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To: Members of the Executive Board
From: The Secretary
Subject: Communiqué of the OECD

There is attached for the information of Executive Directors a copy of the communiqué adopted by the OECD Ministers on Friday, May 18, 1984.

Att: (1)

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Paris, 18th May, 1984

COMMUNIQUE

1. The Council of the Organisation for Economic Co-operation and Development meeting on 17th-18th May at Ministerial level, agreed upon policies required to strengthen the international trading and financial system, and to extend economic recovery into durable employment-creating growth.
2. The meeting was chaired by Mr. Paavo Väyrynen, Minister for Foreign Affairs and Mr. Jermu Laine, Minister for Foreign Trade, of Finland. The Vice-Chairmen were Dr. Otto Graf Lambsdorff, Federal Minister of Economics, and Dr. Hans Werner Lautenschlager, State Secretary, Federal Foreign Office, of Germany; and Mr. Kaya Erdem, State Minister and Deputy Premier, and Mr. Vahit Halefoglu, Minister of Foreign Affairs, of Turkey.
3. Ministers expressed their deep appreciation and gratitude to the Secretary-General, Mr. Emile van Lennep, for his strong leadership and outstanding dedication to the Organisation and to the cause of international economic co-operation over the past fifteen years. They wished him well for the future. The Council appointed as his successor, with effect from 30th September 1984, M. Jean-Claude Paye, at present Director for Economic and Financial Affairs at the French Ministry of External Relations.

4. Ministers agreed that a reduced level of inflation and the economic recovery provide conditions favourable to achieving the following objectives for OECD economic performance over the next several years:

- sustained economic growth, with more convergence among OECD countries, making inroads into unemployment which remains high, especially in Europe;
- lower inflation and reduced interest rates;
- strong growth in investment taking advantage of new technologies and changing markets;
- generalised expansion of world trade;
- continued and where appropriate increased flows of resources to developing countries, strengthening their development potential through productive investment.

5. Accordingly, their governments intend to:

- pursue economic policies designed to promote sustained non-inflationary growth and increased employment;
- provide a stable economic and financial environment which permits markets to function efficiently;
- promote flexibility and innovation: in private sectors, in public sectors and internationally, thereby fostering more resilient economic and social structures;
- take due account in their policies of international economic interdependence;
- take steps to relax and dismantle trade restrictions and trade-distorting domestic measures, as well as further to strengthen the multilateral trading system;
- strengthen and improve trade, financial and investment relations with developing countries as a matter of mutual interest; and provide increased and more effective help to the poorer developing countries in their difficult adjustment and development efforts.

6. Ministers agreed to work towards an economic and social environment in which change, inherent in the process of growth, is embraced for the new opportunities it brings and not resisted as a threat. They recognised that the maintenance of policies which increase the resilience of economic structures requires that the benefits and the costs of change be shared fairly. In meeting the challenges each country will need to adapt its institutional arrangements taking account of its history and current realities.

ACHIEVING DURABLE GROWTH

Macroeconomic Balance

7. Ministers reaffirmed that low inflation is an essential component of a stable economic environment leading to higher growth and employment.
8. Ministers agreed that monetary policy is critical. They acknowledged the fact that in the early stages of past recoveries monetary growth had often been unwisely stimulative and resolved to avoid this. While each country will follow methods of monetary control appropriate to its circumstances, policies should be consistent with the medium-term objectives of greater price stability and sustainable real growth. Particular focus on stable and moderate growth in monetary aggregates is appropriate, and some Member countries find a nominal income framework helpful in this respect. Some Member countries will properly place greater weight on other indicators, such as the exchange rate.
9. Ministers recognised that large budget deficits can leave a legacy of high public debt, high interest rates and reduced capital formation in the private sector. A rising burden of debt interest adds to the problem. In the few countries in which government borrowing has been brought sufficiently under control, and fiscal positions are sound, scope may be found to lower the general level of taxation. In many countries, including major economies, deficits are projected to remain high despite recovery; governments intend to reduce these by lowering the share of spending in national income and enhancing revenues to the extent that spending cannot be lowered. Adjustment of fiscal policies in this way would contribute to a more balanced and therefore enduring recovery. In general, governments' claims on national savings should leave sufficient room for private investment and for the flow of savings from the developed to the developing world.
10. Government spending should be controlled within nationally chosen medium-term limits on the share of total resources it takes up. Within those limits spending should emphasize programmes and investments which promote flexibility. In many Member countries reform needs to bring slower growth of spending on social expenditure programmes without depriving those in greatest need. Simplicity, stability and the right incentives in tax structures are important for private decision-making.
11. Ministers agreed that wide swings in exchange rates in recent years point to the desirability of trying to make the present exchange-rate regime work better. The main contribution governments can make is to pursue monetary and fiscal policies that are sound and sustainable in themselves and which promote convergence in economic policies. Authorities should stand ready to intervene in disorderly exchange markets.
12. Ministers considered that energy policy remains an important element in economic performance. The principal need is to maintain the momentum already achieved in more rational use of energy and diversification of supply, as well as continued readiness to handle potential interruptions in oil supplies.

