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

Attached for the information of the Executive Directors is the text of the communiqué issued in Paris at the conclusion of the OECD Ministerial meeting.

Att: (1)

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Department Heads

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### COMMUNIQUE

1. The Council of the OECD met on 17th and 18th April at Ministerial level. The meeting was chaired by Mr Turgut Ozal, Prime Minister of Turkey. The Vice Chairmen were Mr Franz Vranitzky, Minister of Finance of Austria, Mr Ferdinand Lacina, Minister of Public Economy and Transport of Austria, Mr Pedro Pires de Miranda, Minister of Foreign Affairs of Portugal and Mr Miguel Cadilhe, Minister of Finance of Portugal.
2. Ministers heard a joint statement by the Chairmen of the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC) exposing their common concern over the level of unemployment, the need for growth and the need to restore the manufacturing base in the OECD area.
3. The following records the conclusions and agreements reached by Ministers.
4. The overall economic situation in OECD countries is improving; and despite continuing concerns and difficulties, there are good grounds for confidence about the future. Inflation has been reduced substantially and approximate price stability achieved in some countries. Economic growth in the OECD area seems set to pick up to a rate of 3 per cent or better this year

and next, and to be evenly spread among most countries. Employment growth is likely to increase. Exchange rates have moved significantly over the past year away from levels that had produced unbalanced competitive positions among countries, and had contributed to international current-account imbalances. Interest rates have come down substantially in nominal terms, although less so in real terms since inflation has also declined. However unemployment and especially youth unemployment remains at very high levels in most OECD countries. Ministers were concerned that in many countries there has not been significant change in this situation up to now.

5. Lower oil prices are contributing to the favourable macro-economic situation, by significantly reducing inflation, raising real incomes in oil importing countries, and providing an additional stimulus generally to economic activity worldwide, although there will also be negative impacts for some energy exporting countries. More fundamentally, OECD countries are beginning to reap the benefits from concerted efforts to improve the functioning of their economies, to reduce domestic imbalances, and to strengthen international co-operation.

6. OECD Governments intend to take advantage of these favourable conditions to promote a stronger growth trend over the medium term without rekindling inflation. Success in this effort will help in the priority task of substantially reducing present very high levels of unemployment. It will contribute to stronger growth in developing countries and to reducing international debt burdens. It will facilitate efforts to bring about necessary structural adjustment, particularly in sectors plagued by global excess capacity. It will also provide a favourable environment for strengthening the open multilateral trade system - whose effective functioning is of fundamental importance to the world economy.

7. A stronger growth trend can be achieved through co-operative action among our countries. Four broad imperatives can be identified in this regard:

- i) Macro-economic policies within and among OECD countries need to be supportive of growth and employment over the medium term by keeping inflation low and by eliminating domestic imbalances. They also need to be directed toward reducing international imbalances; and to be implemented in ways that promote greater stability of exchange rates at levels better reflecting economic fundamentals.
- ii) Structural policies need to be directed towards enhancing dynamism by enlarging the opportunities for productive activity, increasing flexibility and improving incentives. Structural policies also need to be perceived in their relation to trade policies: where serious distortions exist in national markets, domestic resources are channelled into less productive uses, the flexibility of economies is reduced and, inevitably, the distortions spill over into international markets. Increased attention should be paid to trade distorting effects of government subsidies to specific sectors.

- iii) The capacity of developing countries to adjust their economies and increase growth through efficiency-oriented policies needs to be supported by OECD policies and improved co-operation in financial, trade, investment, technology and other areas.
- iv) There is a need to reinforce the open multilateral trading system, to strengthen the provisions and the disciplines, and to further trade liberalisation on the broadest possible basis. A comprehensive new round of negotiations needs to be launched in the GATT to preserve, strengthen and extend the multilateral trading system.

Specific lines of action are the following:

#### MACRO-ECONOMIC POLICIES

8. It is essential to bring about a better balance in current account positions among countries in order to reduce the risk that such imbalances, which remain large, might eventually undermine continued economic expansion. The longer such imbalances persist, the more difficult their ultimate correction. Smooth adjustment requires that in countries with large current account deficits output grows more rapidly than domestic demand; and conversely for countries with large surpluses, where domestic demand should be sufficient to ensure that growth is at least in line with the increase of productive potential and thereby contributing more to world economic growth. The policy priorities agreed last year remain relevant. Policy priorities include, inter alia, reduction of the budget deficit in the United States, increased domestic demand and the encouragement of increased imports into Japan, and the strengthening of growth in European and other Member countries through both structural and macroeconomic policies. Action in line with these priorities is under way and will be strengthened. In this context, Ministers underlined the need for strengthened co-operation aimed at ensuring greater consistency and complementarity of economic policies in the medium term. Necessary procedures and techniques for achieving this objective should be actively studied.

