Millions more will join the 14 million unemployed in advanced capitalist countries as the world economy staggers into 1977, according to the Organisation for Economic Co-operation and Development. The OECD has abandoned its earlier prediction of a slight recovery next year and now forecasts deepening of the world recession - including higher unemployment.

The OECD's most recent overview of the world economy, published as its Economic Outlook 19 in July stressed how long the recovery would take:

"The strategy of restoring full employment and normal levels of capacity utilisation progressively over several years reflects the conviction that an attempt to make progress more quickly would be interrupted by a new boom and bust well before the objective had been achieved" (emphasis added).

Even this cautious program has been abandoned, however. The next Economic Outlook, due to be published on December 20, predicts progress will not even begin next year.

The OECD has leaked these predictions to persuade the Organisation of Petroleum Exporting Countries not to raise the price of oil in the near future. OPEC meets in Qatar on December 15. Some petroleum producers, including Iran, have called for a large price increase of up to 25 per cent. Another oil price rise would further delay economic recovery, the OECD believes.

The OECD also wants the new Carter administration to abandon Ford's restrictive economic policies and stimulate the American economy. This leak comes just when Carter and his advisers are getting down to planning their policies for next year.

In July the OECD predicted that the Gross National Product of member countries would increase by 4½ per cent during 1976. This represented some slowdown from the growth rate achieved in the first six months of this year, when GNP rose at an annual rate of 6½ per cent.

The OECD then thought that recovery would begin again, with output growing at an annual rate of 5¼ per cent in the first half of 1977 and 5 per cent in the second half.

These growth figures have now been revised downwards. Growth of only 4.3 per cent is expected in the first half of next year; in the second half this should drop to 3.5 per cent.

Since world productive capacity will grow at between 4 and 5 per cent this means next
year there will be considerably more unemployment of capital - and of people.

The OECD believed that if growth could be maintained at between 4½ and 5 per cent into the middle of 1977 unemployment would start to fall. But even with this optimistic prediction the fall would be slight. Thirteen million would still be unemployed at the middle of next year, down one million from the present figure.

At the depth of the recession, in October last year, unemployment in the OECD area was 15½ million.

Now it looks like unemployment will instead climb above this figure.

The US and Japan

The key to any recovery, the OECD believes, lies with the United States and Japan. In July the OECD thought that “conditions for continued expansion are particularly favourable in the United States. With confidence of both consumers and investors greatly improved and signs of recovery in business fixed investment, real GNP could rise faster than the OECD average.” They went on to say “the recovery seems also well established in Japan.”

But barely a month later this optimism about the American economy was being tempered by new evidence. Things were slowing down before they had really got started.

The Financial Review thought the slowdown in the US recovery had implications for Australia, and summed up its fears in an editorial on September 2.

Reports suggest a “pause” in the American recovery, the paper concludes. “But it is not just an exclusively American worry. For the strength of recovery in the world economy, and in particular the prospects for an export-led recovery in the Australian economy, will depend upon what happens in the US.”

“A strong recovery in the US economy could prove to be the only factor which would save the Fraser-Lynch economic strategy in last month’s Budget.”

But pessimists in the US are talking of a relapse back into recession, without a boom ever having been experienced, or even sighted, the Review reports.

Industrial production is barely rising, retail sales in July were actually lower than three months earlier and inflation is again on the increase.

Capital spending fell in August for the second consecutive month. Half of the 2.2 per cent decline was due to a big fall in orders for primary metals. When the volatile defence sector is removed, durable goods orders fell by 11.7 per cent during the month.

In Japan too, there are problems.

While Japan is benefiting from big sales of consumer goods to the US, the recovery there isn’t yet general, according to The New York Times’ Andrew Malcolm in a report reprinted in The Australian Financial Review on August 10.

Prime Minister Takeo Miki’s top economic advisers recently predicted an annual growth rate of 5.9 or 6 per cent. While this is better than many other capitalist countries, it is way down on the 10 per cent a year growth Japan experienced during the heady 1960s and early 1970s.

Unemployment, virtually unheard of during the boom, has not declined much. Officially, more than 2 per cent remain unemployed, but economists agree these figures should be doubled or tripled for a more realistic comparison with the jobless situation in other countries.

Significantly, private capital investment has not picked up. In the first quarter of this year - after two years of decline - investment increased a meager 0.5 per cent, the first advance in nine quarters.

And with one survey of 178 major corporations showing they were operating at only 81 per cent capacity, future investment prospects look dim.

Australia

In Australia growth is well below even the pessimistic predictions for the rest of the OECD area. Gross domestic production in the June quarter of this year is barely 1 per cent more than for the same period last year. This actually represents a drop in the recovery rate, since production in the three months to March this year was 1.8 per cent up on last year. The September figures are not yet available as we go to press.
If this evidence is not enough to show that the Fraser government has no strategy for economic recovery, recent events in Canberra demonstrate how chaotic government economic policy formulation is.