Adaptive Economic Structures

13. Ministers agreed on the need to implement positive adjustment policies across the whole range of economic activities, and endorsed a Statement by the Economic Policy Committee, the policy recommendations of which are annexed to this Communiqué. Such policies would facilitate rather than impede the adjustment of production structures to new technologies, changing market conditions and shifts in international competitiveness. The task facing governments is to phase out those measures which impede economic performance or, where this is not possible, to replace them with better, market-conforming alternatives. Strengthening competition, improving regulation and promoting more open trade policies are of key importance. The progress that has been made in freeing capital markets from constraints needs to be consolidated and generalised. Ministers called upon the Organisation to strengthen its processes of review and appraisal of adjustment policies in an overall economic perspective.

14. Ministers agreed that a lasting reduction in unemployment could be achieved by sustained non-inflationary growth if accompanied by improved labour market performance. Labour market and related policies should encourage structural change in ways which create job opportunities and help workers and affected communities to adjust. Improved labour market performance requires the modification of policies that impede structural change and job creation, as well as the strengthening of policies which promote labour mobility and the acquisition of new skills. It also requires more responsiveness in the level of real wages and non-wage labour costs, as well as appropriate wage differentials, consistent with the maintenance of social standards. Where appropriate, specific action to influence the development of incomes may also play a positive role in mastering inflation and fostering employment. Ministers recognized that there was a continuing role for carefully targeted measures to secure work experience and training for youth and the long-term unemployed. Bearing in mind the contribution that collective bargaining and consensus building can make, Ministers requested the Organisation, in consultation with BIAC and TUAC, to pursue the above orientations.

15. Bearing in mind the importance of the social, economic and technological changes underway, Ministers underlined the importance for the Organisation of dealing with all these issues in a medium and long-term perspective.

THE GLOBAL CONTEXT: CO-OPERATION WITH DEVELOPING COUNTRIES

16. Ministers agreed that OECD countries should further strengthen co-operation with developing countries, contributing to their economic recovery and renewed development progress.

The Debt Problem

17. Ministers noted that progress was being made in managing and containing the problems of international indebtedness. Nevertheless, the debt problems of some developing countries remain serious and high interest rates add to the debt-servicing burden. Ministers saw commitment to continued co-operation by governments, international financial institutions, and the banking community as essential to achieve effective adjustment efforts by debtor countries and to the continued effective functioning of the international financial system.

Policies for Improved Resource Flows

18. Ministers agreed that it was important to focus on the fundamental task of ensuring that financial flows to developing countries respond to development needs and investment opportunities, contributing to efficient resource use and avoiding unsustainable patterns of debt accumulation.

19. Ministers stressed that achieving satisfactory resource flows to developing countries requires effective policies and international co-operation in three central areas:

- i) adequate savings by the industrialised countries;
- ii) efficient use of capital by developing countries;
- iii) effective channels of intermediation -- the private capital markets, the international financial institutions, and aid.

Ministers agreed on the need for improved policies as well as action in these areas as outlined below.

Non-Concessional Resource Flows

20. Recent experience has shown that more effective, market-oriented policies are important for mobilising sustainable private capital flows to developing countries. Ministers were of the view that the international financial institutions could further develop their roles in this respect. The rôle of the IMF in support of effective adjustment was considered critical, as well as the World Bank's emphasis on medium and long-term development. Against this background, Ministers urged strengthened co-operation between the IMF and the World Bank in fulfilling their complementary responsibilities.

Official Development Assistance

21. Ministers renewed their pledge to maintain and, as far as possible, to increase their countries' aid with a view to realising their commitments to the international aid objectives, especially for the poorer developing countries. They expressed special concern over the trends and prospects in the low-income countries, particularly of Sub-Saharan Africa, and urged a concerted effort by DAC donors to adapt their aid efforts and policies to the particularly difficult conditions and requirements of these countries. Ministers welcomed the conclusions reached by the last DAC High-Level Meeting on increasing aid effectiveness through strengthened aid co-ordination. They agreed that the multilateral institutions have an important role in providing financial and technical assistance and in helping developing countries to pursue more effective policies. These institutions must have adequate support. The role of IDA is crucial and adequate replenishment of its resources is a high priority.