9. Exchange rates have an important role to play in complementing fundamental policy actions for the reduction of current account imbalances. Concerted action has helped to bring about exchange rate changes in a direction more consistent with economic fundamentals. These changes should not be hampered from fully playing their role in the international adjustment process. Co-operation to this end will continue, recognising that appropriate exchange rates need to be sustained through internationally compatible policies. Efforts to improve the functioning of the international monetary system should be intensified.

10. The control of public expenditures and budget deficits is essential to establish a stable domestic financial environment and to promote a durable reduction in real interest rates which will help private investment to expand

and thus promote sustained growth worldwide. In countries where deficits are large and public debt is rising strongly -- and this is still the case in most OECD countries -- further deficit reduction cannot be postponed. Deficit reductions should be pursued in ways consistent with the objective of improving growth. Such reductions are best achieved through stronger control over public expenditure, rather than by raising taxation which would damage incentives. Where the trend of rising public debt in relation to GNP is being reversed, and budget deficits have been reduced sufficiently to restore fiscal flexibility, further deficit reductions may be less urgent. In this case, continued progress in containing public expenditure creates room for tax cuts. Generally, medium-term budget objectives should be framed having regard to the need to avoid rising ratios of public debt to GNP and to bring these down where they are unusually high; to take fully into account the implications of demographic trends for the viability of social security systems; and to contribute to a sustainable balance between domestic savings and investment. Moreover, tax reform can be undertaken to promote stronger growth and adjustment.

11. The macro-economic gains to be derived from lower oil prices can probably best be achieved by allowing them to be transmitted through lower prices to households and enterprises. In a number of countries governments have considered it appropriate to absorb a share of these gains through higher taxes in order, for instance, to reduce budget deficits or to increase efficient public investment, to lower other taxes that are judged excessive or to replace reduced oil or gas revenues.

12. In recent years, the primary task of monetary policy has been to bring down inflation and keep it under control. Many OECD countries have made substantial progress. The risk of a re-acceleration of inflation will always persist. Thus, monetary authorities will need to remain on guard. In this context current monetary objectives and intentions are supportive of sustainable growth, and provide room for further declines in interest rates -- particularly in view of the disinflationary impact of lower oil prices. Co-operation among monetary authorities on the timing of interest rate reductions can help minimise unwanted exchange-market reactions.

### STRUCTURAL POLICIES

13. Sustained good economic performance results from a continuing process of structural change towards national economies that are flexible and dynamic, and which are bound together through an open and multilateral trade system for goods and services, the rapid diffusion of technology and know-how, and efficient and internationally integrated financial markets. Continued environmental protection and improvement can and must be an integral part of this process. Achieving this desired evolution of the world economy will take time and will require determination to overcome the obstacles to effective structural adjustment, one being the fact that in some specific industrial sectors, public subsidies are presently hampering the possibilities of industries to pursue sound adjustment policies.

Discussion of structural policies focussed on the following aspects:

#### Employment

14. Unemployment is a waste of our most precious resource, human potential, and solving this problem is an essential priority. Labour markets which respond promptly and efficiently to the new job opportunities created by growth, trade, technological and structural change are essential for the promotion of more dynamic economies and for a higher rate of job creation. The creative involvement of both labour and management is central to achieving this. Wage moderation has played an important part in bringing down inflation. Continuing moderation will help to sustain non-inflationary growth and an improvement in real standards of living. Wage settlements must take into account market conditions, productivity trends, and the decline in inflation that is taking place. Active policies to promote the better functioning of labour markets will include, inter alia, actions to improve access to employment, particularly for youth and the long-term unemployed; to facilitate labour mobility; to modify provisions that inhibit the hiring of new workers; to strengthen programmes for skill development, and in particular to improve the responsiveness of education and training to the needs of the economy.

#### Financial Markets

15. The rapid structural changes that are taking place in financial markets improve the overall capacity of these markets to provide funds more efficiently and to meet better specific needs and preferences, thus contributing to stronger growth. While this process is to be welcomed, it also has particular implications for policy. The more powerful transmission of financial impulses internationally requires closer co-operation in the conduct of financial policies. Likewise national systems of supervisory and prudential control need to adapt to the structural changes in domestic financial markets, and to their increasing internationalisation. This requires, inter alia, increased international compatibility of national policies.

#### Allocation of Public Resources

16. In addition to appropriate control of budget deficits and the overall scale of government spending, budget policy must also be directed to improving the efficacy and efficiency of government programmes. This implies flexible reallocation of resources to priority needs. It also implies improving the structure of taxation by reducing tax rates and broadening tax bases, and by narrowing differentials in effective tax rates across different economic activities.

