp rises in oil prices seemed unlikely. Yet it also appeared that OPEC members were unwilling to permit reduced demand to force prices down much below their current levels. It might be realistic to assume that over the short to medium term, prices will settle somewhere between $9 and $12 a barrel. This would suggest that the severe economic and consequent social effects already being

[1] The non-Arab members of OPEC are Iran, Venezuela, Nigeria, Indonesia and Ecuador. Gabon is an associate member.

[2] As these imports are bound to be considerably more expensive, in part because of the rise in oil prices, any link between prices of oil and manufacturing imports for instance could produce a ratchet effect, each raising the price of the other.

experienced by an increasing number of developed and developing countries can be projected forward, in some cases with possibly even more serious results.

Some basic economic effects of the oil situation

At least four fundamental economic effects can be discerned which may be associated to a considerable extent with the energy situation as it has evolved since October 1973. They are a slackening of economic growth, a further boost to the inflationary spiral, a massive transfer of purchasing power from oil-importing to oil-exporting countries with consequent balance of trade effects, and structural changes. While these effects are inter-related, for analytical purposes they will be discussed separately.

Slackening of economic growth

A most important effect has been the check to economic growth in many industrialised as well as developing countries. The past decade has made it abundantly clear that growth alone cannot guarantee and certainly is no substitute for development. Nevertheless, growth, while not the sole condition for increasing employment and improving the living standards of the poor, can if conducted along suitable lines facilitate progress towards the realisation of social objectives.

Many of the industrialised economies, including two of the largest—the United States and Japan—have begun to experience sizeable slowdowns. In the United States, during the first quarter of 1974, GNP fell by 6.3 per cent in real terms. This was followed by second and third period declines in real GNP of 1.6 per cent and 2.9 per cent respectively, marking the first time since 1960-61 that real GNP had fallen during three consecutive quarters. In the United States two consecutive quarters of declining GNP are generally regarded as a key indicator of a recession. In Japan, the world's largest importer of petroleum, real economic growth declined by 5 per cent during the first quarter. The implication of such economic downturns cannot be equated with the starvation and other severe manifestations of poverty associated with the worsening conditions in some developing countries; still the social consequences can be great, and slackened or even negative growth in industrialised countries will intensify the much more serious growth effects felt in many developing countries whose principal markets are in developed countries.

Among developing countries the impact of the energy situation is, of course, not uniform. On the one hand, there are some 15 developing countries, the main exporters of petroleum and natural gas, which have energy surpluses. On the other, there are about 75 developing countries which are energy deficient, in some cases critically so.

Though developing countries import much less oil than the major developed countries, it is of crucial importance to the modern sectors of their economies. The increase in the oil bill of many developing countries will amount to a substantial proportion of their total export earnings for 1973 and 1974.[1] The aggregate increase in the developing countries' oil bill in 1974 is expected to be of the order of $8,000-10,000 million. Some of these countries do not have the cash or borrowing power to buy the oil they will need at higher prices and will simply have to do without a large part of their normal supply. India's imports of a wide range of items, including crude oil, may have to be slashed by 20 per cent.[2] Moreover, the oil crisis comes on the heels of an already serious food shortage in many countries. If prospects in 1974 are gloomy, developing countries may suffer further in 1975 and 1976 from falls in the prices of important export commodities which seem likely to follow the check to growth in the developed countries, as well as from the running-down of developing countries' foreign exchange reserves as they seek to maintain oil and other necessary imports.

Most developing countries face critical choices. They must either reduce oil imports and suffer losses in production and jobs or cut back imports of other badly needed products, including food and fertilisers.[3] The present oil situation has cut deeply into the production of fertilisers, and some countries are having difficulty in getting adequate supplies at any price. The success of the " Green Revolution ", which makes crops more vulnerable than they were in the past to shortages of fertilisers and pesticides, is jeopardised. It is estimated that a fall of 1 million tons in India's imports of fertilisers would cause a decrease of 10 million tons in its agricultural production. A most serious feature of the energy situation is the setback it administers to the efforts of poor countries to keep food supplies growing faster than population. With growing use of tube-wells and tractors, agriculture is also increasingly vulnerable to shortages of diesel oil. Many developing countries are likely to suffer an additional blow from reduced tourism.