Aid and Trade Related Concessional Finance

22. Ministers affirmed their commitment to avoid any de jure and de facto financing practices which give rise to trade distortions and to diversion of aid flows from development objectives and to apply fully the guiding principles they have agreed upon. They enjoined the competent bodies of the Organisation to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in this area by all appropriate means. Differing views were expressed with respect to the desirability of including increases in established minimum grant elements in such action. They requested these bodies to report on progress made toward these ends by the next meeting of the Council at Ministerial level.

Direct Investment

23. Ministers noted the important contribution foreign direct investment can make to efficient production, trade, including export potential, and technology transfers, and to achieving a better balance between debt and equity financing for capital importing countries. They asked the Organisation to improve the monitoring of direct investment flows and the identification of the main policies and conditions in host and investor countries most conducive to promoting direct investment, including strengthened investor/host country confidence and security, and to help Member governments prepare for constructive discussions with developing countries.

Trade Policy in an Economic and Development Context

24. Ministers recognised the common interest of all trading partners in the effective functioning of the open international trading system. They underlined the special responsibility of developed countries in this regard, but also the importance of a gradual integration of the developing countries into the system. Ministers stressed that trade liberalisation should also be pursued more systematically as an aspect of each country's economic and development policies. The international financial institutions should be encouraged to intensify their analysis, advice and technical assistance on trade policy aspects of national economic development.

The Dialogue with Developing Countries

25. Ministers gave their full support to current efforts to improve the dialogue with developing countries, in order to allow for substantive discussions aimed at pragmatic solutions. Moreover, they were committed to making a positive contribution to the review and appraisal of the International Development Strategy for the Third United Nations Development Decade and to the major forthcoming United Nations conferences, i.e. UNIDO IV and the International Conference on Population.

EAST-WEST ECONOMIC RELATIONS

26. Ministers expressed satisfaction with the work programme on East-West trade and financial relations carried out by the Organisation. They noted that there had been an improvement in the short-term financial situation of most East European countries, but that the structural characteristics of the economies of these countries and the practices of their state trading systems remain important factors affecting the longer-term development of East-West economic relations.

27. Ministers reiterated that East-West trade and credit flows should be guided by the indications of the market. In the light of these indications, governments should continue to exercise financial prudence without granting preferential treatment. Ministers agreed that the Organisation should pursue its examination of problems and developments in East-West economic relations on the basis of last year's guidance.

INTERNATIONAL TRADE

Reducing Trade Barriers and Distortions

28. Ministers recalled their agreement of last year to make use of the favourable conditions provided by economic recovery to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade-distorting domestic measures. As a first step governments have agreed, subject to completion of requisite domestic procedures, to advance by one year, to early 1985, all tariff cuts scheduled for 1986 pursuant to the Multilateral Trade Negotiations. Ministers expressed the hope that through such a process of acceleration all the remaining scheduled MFN tariff reductions would be achieved not later than early in 1986, one year ahead of time. Member countries which do not already provide duty and quota free access for all imports from the least developed countries will seek to move further in that direction, in particular through their schemes for generalised preferences.

29. Ministers also agreed on the following programme of work to develop specific proposals for individual and collective action:

- i) identification by sector of the scope for action on trade-restricting and trade-distorting measures, taking account of the general economic context of each sector and of the adjustment that has occurred; a report on the possibilities for concerted action, including specific actions to expand imports from developing countries, should be prepared by the next meeting of the Council at Ministerial level;
- ii) strengthening transparency and discipline in the field of trade and aid financing practices as set out in paragraph 22;
- iii) encouraging each Member country to assess the full economic consequences of any new restrictive measures it envisages and to identify any offsetting liberalisation measures;
- iv) renewed efforts to achieve an international agreement on safeguards.

In addition, Ministers requested the relevant Committees of the Organisation:

- i) to consider ways and means and, as appropriate, to take action to improve the OECD arrangements for dealing with domestic measures which have trade-distorting effects, including an improved information system on industry-related policies and an evaluation of countries' adjustment policies in an overall economic perspective;
- ii) to examine the possibilities of country reviews of trade policies in a pragmatic and flexible manner.