#### Technology

17. Over the last decade OECD economies have undergone profound changes in structure and operation with considerable shifting between activities.

Technological developments, such as information processing, have permitted the growth of entirely new industries as well as altering products and processes in many established industries. For the diffusion of new technologies to provide the fullest possible contribution to growth and employment, effective transfer of technology needs to be facilitated and a suitable environment for risk taking is necessary, as are responsive systems of education and training. Appropriate protection of intellectual property contributes significantly to the successful creation and diffusion of technology and concerted efforts are needed to strengthen this protection worldwide.

### Agriculture

18. Policies of domestic support for and protection of agriculture have sometimes inhibited needed adjustment and led to increases in global supplies in excess of demand. This problem will become even more acute if technological innovation in agriculture is not matched by effective adjustment. Studies in the Organisation should contribute to a better understanding of the issues involved. Ministers asked the Organisation to intensify the work on these issues taking also into consideration the macro-economic and social implications of agricultural policies. Ministers agree that in many cases present policies entail not only heavily increasing costs but also the danger of aggravating conflicts in agricultural trade which, in turn, risk exacerbating trade tensions more generally. Particular concern was expressed over the recent escalation of tensions in trade in grains and in a number of other agricultural commodity markets. In the light of the serious situation, it is urgent that OECD countries, while taking into account the wellbeing of farmers, make strenuous efforts to reorient policies which have an effect on agriculture in order to encourage structural adjustment, to bring down budget expenditures, to correct market imbalances and to reduce tensions internationally.

### Energy

19. While a prolonged period of relatively low oil prices might intensify long-standing concerns about long-term energy supply security and the possibility of tighter energy markets in the future, there is no need at present for new international action by Member countries in the area of energy policy, although some Member countries may decide that internal adjustments are required for regional sectoral or other national reasons. The energy policy objectives set out in the Conclusions endorsed at the meeting of OECD Ministers on 9th and 10th May 1983 (and recently reconfirmed by the Governing Board of the International Energy Agency) were therefore reconfirmed and their implementation will continue with whatever adjustments may later be decided are necessary. For this purpose, an updated assessment of the medium- and long-term energy outlook will be developed to serve as a basis for seeing whether energy policy objectives are likely to be achieved under current and future market conditions.

## RELATIONS WITH DEVELOPING COUNTRIES

20. Interdependence is a reality. Strong economic performance in the OECD countries is crucial for growth in the developing countries. Conversely, economic performance in developing countries will increasingly affect growth in the OECD area. More dynamic and broadly shared economic development entails action across a wide range of policies in both developing and developed countries.

21. Debt burdens remain onerous for a number of countries and severely hamper their process of development. Growth-oriented structural adjustment and expanding trade are essential for resolving this problem and overcoming other obstacles. OECD countries welcome and encourage the efforts already made by many developing countries in difficult political and social circumstances. They also welcome the progress that is being made in implementing the debt initiative proposed by the United States in Seoul. They urge the continuation of co-operative efforts by debtor nations, the commercial banks, and the International Financial Institutions to realise the objectives of this growth-oriented debt strategy on a case-by-case basis. Debtor countries, working in co-operation with the IMF and the World Bank, need to develop and put into place comprehensive policies to permit sustained growth and sustainable external balance. This will contribute importantly to improved financing by mobilising domestic savings, by stemming capital flight and by attracting bank credits and foreign direct investment -- which should play a more prominent role in future capital flows.

22. For their part, OECD countries need to promote an international economic environment which will support developing countries' policies. OECD countries must therefore strive to improve the dynamics of their own growth and adjustment; to ensure freer access to their markets; to co-operate regarding the resumption of export credit cover on a case by case basis to countries implementing effective adjustment policies; to support the creation of the Multilateral Investment Guarantee Agency (MIGA) to encourage new investment in developing countries; and to provide adequate concessional and non-concessional financial flows, in terms of quality and quantity.

23. Oil price developments are benefiting energy importing developing countries. However, the financial situation of a number of heavily indebted oil exporting developing countries has deteriorated and should be addressed through appropriate measures within the overall debt strategy. The downward trend of non-oil commodity prices has increased the need for more open and stable markets, for action to remove measures distorting trade in these commodities and for diversification of production and processing in commodity-dependent economies. For this, enhanced attention by the international community is required.

24. The plight of the poorest countries, and especially those in Sub-Saharan Africa, continues to give rise to serious concern. For these countries also it is essential to undertake growth-oriented policy reform and structural adjustment measures. Special efforts are, however, required to

support such endeavours through improved and better co-ordinated aid programmes. OECD members agreed to exert their best efforts in providing additional official development assistance, through both bilateral and multilateral channels, to support growth and significant adjustment programmes in the poorest countries. Multilateral assistance has a key role in this respect. Hence the World Bank's Special Facility for Africa and the recent establishment of an IMF Structural Adjustment Facility are welcome. Hence, too, the importance of a substantial replenishment of IDA. Bilateral donors, for their part, must improve current aid policies and practices in order to provide flexible, timely and better co-ordinated financial support for development-oriented programmes.