By and large, it is clear that the twin problems of higher oil prices and scarcer and dearer fertilisers and pesticides are likely to reduce economic growth very substantially in many countries, with devastating impact on some such as India, Bangladesh and Sri Lanka.[4]

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[1] Some estimates suggest that in 1974 India would have to spend 50 to 80 per cent of her export earnings on oil.

[2] The balance of payments of India, as of other developing countries, suffers not only from higher oil prices but also from the inflationary increases in the prices of manufactured imports, which the oil situation is bound to intensify.

[3] Oil is a most important raw material in the production of many types of fertiliser.

[4] Production in most Sri Lanka tea estates will become uneconomic as a result of the increase in the prices of petrol, diesel and furnace oil. These price rises will largely cancel out a government subsidy to the plantations which brought many tea estates back into profitability. Moreover, it is clear that the foreign exchange burden of oil and fertiliser (as well as rice and

Further boost to the inflationary spiral

Inflation had become a serious problem for most nations before the dramatic rise in oil prices. Yet the higher prices for oil introduced another very powerful twist to the upward price spiral. According to certain estimates, if oil prices remain at current levels, by the time all the direct and indirect effects have worked their way through the system, they may readily add 3 or 4 per cent to the rate of inflation in OECD countries.

In industrialised countries, particularly in the United States, higher oil costs have had a substantial effect on the transport sector. Petrol, automobiles, both international and domestic air travel, and freight transport are among the transportation-related industries which have had to pass on these higher costs to the consumer. The cost of heating oil and many petroleum and petrochemical products continues to rise. In the United States, at the end of June 1974, industrial prices stood 21.9 per cent higher than a year earlier, largely reflecting the effect of earlier increases in energy and other raw material prices. For the 12 months up to July 1974, the average annual rate of inflation in OECD countries exceeded 13 per cent. Nineteen of the 24 member nations were experiencing annual rates of inflation in double figures. As most national leaders and policy makers were discovering, inflation in excess of 10 per cent continued for any length of time becomes increasingly resistant to most control measures.

Notwithstanding the extremely adverse effects inflation has been having on industrialised market economies, as with growth it is mainly the developing countries that are most harmfully exposed. The fear is that, as we have already seen, a country such as India with limited foreign currency reserves will have to make major downward adjustments in its imports of oil and fertiliser. With less fertiliser and less oil for fertiliser manufacture, the wheat harvest will be reduced and food will become scarcer and costlier than at present. This will necessitate still larger imports of wheat [1] if famine is to be averted, leaving even less foreign currency for petroleum and other imports.

Along with India, the developing countries which appear to be the principal sufferers from higher prices are those whose economies do not stand to benefit from the recent world-wide increase in commodity prices.

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wheat) imports at higher prices threatens to disrupt completely the import capacity and consequently the planned growth of the economy. The economic problems to which India is exposed are analysed at some length in Economist Intelligence Unit: *Oil and economic growth*, QER Special No. 15 (London, 1974). These include reduced output of steel, cement and producer goods, a setback in transport and a severe setback to the fertiliser industry. These shortages will lead to bottlenecks in the supply of a whole range of other goods as their effects feed through the economy. The 5.5 per cent growth target is wholly irreconcilable with the oil situation, and the Fifth Plan has been rendered almost meaningless and has had to be revised. There is every prospect that 1974 will turn out to have been a year of minimal or possibly even zero or negative growth.

[1] A recent estimate places India's food import needs for 1974 at between 7 million and 10 million tons.

Some developing countries which export large quantities of industrial raw materials and foods whose prices have risen substantially can compensate, at least in part, for higher oil prices. Yet in Asia alone, Sri Lanka, Bangladesh and the Republic of Viet-Nam are among those nations unable to generate sufficient foreign exchange to meet their much higher import bills. At the same time, the steep increase in energy costs will have severe consequences for developing countries whose recent impressive economic growth has been highly dependent on imported fuel. The Republic of Korea and Brazil are notable examples. Moreover, according to government sources, Brazil—which imports 70 per cent of its petroleum—is expecting inflation to reach 32 per cent by 1975 owing to the rise in petroleum prices. This would represent a setback for Brazil's inflation control efforts which were relatively successful in 1973.