On November 18 the Fraser government hit out at its critics in the Treasury by splitting the department. But the move comes as much from Fraser's anger at Treasury leaks to the press as from any long term plan to limit the department's power.

That day the government announced its second new department in a week - which is not a bad record for people forever railing against big government. The new Finance Department will oversee spending by government departments while Treasury retains its other functions.

The split is a slap in the face for Sir Frederick Wheeler, long time Treasury head - and one of the most powerful men in Australia.

Much of Treasury's power comes from being able to control other departments under the guise of checking on expenditure. It will still be the main source of government economic policy but without this policing function it will be less of a force in the Canberra power game.

While there have been many attempts to split Treasury or limit its power - especially under Labor - this move dates only from a cabinet meeting on November 5.

There Treasurer Lynch explained a number of options open to the government: a squeeze on credit, tax cuts, spending increases, and devaluation. He argued strongly in favor of a credit squeeze and against devaluation. In the end he got his way.

Meeting Leaked

The full story however came out in The Age five days later. Economics editor Kenneth Davidson gave a detailed description of the meeting in which Lynch, helped by Senator Cotton, fought against a cabinet majority including Fraser - that wanted devaluation.

According to Davidson the options were dressed up to make the money squeeze the most attractive and devaluation the least attractive.

"Essentially the line was put to cabinet that tax cuts, expenditure increases and
Devaluation would require offsetting monetary action which would be far worse than the squeeze package if inflation was to be contained", Davidson reports.

He goes on to quote “inside reports” that Fraser and the rest of cabinet “were drawn to the subject (of devaluation) like moths to the light”.

“If the cabinet discussion is any guide”, Davidson concludes, “Mr Fraser is attracted to the idea of devaluation because he believes in the justice of redistributing income to farmers and miners and increasing industrial protection.

“This position rests on the argument that if income is shifted to the ‘productive’ sectors of the economy, economic growth will be enhanced.

“Initially neither Mr Lynch nor Senator Cotton was able to persuade the rest of cabinet that the inflationary consequences of such a move may upset the whole government ‘beat inflation first’ strategy.

‘Political Rabbit’

But Lynch was then able to “pull a political rabbit out of the hat”. Motioning to Reserve Bank governor, Mr Harry Knight, who had just put a strong anti-devaluation submission to the government, Lynch reminded the others of a section of the Reserve Bank Act that deals with differences of opinion between the government and the Bank.

While the government can direct the Bank to carry out the policy it chooses, the Bank can insist its views are put before parliament. The Bank has never done this before. “Mr Lynch did not have to spell out to cabinet the catastrophic political consequences of such a public disagreement between the government and the Reserve Bank,” Davidson said.

And there was “sufficient steel in the eye of Mr Knight” to show this might not be a bluff.

Fraser gave in, and adopted Lynch’s Treasury line, even though Sir Frederick Wheeler and Mr John Stone, deputy secretary of the Treasury in charge of economic policy, who were both present, kept unusually quiet.

While Fraser was obviously smarting under this reverse, he reached breaking point when he read the whole story in The Age. He came to the right conclusion: someone - one of his ministers or one of the Treasury officials present - told Davidson about the meeting, right down to repeating the Prime Minister’s attempts at humor.

Reading between sympathetic lines in Davidson’s article like “naturally enough senior Treasury officials are not popular with the government at present”, Fraser thought he knew where to lay the blame.

Eight days later he had his revenge.

Labor’s Plan

Labor also wanted to clip Sir Frederick Wheeler’s wings, but their plans came unstuck. They wanted to divide Treasury into a department of economic planning and an accounting department. Wheeler, Stone and the other Treasury troglodytes were to be shunted off into accounts, where they could do less harm.

Labor wanted to bring in an outside economist with a strong commitment to government intervention and planning to head the new department.

This plan was worked out when Jim Cairns was Treasurer, but it foundered when Wheeler convinced Cairns that a better solution was to have a planning unit within Treasury. Wheeler wanted a bigger, not a smaller, department to play with.

Wheeler may manoeuvre out of this one too. The real lesson lies in how the Fraser government is blundering from one decision about the economy to another. Both the cabinet meeting itself, and Fraser’s reaction to its being leaked, will inspire little confidence in the government’s big business backers.

After the meeting ended Fraser tried to inject some humor into the sombre occasion by saying he thought he would go to church on Sunday and pray.

However he was not amused when one of the advisers at the meeting quipped “and I suppose you will be praying for us?” This new religious approach certainly couldn’t do any more harm than the government’s other economic policies.

But then at least Fraser is doing something about unemployment - by creating jobs for government ministers.

T.O’S., November 21, 1976