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EBD/85/100

April 15, 1985

To: Members of the Executive Board
From: The 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.

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Press Release

PRESS/A(85)31

Paris, 12th April 1985

COMMUNIQUE

1. The Council of the OECD met on 11th and 12th April at Ministerial level. The meeting was chaired by The Rt. Hon. Joe Clark, Secretary of State for External Affairs of Canada and The Hon. Michael Wilson, Minister of Finance for Canada. The Vice-Chairmen were Mr Fernando Moran Lopez, Minister of Foreign Affairs of Spain and Mr Miguel Boyer Salvador, Minister of the Economy and Finance of Spain and Mr Sverre Strøm, Minister for Foreign Affairs of Norway.
2. OECD this year celebrates its 25th anniversary. Since it was founded it has played an important role in fostering international co-operation between its members and more widely. The present meeting, the first Council at Ministerial level with Jean-Claude Paye as Secretary-General, represents a further step along this road. The following text records the agreements reached.
3. There has been a marked improvement in the general economic situation in the past two years. Recovery is proceeding broadly. Inflation has been substantially reduced. Business profits have increased strongly, as has investment in a number of countries. The significant increase in world trade has generally benefitted both developing and developed countries. This increase has been led thus far by strong growth in the United States. Prospects are good that this country will achieve more moderate but sustainable growth. In Japan the expansion of output will stay vigorous. The progress achieved in most European countries toward re-establishing a better equilibrium has improved prospects for continuing growth.

4. Nevertheless urgent problems remain, and the policy actions to address them were discussed. The following interrelated concerns were highlighted:

- a) Persisting high levels of unemployment, particularly in a number of European countries, remain a cause for major concern. This concern is all the more acute since unemployment is increasingly concentrated on the young and on the long-term unemployed.
- b) The international financial and monetary situation remains uncertain -- exemplified by persistent high real interest rates, growing imbalances in current account positions within the OECD area, exchange rate instability and continuing strains arising from the debt situation of some developing countries.
- c) World trade has increased but so have pressures for trade protection. Trade-related tensions persist. Progress towards strengthening the open multilateral trading system has been insufficient and uneven.
- d) Some developing countries have made significant progress toward achieving better growth. Many, however, still struggle with major domestic and external problems. The gravity of the situation in Sub-Saharan Africa is a particular preoccupation.

5. Prospects for a durable recovery would be reinforced to the extent that these concerns can be alleviated, thus strengthening the confidence upon which investment and economic dynamism depend. It is first of all necessary for governments to pursue domestic policies to improve the performance of their economies. There is also a collective responsibility to pursue policies that, taken together, will promote greater convergence of economic performance around a sustainable non-inflationary growth path, and to strengthen the open multilateral system. The following paragraphs represent a co-operative approach to this end.

6. Overall Economic Policy Priorities. The broad economic strategy that has been pursued in the OECD over the past several years is paving the way for durable growth without inflation, and thus provides the basis for higher employment. It stresses medium-term objectives rather than short-term considerations. It recognises the importance of consistency and continuity in economic policies, and places particular emphasis on strengthening the capacity of economies to adjust and innovate by making markets work better. This thrust will be maintained.

7. By building on the progress achieved, and by taking full account of the international repercussions of policies, a co-operative approach will both promote better international balance and improve domestic performance. Essential elements of such an approach include the need for all OECD members to: resist protectionist pressures; control government spending and where necessary reduce budget deficits; reduce structural rigidities as an important way of enlarging employment opportunities; and reduce major imbalances in international trade in goods and services. The following priorities for action by individual countries were seen as adding up to a better international climate while addressing domestic needs:

- a) Continuing budget deficits projected for the United States, while smaller than the OECD country average in relation to GNP, are large in absolute size and are leading to a rapid build-up of government indebtedness and a correspondingly rising burden of debt-interest payments. Correcting this trend would contribute to ensuring the sustainability of the expansion in the United States and hence elsewhere. Accordingly, the United States considers it an essential priority that rapid and decisive agreement be reached on measures that will bring about expenditure trends leading to the elimination of large deficits.
- b) The strong dollar, resulting from a variety of factors, has contributed to strong pressures for protection in the United States, by eroding the price competitiveness of US producers. For both domestic and international reasons, the United States government considers it an essential priority that these pressures be resisted.
- c) The Japanese economy has consistently performed well. Mirroring to a considerable extent the United States position on international transactions, Japan is experiencing a large and growing surplus on trade in goods and services, accompanied by large capital outflows. Regarding this surplus and in order to reduce it and thereby contribute to a better international climate, Japan considers it an essential priority that the deregulation of its domestic financial markets be continued, that investment to and from Japan be promoted, that further access to its markets be facilitated, and that increased imports into Japan be encouraged.
- d) The situations of other OECD countries differ to some extent from each other, as do their priorities and possibilities for action. But, in general, the expansion and full exploitation of the potential for durable non-inflationary growth are needed to reduce unemployment. They are also needed as a contribution to better balance and sustainability of the world recovery and to a more stable international monetary environment. Thus, these countries consider it an essential priority that the whole range of policies be used and that the following actions be implemented in ways consistent with country situations and institutions:
 - i) The adaptability of economies and the job-creating nature of growth must be strengthened; continued moderation in aggregate labour cost growth remains important in this respect. As further elaborated in paragraph 8 below, measures to improve incentives and increase opportunities by reducing rigidities in product, labour, and capital markets have a high priority for all countries. Reducing trade barriers in all sectors is an essential element of this approach.