Transfer of purchasing power and resulting balance of trade effects

Income which would have been spent in oil-importing countries is being transferred in large amounts to oil-exporting countries.[1] To varying degrees, the capacity of the OPEC nations (many of which have small populations) to invest resources internally and to absorb vastly increased imports of consumer and capital goods is limited, at least in the short run, by infrastructure and human resource requirements. Thus, according to recent estimates, the total reserves of the oil-exporting nations, after payments for imports, are likely to exceed $60,000 million by the end of 1974 and $140,000 million by the end of 1975.[2]

Of special concern are the global economic consequences that could result from a drop in aggregate world demand possibly exceeding $40,000 million in one year's time: this is the approximate figure to which it has been estimated that the collective current account deficit of the industrialised non-socialist countries will then amount. The critical danger, and one that is already being evidenced, is that developed countries with large current account deficits [3] are deflating in order to try to improve their

[1] Oil revenues accruing to OPEC member governments rose from the equivalent of $2,300 million in 1960 to $7,700 million in 1970, $14,500 million in 1972 and to $24,000 million in 1973. The rise in the posted price of Gulf oil from $5.10 to $11.65 a barrel took place only at the end of that year, and the rise to $5.10 only in October. The additional cost of oil imports in 1974 as compared with 1973 is estimated at about $50,000 million for developed countries and, as we have seen, about $8,000-10,000 million for developing countries. Estimates depend of course on assumptions regarding prices and their effect on demand. These estimates assumed that the posted prices of the first months of 1974 would remain in force throughout the year.

[2] According to recent World Bank estimates, the accumulated financial reserves of all OPEC countries together could rise as high as $650,000 million in 1980 and $1,200,000 million in 1985.

[3] A current account deficit by oil-importing countries taken together is a necessary and unavoidable counterpart of a current account surplus on the part of oil-exporting countries even if this surplus arises not from choice but because these countries cannot spend their oil revenue fast enough to avoid it.

foreign trade position. Under present circumstances, individual oil-importing countries striving to balance their current international payments account (by means other than exporting more to oil-exporting countries) can only make things more difficult for their trading partners.

Japan serves to illustrate the grave economic implications the problem can present to developing countries. Japan is the largest single exporter to all the south-east Asian countries except the Republic of Viet-Nam and the Khmer Republic. The Republic of Korea, Hong Kong and Singapore, for instance, import from Japan such industrial intermediate materials as synthetic fibres, plastics and electronic parts and then transform them into finished products. Japan provides 60 per cent of the synthetic fibres used in the textile manufactures of Hong Kong and 40 per cent of the Republic of Korea's. At the beginning of 1974, many Korean synthetic textile plants were reportedly cutting back production by as much as 50 per cent, or in some cases shutting down completely because of the difficulty of getting petrochemicals from Japan. Chemical fertiliser production for export, of course, declined substantially.

Thus, on the one hand, when higher prices and/or supply shortages limit production of a highly industrialised nation like Japan, its ensuing export policies can imperil the economies of its trading partners. The impact on the less developed countries dependent on such a nation for many of their production inputs can be particularly devastating.

On the other hand, considerable system-wide harm can also result from restrictive economic policies pursued in an effort to reduce international trade imbalances and control domestic inflation. By mid-1974 France, Italy and the United Kingdom were all reporting record trade deficits along with rates of inflation in the vicinity of 15 per cent. To the extent that nations under these circumstances seek to restore equilibrium to their international accounts by large cutbacks in imports, they will in the process restrict the markets of their principal suppliers. The danger comes from the real possibility of nations engaging in competitive deflation while seeking to sell their own goods in smaller and smaller export markets. The outcome could be world recession if not depression. While the situation may fall short of this drastic scenario, the consequences for developing countries, with special export difficulties even in periods of relative prosperity, remain highly serious.

Structural changes

Besides checking growth, the rapid increase in the price of oil gives rise to major structural changes. There are increased demands for certain kinds of consumer and producer goods and decreased demands for others. Within the transport sector, particularly the automotive and airline industries, major structural changes are foreseen. The automobile industry in the United States, and probably to a lesser extent in other countries as well, is in for a period of rapid retooling to match a switch by consumers to smaller petrol-saving cars.[1] Retooling in the automotive industry means increased outlays for metal cutting, forming and boring machines.

At the current high prices it already appears, as noted earlier, that substantial economies are being realised in the use of oil. This in turn will lead to reduced demand for certain oil-intensive equipment. At the same time, as coalmining picks up again and the exploration for other energy resources is carried forward, industries producing the needed equipment, materials and parts will receive a considerable boost.