25. Ministers look forward to the forthcoming Special Session of the United Nations General Assembly on the critical economic situation in Africa. This session provides an opportunity to improve co-operation between African Governments and the international community on the basis of a thorough review of past efforts in solving that continent's problems. It further provides an opportunity to set out orientations for future action aiming at the rehabilitation of the medium- and long-term development of Africa.

#### TRADE POLICY

26. Ministers vigorously endorsed the need to launch a comprehensive new round of multilateral trade negotiations. Ministers noted with satisfaction the preparation in GATT for a Ministerial meeting in September for this purpose. Member countries' Governments are determined to do their utmost to support the new round and the process leading to its launching. All countries, developed and developing, have a stake in the early launching and successful completion of a new round. The general purpose of the negotiations should be to improve the provisions and disciplines of the GATT, expand its coverage, extend its application to new areas, promote a substantial further liberalisation of trade and consider trade aspects of other international economic policies. In this context it was recognised that parallel efforts in other areas of international economic co-operation would be conducive to achieving the objective of trade liberalisation. Ministers support a comprehensive agenda for the negotiations, including issues to keep the GATT relevant to changing world trade conditions, which would provide the possibility of achieving balanced results. The new round should, inter alia, address the issues of trade in services and trade related aspects of intellectual property rights and foreign direct investment. The negotiations should lead to a fuller participation in the open multilateral trading system of developing countries which should contribute to the liberalisation process in a manner commensurate with their stage of economic development.

27. Effective commitments on standstill and rollback are necessary to create a positive negotiating climate and to further the achievement of the overall objectives of the trade negotiations. Ministers, therefore, expressed their preparedness to contribute to an effective and credible standstill undertaking by all GATT Contracting Parties and to discuss with their partners a meaningful monitoring process for the application of that undertaking. They also underlined the importance of the rollback of protective trade measures in order to contribute to the achievement of the liberalisation objective of the new round.

28. Progress on actions to relax and dismantle existing trade restrictions was reviewed. Against a difficult economic background, protectionist pressures have persisted and trade restrictions have continued to be introduced, although at a markedly slower rate than previously. At the same time, efforts to liberalise trade have resulted in the abolition of certain restrictions and in the relaxation of others. The results, though modest, represent a useful effort in themselves and contribute to confidence for new multilateral trade negotiations. In the face of the continuing threat of protectionist pressures Ministers reaffirm their commitment to avoid new restrictive measures and to pursue their efforts to reduce trade restrictive and trade distorting measures. More specifically, Ministers undertook to seek as much liberalisation as possible within the renegotiation of the Multi Fibre Arrangement, a number of them with the final objective of applying GATT rules to trade in textiles.

29. In order to assist developing countries, Ministers expressed hope that the Contracting Parties in the new round would explore means of giving appropriate recognition in the GATT context to trade liberalisation measures adopted by developing countries under structural adjustment and sectoral programmes.

#### Services

30. Ministers also reviewed the Organisation's wide ranging activities on trade in services. Inclusion of services in a new round of multilateral trade negotiations would contribute importantly to trade liberalisation. Related work in OECD should be pursued actively. In this regard Ministers stressed the need to intensify and broaden ongoing conceptual, analytical and statistical work on the complex issues involved, particularly on the application of general concepts to individual service sectors. Similarly, they underlined the importance of extending and making more effective the Code of Liberalisation of Current Invisible Operations and other existing instruments which are applicable to trade in services among OECD Members, in order to promote liberalisation in as many sectors as possible. Ministers requested the Secretary-General to report on progress at next year's Council at Ministerial level.

#### INVESTMENT

31. Ministers observed that Member countries encourage the further liberalisation of restrictions on direct investment in both developed and developing countries. The Ministers observed that further liberalisation of investment policies within the OECD would contribute to the success of broader multilateral efforts in this important area. In this regard, the Ministers welcomed improved efforts being made to strengthen the OECD Code of Liberalisation of Capital Movements and national treatment instrument.

CONCLUSION

32. In order to remove international frictions and imbalances through the efficient distribution of resources, it is important to advance worldwide structural adjustment from a medium and long-term perspective, as well as to promote the further opening up of markets within the free trading system. International co-operation, including industrial co-operation through direct investment, technology exchange, and joint research and development, is very important because it promotes structural adjustment on a global scale and facilitates the formation of a harmonious division of labour, thereby contributing to the deterrence of protectionism.