Strengthening the Multilateral Trading System

30. On the suggestions put forward for a new round of multilateral trade negotiations, Ministers recognised that such an initiative would be of the utmost importance to a strengthening of the liberal trade system and the growth of trade opportunities. To open the way for a firm commitment to new negotiations, extensive consultations should take place with all GATT partners so as to ensure a broad consensus on objectives, participation and timing. Ministers stressed that early and thorough preparations would be essential for the success of such an initiative, and that the GATT work programme constitutes an important step in that preparation. They underlined their determination to carry out, as a high priority, the work programme set up at the 1982 GATT Ministerial meeting. The work of the OECD can make a useful contribution to this preparatory process. Ministers agreed, however, that preparation of such a round should not delay efforts to roll back restrictive actions as agreed above, and that priority should be given to resistance against protectionist pressures.

31. Recognising the importance of the issues raised by international trade in services, Ministers noted that as further analysis proceeds, the Organisation would increasingly focus its efforts on ways to remove unjustified impediments and improve international co-operation. They expressed support for the efforts, under the aegis of the Trade Committee, to relate broad concepts relevant to trade in services to the problems identified in specific sectors. They also encouraged continued work to strengthen existing OECD agreements applicable to services. Ministers requested the Secretary-General to submit a report including action proposals to Council within two years.

32. Having reviewed progress to date, Ministers asked the Organisation to continue its analysis of trade in high technology products, to examine specific problems which may arise in trade in these products and, where such problems are identified, to examine possible solutions. Means to strengthen the contribution of technological developments to economic growth, and to facilitate international flows of technology should also be examined. A report will be considered at the next meeting of the Council at Ministerial level.

33. Ministers expressed concern about the existence of serious international market disequilibria in a number of agricultural products due, to a large extent, to domestic support policies. They recognised the need to ease measures which hinder the requisite long-term adjustments, and to persevere with current efforts aimed at reducing protectionism and trade distortions, and at improving the functioning of international markets. They confirmed their support for the Organisation's work programme on these issues. Ministers, noting that work is underway in the fisheries area in accordance with the mandate given in 1982, requested that this work should be pursued actively.

34. Ministers acknowledged the importance of issues arising in relation to both competition and trade policies, such as cartels and voluntary export restraints, which have the effect of inhibiting competition and the proper functioning of markets. They called for continued work and improved international co-operation in this area. Ministers also underlined the need to give greater weight to the consumer interest in trade policy formation.

INTERNATIONAL INVESTMENT

35. Ministers undertook a Review of the 1976 Declaration on International Investment and Multinational Enterprises and the related Decisions. They expressed satisfaction that the three related instruments approved in 1976 and revised in 1979, dealing respectively with Guidelines for Multinational Enterprises, National Treatment for enterprises under foreign control and incentives and disincentives for international investment, are making an important contribution to the international investment climate, and to strengthening mutual confidence between multinational enterprises and governments.

36. Noting the growing importance and scope of problems arising from the imposition by Member countries of conflicting requirements on multinational enterprises, Ministers agreed to strengthen bilateral and multilateral co-operation in this area in order to avoid or limit the scope of such conflicts. Accordingly they endorsed a set of general considerations and practical approaches to these problems as set out in paragraphs 23-33 of the Review Report. Ministers also noted the concern over the impact of unitary taxation on international investment and the importance of achieving an early resolution of the problem.

37. Underlining the important role of foreign direct investment between Member countries, Ministers agreed to reinforce the application of the Declaration on International Investment and Multinational Enterprises, including notably the national treatment instrument. They endorsed the recent decision to amend the Code for Liberalisation of Capital Movements in order to cover certain right of establishment measures related to direct investment. They called upon the Organisation to continue to work towards further liberalisation of restrictions on direct investment.

ANNEX

"GOVERNMENT AID: THE POSITIVE ADJUSTMENT PERSPECTIVE"

(Statement by the Economic Policy Committee)

1. Delegates emphasized the continued need for positive adjustment policies both at the domestic and international level, and reaffirmed the basic principles set out in the 1982 Ministerial Statement. They agreed that the rise and decline of specific activities is a normal feature of economic development and does not as such provide a rationale for government intervention. However, where government assistance to particular economic activities is deemed necessary, it should be transparent and should allow, to the greatest extent possible, the continued play of market forces. Wherever appropriate, and particularly in the case of structurally weak industries, state aid should be temporary, linked to plans for effective restructuring, and phased out according to a predetermined timetable. Delegates also reiterated that considerations of national security or self-sufficiency should not be misused to justify measures of excessive support and protection.