The steel industry perhaps more than most illustrates the nature of structural changes which are already occurring in certain industrialised economies. On the one hand, the demand for sheet steel for automobiles and other consumer durable goods has been lagging. On the other, demand for steel for energy-related producer goods has more than offset this shortfall. There has been a strong demand for such oil-related steel products as drilling platforms, oil storage tanks and pipelines. Demand is also high for heavy plates and tubes used in exploration, nuclear reactor construction and other energy-related activities. More steel is also being used by railways as presently there are not enough freight cars to meet the demand created by increased transport of freight by rail. In Europe, where steel capacity has been expanding much faster than in the United States, nations such as France and the Federal Republic of Germany find themselves well placed to meet this new demand.[2]

All in all, as the changed pattern of prices and availability exerts its full effects throughout the economies of different countries, there will have to be pervasive shifts in patterns and techniques of production and therefore in employment.

The evolving commodities situation

The industrial expansion of North America, Western Europe and Japan which followed the Second World War not only has been powered by relatively inexpensive energy inputs, but has been able to rely on a seemingly inexhaustible supply of commodities at terms of trade generally favourable to the advanced countries. Now a range of circumstances that include the population explosion, severe droughts in parts of Asia and Africa, approaching upper production limits—at least in the short run—for certain primary goods, and consumption patterns that reflect the

[1] In 1972 compact and subcompact cars were reported to have captured 38 per cent of the United States new car market. During the embargo, approximately 50 per cent of new automobile sales were smaller cars. Some automobile analysts suggest that by 1980 the small cars' share of the market will rise to 60 per cent or perhaps even higher.

[2] See Clyde H. Farnsworth: " Steel exports by Europe to US rise ", in *International Herald Tribune* (Paris), 22 June 1974, p. 9.

TABLE 1. MARKET PRICE INDICES OF PRINCIPAL

(1968

Commodity	1961	1963	1965	1967	1969
Food and beverages	92	105	101	100	107
Vegetable oilseeds and oils	98	94	114	99	104
Agricultural raw materials	123	110	110	100	110
Ores and metals	71	71	108	96	113

Source: UNCTAD: *Monthly Commodity Price Bulletin*, Jan./Feb. and Oct. 1974.

tastes of a growing middle-income class, e.g. diets including more meat, have produced the twin threat of resource scarcity and rising prices. The cumulative impact of these evolving conditions has raised concern about the efficacy or even the possibility of sustaining high rates of growth in advanced countries while maintaining efforts to improve living standards in those developing countries where resources are limited and whose populations are burgeoning.

At the same time, the changing balance between resource availabilities and needs could enhance opportunities in a number of countries possessing commodities for which demand is rising. Supply and demand conditions are changing, and with them the relationships between nations producing and consuming commodities.

While there are inherent difficulties in trying to generalise about commodities, many of which possess distinctive production, output and trade characteristics, it is possible, nevertheless, to discern certain important features and trends of a fairly general nature.

The primary commodity price boom began in 1972. As shown in table 1, price increases in 1973 were steeper and more widespread than for any year since the Korean War. Dollar prices of the principal primary commodities exported by developing countries continued to rise in the first quarter of 1974 before levelling off in the second quarter and falling more in June than in any month since the boom began.[1]

While developing countries are often characterised as primary commodity producers and industrialised countries as producers and exporters of manufactures, in fact industrialised countries—particularly the United States—produce for export a considerable (if not the larger) proportion of a number of commodities.[2] Thus while the commodity boom in 1973

[1] See United Nations Conference on Trade and Development (UNCTAD): *Monthly Commodity Price Bulletin* (Geneva), July 1974.

[2] All the temperate zone foodstuffs such as cereals, meat and dairy products along with tobacco, wool, cotton, timber, iron ore, lead and zinc constitute substantial exports for nations such as Canada, Australia, the United States and certain EEC member States.

