4 Major Sub-Divisions of the OECD

In the previous chapter we saw that the general trend towards both higher unemployment and (at least until the very end of the period) generally also towards higher inflation was occurring alongside a tendency for the setting of the macroeconomic instruments to move in directions that could, according to the a priori arguments summarised in Chapter 2, have been expected to make inflation worse at any given level of unemployment.

For more convincing evidence of this association we now consider certain sub-divisions of the OECD, to see whether the groups of countries with the greatest deterioration of their macroeconomic performance tended also to be those where the policy indicators in question (higher tax and government outlay ratios, and high monetary growth) tended also to move most markedly in the directions that were likely to make stagflation worse.

The present chapter therefore considers the evidence provided by aggregate data published by the OECD for a number of sub-groups of OECD countries (many of them overlapping with one another). The use of such aggregate data acts as a simple averaging process, which thus tends to discount in a rough way for the peculiar circumstances of the individual countries in each group, so as to derive conclusions about those influences that they shared in common. It is important to do this in some way, for each country’s macroeconomic performance is naturally influenced by many considerations in addition to the setting of the macroeconomic mix. For example, factors originating outside the country cause changes in its terms of trade and capital inflows and outflows, and such influences may well often be much more important, especially for small, open economies, than the setting of macroeconomic policy instruments in determining the rate of inflation and the level of unemployment in that country.
Moreover, countries may also vary greatly in their ability to tolerate high or rising tax rates or government outlays without adverse effects on their macroeconomic performance. For example, if the tax system is widely accepted as being equitable, tax increases may be much more readily accepted without their giving rise to higher wage demands than if the tax rise is perceived as being disproportionately borne by wage and salary-earners. Again, there may in some countries be a well established prices and incomes policy that enables the inflationary effects of rising budget ratios to be withstood without so much upward pressure on wages and prices as might result in some other countries without such a prices and incomes policy. Ideally, more sophisticated methods are desirable to abstract from those factors that are peculiar to individual countries, in order to draw conclusions from their common experience about the apparent effects of their mix of macroeconomic policy measures; and such an approach is applied in Chapter 5 to the experience of the seven largest OECD countries, in order to generalise about the apparent relationship to inflation of changes in the setting of macroeconomic policy instruments of the countries in this group over the period.

But it is also worth seeing what can be learned from the simpler approach of examining the indicators of the setting of macroeconomic policy instruments in groups of countries – the process of averaging by aggregation being a crude method of discounting to some extent to allow for the factors peculiar to individual countries.

The sub-divisions of the OECD for which the aggregate data are available include the major seven (the US, Japan, Germany, France, Britain, Italy and Canada) as a group, and the remaining OECD countries (the ‘small-country’ group). The US will also be considered by itself – being by far the largest country in the OECD; and its experience can be compared with the aggregate for ‘the OECD less the US’.

In addition to these two sets of mutually exclusive groupings (one of them being the major seven and the small-country group; and the other set being the US and ‘the OECD less the US’ group), there are three other (to some extent intersecting) groups for which the relevant aggregate data are available from OECD published sources. These are the European Economic Community, OECD Europe (which includes the EEC), and also the aggregate for all OECD countries.