2. In the light of the experience of the last two years and the present economic situation, Delegates agree that the application of the basic principles of positive adjustment policies merits sharper focus on the issues of enhancing efficiency in the medium term and creating viable new jobs, containing inflationary pressures, and maintaining the open multilateral trading system. The general aim is to identify more clearly those measures which may be particularly harmful from either a domestic or international perspective, and to indicate alternatives that accomplish the objectives at less overall cost. Though adjustment policies must of course be adapted to the specific circumstances of each country, three priorities can be identified:

- Adjustment policies should be reoriented towards achieving greater efficiency in the medium term through increased flexibility and innovative use of resources. To provide a basis for the creation of viable new jobs, manpower and social policies should place more stress on retraining and redeployment, while acknowledging the need to compensate those adversely affected by structural change. So as to capitalise on the growth opportunities arising from new technologies and from the recovery underway, policies impairing the efficiency of capital markets and the supply of risk finance for investment should be reviewed. Consistent and vigorous implementation of competition policy, in addition to improving the efficiency of markets for existing products, can lower the barriers to entry into new and promising lines of activity. High priority should also be given to reducing barriers to the exit of resources from activities no longer viable, for instance through

appropriate bankruptcy and liquidation procedures. Adjustment policies should be applied on as horizontal and non-discriminatory a basis as possible; however, where policies targeted to particular activities are appropriate, they should avoid favouring less efficient producers at the expense of more promising firms and activities.

- Urgent action by governments is required to dismantle measures which aggravate inflationary pressures. Policies should be designed to minimise restrictions on the competitive supply of products from lowest cost sources to domestic markets. With firmer demand growth, policies also need to avoid exacerbating the potential for excessive wage increases. Quantitative import restrictions, voluntary export restraints, market sharing arrangements and other exemptions from normal competitive circumstances should be subject to close review.
- Governments should take into account the risk of negative international repercussions when designing their assistance policies. In order to avoid a vicious spiral in which each country seeks to match or neutralise the assistance provided by others, governments should ensure that assistance is not used by recipients to gain an economically unjustified advantage on world markets. Domestic policies should be guided therefore by the need to ensure that longer-term requirements of efficiency govern not only national, but also international resource allocation; that shifting of adjustment burdens, in particular employment problems, from one country to another is minimised; and that, more generally, policy objectives and implementation are consistent with a competitive international economy and with the maintenance of an open system of trade, investment and payments.

3. Recognising that domestic problems and policies are at the root of many economic conflicts between countries, Delegates expressed the view that international understanding might be greatly advanced if governments, when intervening in national or international markets, observe the need for transparency in the design and implementation of policy. Transparency, which would also improve the efficiency of policy at the domestic level, could be substantially enhanced by governments through:

- Improving the information available within administrations about the level and distribution of assistance provided by central, state and local governments, and its evolution over time. There should be clear institutional responsibilities and procedures within the public administration for collecting and updating such information. The information collected should cover not only direct financial transfers but also indirect transfers through tax allowances and other fiscal measures, as well as off-budget forms of assistance.

- Making greater efforts to improve the evaluation of government assistance to industry and regions and assessing its impacts. More effective evaluation of the costs and benefits of support measures is indispensable for taking rational decisions on whether to provide assistance and, if so, in what form. Assistance should be subjected to regular and impartial critical review in terms of its objective, its design, its administration, its recipient and its ultimate use. The appraisal should take into account longer term, economy-wide impacts of the assistance measures and not be restricted to the short-term concerns of the specific activities in question. Improvement should be sought in the methodologies for measuring the costs of closures against the costs of continued government assistance.

- Striving for greater transparency in the implementation of assistance policies. This involves enhancing the coherence of institutional arrangements in this field, through the clear delineation of responsibilities and objectives, as well as steps to ensure that the goals and impacts of different assistance programmes are not mutually counterproductive. Policy consistency should also be sought with respect to the conditions to which specific aid is tied and the timetable to which it is to be phased out.

- Granting all interest groups and the public at large greater access to reviews and assessments of policy formulation, implementation and implications during both the decision making process and the monitoring process. In this way, narrower sectional pressures for assistance might be better countered by a wider representation of interests.

4. Transparency also has an international dimension. It is essential for achieving consensus among governments about appropriate adjustment policy responses. Delegates agree that the institutional mechanisms for reporting, consultation and cooperation in the cases where domestic assistance may lead to international frictions need to be further strengthened. They recognised that this is important in order to avoid shifting adjustment burdens and especially employment problems of specific industries from one country to another, to break the vicious circle of cumulative and competitive subsidisation, to re-establish confidence for investment and to ensure the continuing benefits of an open world trading system. Such mechanisms should retain a genuinely multilateral rather than bilateral character, and be supportive of the respective roles of OECD, GATT, IMF and other international organisations.