COMMODITY EXPORTS OF DEVELOPING COUNTRIES
= 100)

1970	1971	1972	1973		1974		
			Jan.	July	Jan.	May	Sep.
121	113	130	149	191	209	257	255
119	121	106	120	215	319	343	313
102	101	106	127	204	276	220	186
117	100	100	106	160	180	235	164

resulted in large export benefits to both developed and developing countries, these earnings increased much more for developed countries (up $29,000 million) than for developing countries (up $11,000 million).[1]

Notwithstanding greatly rising demand for a broad range of agricultural and industrial commodities, the more recent decline in many commodity prices (see the data for September 1974 in table 1) is a reminder of past cyclical trends. All too often, higher commodity prices have stimulated excessive production, causing supply to outstrip demand and prices to fall precipitously.

OPEC has demonstrated the willingness and capacity of commodity producers—particularly the Third World nations—to seek to promote their interests through concerted action. Bauxite, copper and coffee producing nations are among those which have met to form or consider forming producer organisations. Nevertheless, no other commodity appears at the present time to lend itself as readily as oil to effective concerted action on the OPEC model. First, no other commodity represents so critical an input required on so large a scale by the productive machinery of so many countries. Secondly for most other commodities there appear to exist greater short-term substitution possibilities. Finally, for those commodities whose production is highly labour-intensive, greatly restricted production (or substantial price increases having the same effect) could result in excessive unemployment.

According to UNCTAD's preliminary data, the terms of trade of developing countries other than petroleum exporters improved between 1972 and 1973 by about 6 per cent. As a result of the great expansion in

[1] UNCTAD: *Problems of raw materials and development* (New York, 1974; doc. TD/B/488), p. 21. A note prepared by the United Nations Secretary-General for the General Assembly special session states that from 1950 to the fourth quarter of 1973 the prices of primary commodities exported mainly by the developing countries appear on the whole to have risen less than primary commodities which count more heavily among developed country exports. Meat, for instance, rose by over 350 per cent while beverage crops rose by less than 50 per cent. See United Nations: *Evolution of basic commodity prices since 1950* (doc. A/9544, 2 Apr. 1974).

export earnings, the non-petroleum exporting developing countries increased their official reserves by $13,400 million during 1972 and 1973. Considering that the cost of oil to developing countries was expected to rise from $5,000 million in 1973 to $15,000 million in 1974, the incremental import cost of approximately $10,000 million will absorb almost 75 per cent of the net change in reserves achieved over the two preceding years. Thus high oil payments threaten to curtail the recent favourable upward trend in the international liquidity position of those developing countries whose recent increased export earnings have not been derived from oil.

All in all, while future trends in commodity prices and supplies appear more uncertain than the picture for oil, certain of the recent developments just described have social implications as well. In some instances they may reinforce or further complicate social consequences stemming from developments in the energy sector.

Actual and potential social consequences

The social effects, like the economic and financial impacts from which they derive, are complexly inter-related. Again, however, it will aid understanding to try to examine them individually.

Unemployment

One of the principal causes for concern has been the danger that the deflationary impact of the massive transfer of purchasing power from oil-importing to oil-exporting countries could generate a large-scale recession and massive unemployment. Although the worst fears of some economists have not in fact been realised, unemployment is on the rise in most industrialised countries. Table 2 shows the upsurge in unemployment in little over a year's time in five of the main industrialised nations. Especially notable is the more than doubling of unemployment in the strong economy of the Federal Republic of Germany and the fact that unemployment in France exceeded 500,000 for the first time since the Second World War.

As the section on structural changes would suggest, different sectors, industries and types of workers are affected unevenly. A recent report released in Washington [1] cites Department of Labor estimates that about 80 per cent of industrial lay-offs attributed to energy problems [2] could be

[1] Federal Energy Administration: *The economic impact of the oil embargo on the American economy* (Washington, 1974).

[2] In the period from November 1973 to March 1974 between 150,000 and 225,000 jobs were lost as a direct result of employers' inability to acquire sufficient petroleum supplies, principally in petrol stations and airlines. An additional loss of approximately 310,000 jobs

TABLE 2. UNEMPLOYMENT IN SELECTED INDUSTRIALISED COUNTRIES

Country	June 1973	Third quarter 1974 [1]	
France	329 512	534 300	.
Germany (Fed. Rep.)	200 950	557 000	2.4%
Netherlands	92 700	131 500	3.7%
United Kingdom	576 256	611 800	2.7%
United States	4 847 000	5 300 000	5.8%

[1] Unemployment as of July, August or September 1974, according to most recent data available.

Sources: *Bulletin of Labour Statistics* (Geneva, ILO), 1974, 3rd quarter, pp. 33-39; and Bank for International Settlements: *Press Review* (various issues).

" traced to the decline in demand for automotive or recreational vehicles " and that about 85 per cent of the jobs lost were those of semi-skilled workers. In the Federal Republic, about 200,000 construction workers have lost their jobs since the spring of 1974.

In developing countries, where employment promotion has been receiving increasing emphasis, the threat to employment acquires added significance. The cumulative effect of the economic forces described in the first half of this article will be to impose further constraints on the achievement of the goals of high, productive and stable employment. Higher production and import costs and slackened internal demand are translatable into job losses in developing as well as developed countries. Additionally, there is the fear that unemployment will be exported by industrialised countries seeking to solve their economic problems through protectionist measures. This could have a substantial adverse impact on employment in labour-intensive export manufacturing industries and would represent a serious setback in a strategic area of employment promotion in developing countries.

The employment picture, of course, is not entirely dark. In the past, relatively cheap imported oil has meant that there has been little incentive to use local sources of energy where they existed or to try to develop new ones—from the sun, the wind, tides, rivers, geothermal resources, agricultural by-products and municipal and other wastes, for example. Relatively cheap imported oil has been a factor leading to the replacement of labour by machines that would not have been economic with

occurred indirectly in industries whose products or processes were subject to reduced demand on account of either real or anticipated fuel shortages, i.e. the auto and auto parts industry. See Reginald Stuart: " Oil embargo hits US jobs, output ", *International Herald Tribune*, 3 Sep. 1974, p. 7.

high-cost energy. Increasing employment of people can often significantly reduce other energy inputs.[1] There are now new incentives to develop " modern " labour-intensive technologies.[2] If these incentives generate an adequate research effort, new patterns of development may emerge, with perhaps more emphasis on reducing dependence on transport and increasing the degree of self-sufficiency of relatively small communities; the new patterns could give a larger place to people and labour than do capital-intensive large-scale industry and agriculture and could be designed to be more in harmony with environmental imperatives.

At the same time, the upsurge in demand for a broad range of commodities, if sustained, offers potential for the expansion of employment opportunities, particularly in the more labour-intensive areas of commodity production, transportation and marketing. This would represent an especially positive development in the agricultural sector by contributing to the fuller and more productive utilisation of rural labour.

Migrant labour

One group especially exposed to the recent economic vicissitudes are Western Europe's 10 million or so migrant workers. For instance, in September 1973 the Federal Republic of Germany imposed a ban against further immigration of workers from countries outside the EEC. At a time when the country's unemployment figure exceeds 550,000, migrant Turks, Yugoslavs and Spaniards occupy an especially vulnerable position. The number of migrants working in the Federal Republic dropped by 300,000 in a recent four-month period.[3] France too has placed curbs on the inflow of new migrants.

The far greater apprehension is that under mounting economic and social pressures, increasing numbers of workers from Spain, Portugal, Italy, Turkey, Yugoslavia, Greece and North Africa working throughout Europe will be laid off and compelled to return home. This not only would represent a sizeable loss of foreign exchange to their home countries but would compound the unemployment problems of their

[1] In growing maize, for example, it is estimated that one application of pesticide requires about 18,000 kilocalories per acre if applied by tractor and sprayer but less than 300 kilocalories if applied by hand-sprayer.

[2] In Sri Lanka, for example, it is reported that many proposals for the adoption of alternative technologies are presently under examination. In agriculture, the return to organic fertilisers and compost, hand-weeding and hand-spraying is being suggested. In transport greater use of inland waterways and of animal power in feeder transport is being considered. In industry, apart from the need to shift to indigenous raw materials and small-scale and hand-operated machinery which is being emphasised, suggestions have been made for the use of various waste materials for the generation of energy in individual industrial plants. It is clear, however, that the feasibility of these alternatives has to be investigated and the economics of their use has to be carefully studied, and this will take time.

[3] " What happens now to Europe's 10 million 'guest workers' ? " in *US News and World Report* (Washington), 19 Aug. 1974, p. 50.

already slumping or depressed national economies. An estimated 60,000 Spaniards were expected to return home in 1974 because of changing economic conditions and living restrictions.[1] Spaniards, like other migrant workers, appear to face a most uncertain future.

Income distribution

The evolving economic situation gives rise to questions of income distribution within as well as between countries. Between countries, higher prices for oil and other commodities produced by developing countries have altered the terms of trade. Most notable is the transfer of income on current account to the OPEC nations, all of which it must be remembered are developing countries with vast development potential still to be realised. Other developing countries with major commodities now earning foreign exchange net of higher oil payments may also gain. Yet as the previous analysis has suggested, the income transfer from developed to developing countries has bypassed the poorer developing nations. Given their less resilient economies and limited export possibilities they are subject to economic forces that tend to reduce their relative income and real purchasing power.

Within countries, the income distribution implications are also striking. Steeply rising rates of inflation erode the real income and purchasing power of wage and salary earners in countries where prices are climbing faster than wage increases. In the industrialised countries, the higher costs of food and other essential goods and services fall especially hard on lower, lower-middle and fixed income earners whose depreciated earnings are often no longer sufficient to cover basic consumption needs. At the same time, governments struggling with mounting budget costs and overall inflation find it difficult to maintain or increase income maintenance protection and social services for the weaker and more needy segments of society. In some developing countries, particularly the drought-afflicted nations of Asia and Africa, the operational objective is less one of more equitable income distribution and rising living standards for the poor and more a matter of keeping starving human beings alive.

Once again, however, the changing global economic situation offers an opportunity as well. In countries obtaining increased revenues from oil and other commodities, the benefits may of course accrue largely to governments and national and multinational companies but they could also be shared more fairly among the population as a whole. Too often, in the past, increased profits derived from higher commodity export prices have not benefited the workers who produce them. There are problems associated with ensuring that not only workers but disadvantaged mem-

[1] "What happens now to Europe's 10 million 'guest workers' ?", op. cit., p. 50.

bers of society as well benefit adequately from increased national income. Administrative capability and, more generally, absorptive capacity have to be strengthened if funds are to be utilised effectively for purposes of both growth and equity. Nevertheless, it would be cause for concern if increased income and wealth contributed to a more skewed (i.e. unequal) income distribution within those countries realising recent prosperity.[1] Given the complex relationships between income distribution and the level and structure of employment [2], it is necessary for public policy and international attention to be directed towards both, especially in the developing countries.

Conditions of life

The present sustained period of high rates of price increase combined with sluggish economic growth—sometimes referred to as " stagflation "—has been shown to interfere with the smooth operation of most market economies and to impede the achievement of major social objectives. In the process, such economic conditions introduce great uncertainty into most economic, financial and social relationships. Many persons find that their job and income security are suddenly and seriously threatened. Moreover, wage bargaining, business investment and pricing, personal spending and saving (not to mention a multiplicity of related economic decisions) are conducted in an economically and psychologically unpropitious atmosphere.

On an economic plane, investment decisions are influenced, consumption patterns are altered and saving plans are modified as individuals and collectivities are compelled to take account of and adapt to new economic realities. For increasing numbers of persons the changes require downward adjustments in living standards. In developed and developing countries alike, efforts to promote guaranteed minimum living standards for the economically and socially most disadvantaged members of society and progressive improvement in living standards and environmental quality in general may be dealt serious setbacks.

Micro-level decisions, however, are influenced not only by past and present economic circumstances but by future expectations. When the economic environment is clouded by uncertainty, it seriously affects the associated psychological environment. The resultant perceptions and behaviour tend to reinforce and sometimes worsen economic conditions over time. Economic stagnation causes worry about possible job loss.

[1] Too often, a sudden influx of income stimulates price increases for domestic goods thereby decreasing the real standard of living of those whose money incomes are not rising by at least proportionate amounts.

[2] The interaction between income distribution and employment is a subject being researched by the ILO World Employment Programme.

Persistent high rates of inflation create a fear of losing economic ground, of not receiving as much as others appear to be getting. All too often, as the history of the business cycle has shown, subsequent behaviour produces self-fulfilling economic outcomes and the realisation of people's worst fears. Both the economic reality and the psychological apprehension can be particularly difficult for the working man. For organised labour, they may raise special problems and issues.

Industrial relations

In countries undergoing periods of adjustment to rapid and substantial economic changes, special strains are placed on industrial relations. Working men experiencing an erosion of purchasing power and greater job insecurity naturally attempt to protect their jobs and maintain their real incomes if not their past rates of real increase. These additional strains are felt with varying intensity at all levels: the workplace, the enterprise, the industry and the economy as a whole. It already appears that industrial relations systems—particularly collective bargaining and disputes procedures—are faced with substantive problems of greater complexity as a consequence of the worsening economic conditions discussed above. In industrialised countries such as France, Italy, the United Kingdom and the United States, workers have responded to the heightened tensions produced by changing economic circumstances with various manifestations of displeasure and unrest. In the United States, following the end of wage controls on 30 April 1974, labour, which had suffered a steady erosion of real income during the preceding ten months, commenced one of the country's largest waves of strikes since the Second World War. Collective bargaining is also strongly influenced by the evolving situation as union negotiators increasingly seek contracts incorporating escalator clauses and other forms of income protection. At the same time, as evidenced in the United States, unions highly uncertain of the economic future are hesitant to be locked into multi-year contracts, especially if they do not contain wage reopener or escalator clauses. The tendency is therefore towards contracts of shorter duration.

Over-all, persistent high rates of inflation (or, even worse, "stagflation") introduce uncertainty into collective bargaining as they do into most economic and social relationships. Wage and income relativities and patterns of real economic gain are distorted, price expectations are altered and negotiations proceed in an atmosphere of uncertainty as to how national policy makers will respond if economic conditions continue to worsen. It becomes increasingly difficult to proceed with confidence that even substantial contract settlements, incorporating built-in protective measures, will adequately safeguard workers against the present anomalies of their countries' greatly weakened economies.

Conclusion

The recent evolution of the world oil, commodities and prices situation serves as perhaps the most vivid reminder of the interdependencies that exist among the nations of the world. Production and trade relationships intricately link the economic and the consumption needs of the industrialised rich, the oil rich, the planned socialist, the developing, and the underdeveloped and underfed poor countries of the globe.

It might be argued that for far too long the old international economic order operated to the benefit of the industrialised few, while exacerbating inequalities throughout most of the rest of the world, and that at least the present redistribution of income and material resources is benefiting developing countries, although recognisably a select group. An attempt has been made in this article to demonstrate, however, that the new international economic alignment of nations is no substitute for an international economic order that seeks to promote economic and social progress for all lands and all peoples.

There is a need now more than ever to establish such an order, which as proclaimed by the sixth special session of the General Assembly, must be " based on equity, sovereign equality, interdependence, common interest and co-operation among all States ".[1]

The same resolution points out that " the present international economic order is in direct conflict with current developments in international political and economic relations ", and outlines 20 principles intended to serve as the underpinning of the new international economic order to which it is directed. One principle in particular calls for a just and equitable relationship between the prices of products exported by developing countries and those of products imported by them " with the aim of bringing about sustained improvement in their unsatisfactory terms of trade and the expansion of the world economy ". The economic blows now being dealt to the world trade and financial system only emphasise the need to replace an international order that has too long been characterised by inequality and a tendency to react to the unexpected by crisis management rather than by fundamental structural change.

Recent circumstances have given new significance to the simple statement in the ILO's Declaration of Philadelphia that " poverty anywhere constitutes a danger to prosperity everywhere ". Yet there is now the fear that after the appearance of a hopeful trend in early 1973—a favourable shift in the terms of trade to the benefit of a large number of developing countries—economic events now seem to be widening rather than eliminating the gap between and possibly even within nations. As

[1] Resolution No. 3201 (S-VI).

has been seen above, they now pose a most serious threat to continued social progress. Thus it is important that a new international order should not only be based on principles of economic equality in relations between nations but reflect concern for social equity and justice as well.[1]

This implies that the new international order should enhance for all people opportunities for productive and stable employment and higher living standards; and participation in the processes and benefits of growth and development. It should also provide a foundation for efforts towards fairer distribution of incomes and opportunities *within* as well as *between* nations, improved working conditions for labour, and higher levels of social well-being for all, but most especially for the poor, the weak and the deprived. An international problem of the current magnitude calls for international solutions governed by the larger interests of the world as a whole.

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[1] In this connection a draft Charter of Economic Rights and Duties of States was prepared by a working group and submitted to the Trade and Development Board of UNCTAD at its fourteenth session, 20 August-13 September 1974 (doc. TD/B/AC.12/4, 1 Aug. 1974. A fundamental purpose of this Charter is to promote just and equitable economic relations among nations.