- ii) Reduction of budget deficits remains necessary for many countries, and urgent for some. This may involve a broadening of the tax base. More generally, budget policies should continue to aim at improving the quality of public expenditure and at restraining the overall level of expenditure, coupled with action to lower taxes.
- iii) To the extent that dynamism on the supply side improves further, inflationary domestic imbalances are curbed, and exchange rate induced inflationary risks abate, real demand will strengthen. When appropriate, governments individually and collectively should support this in a framework of prudent monetary and fiscal policies. This support would be particularly important in the context of a weakening of external demand.

8. Priorities in Structural Adaptation. The restoration of high levels of employment is a central policy objective which requires increased dynamism and adaptability of OECD economies, while strengthening the consensus for such a course by ensuring that structural change does not bear unduly on weak and low-income groups. It was agreed that coherent actions across the whole range of social and economic policies would contribute to this goal in the medium term, and could increase confidence even in the short term. The Organisation is deepening its review and appraisal of adjustment policies in accordance with last year's decision. The Secretary-General will undertake preparation of a study of Member country experiences drawing on available research in this area; he will in the near future inform the Council at permanent level of plans for initiating this analysis. He will deliver a progress report at the next meeting of the Council at Ministerial level. There are also implications for action by the community at large, including employers and trade unions. Pursuit of consensus arrangements between the social partners may be helpful in some countries. The following are priority areas for action:

- a) Further strengthening the environment for the creation of new firms, investment, innovation, and entrepreneurship -- in particular as regards small and medium-sized enterprises. Improved policies as regards regulation, education and training, competition, financial markets and taxation, have a major role. The reduction of subsidies which impede adjustment is likewise important.
- b) Further improving the functioning of labour markets by efforts of governments, labour and management: by reducing governmental obstacles that inhibit employment growth; fostering new approaches to collective bargaining that increase job creation through enhanced flexibility and appropriate wage formation, as well as fair distribution of economic welfare; promoting occupational and geographic mobility and the conditions that make it possible.
- c) Moderating disincentive effects of current tax/benefit systems while retaining appropriate levels of social transfers, and improving the effectiveness of social services and their responsiveness to changing needs.

- d) In response to the crucial problems of unemployed youth and the long-term unemployed, strengthening specific programmes that aim to upgrade skills, and provide work experience. The objective is to integrate those affected into the labour market, while maintaining adequate income support and reducing, wherever possible, artificial barriers limiting access to jobs.

9. Ministers welcomed the report by the Organisation on the Costs and Benefits of Protection. (*) It has provided further substantial evidence that protection has yielded few, if any, benefits but imposed very substantial costs, chiefly on the protecting country. Not only are restrictive trade measures an inefficient means of sustaining employment, they also delay much-needed adjustment.

10. Foreign Exchange Markets. The improved functioning of the exchange rate system depends primarily on the pursuit of appropriate economic policies in all OECD countries. The actions identified in paragraphs 7 and 8 above are also expected to strengthen the basis for greater exchange-market stability. Co-ordinated intervention in exchange markets can at times be useful to counter disorderly exchange markets and reduce the volatility of market perceptions. Ministers reaffirmed the importance they attach to the work undertaken by the Group of Ten, and expressed the hope that this would be completed rapidly.

11. Trade Policies. Ministers reaffirmed their commitment to the open multilateral trading system and their determination to strengthen it by further liberalisation. A new round of trade negotiations in GATT would contribute significantly to achieving this objective. There was therefore agreement that such a round of negotiations should begin as soon as possible (some felt this should be in early 1986). Ministers agreed to propose to the Contracting Parties that a preparatory meeting of senior officials should take place in GATT before the end of the summer to reach a broad consensus on subject matter and modalities for such negotiations. Active participation of a significant number of developed and developing countries in such negotiations is considered essential. The various actions recorded in this Communiqué insofar as they lead to a better international economic, financial, monetary and investment environment, will contribute to the success of this process.

12. *The avoidance of any resurgence of protectionist measures is of vital importance to sustained economic recovery and to the preservation of the multilateral trading system. This is equally important to ensure the necessary climate of confidence for any new and wide-ranging initiative in the trade field. Ministers therefore stress their resolve effectively to halt protectionism and resist continuing protectionist pressures.*

* PRESS/A(85)28 Weighing the Costs and Benefits of Protection, issued on 9th April 1985.

13. Moreover, against the background of uneven results so far, they emphasize the importance of further tangible progress in the Organisation's work aiming at a concerted programme of action to relax and dismantle existing trade restrictions. An important element of this programme is that all Member countries will submit by mid-October proposals on all measures which could be phased out progressively over a fixed period; a report on results achieved will be presented to Ministers next year.

14. In addition a number of specific trade issues -- many of which would be relevant for a new round of negotiations -- were addressed:

- a) The importance of increasing trade possibilities for the developing countries was stressed, particularly in view of the heavy debt burdens faced by many of these countries. More liberal and stable policies towards market access for products of particular significance to developing countries are needed. Developing countries should participate in the liberalisation process in a manner commensurate with their stage of economic development.
- b) Measures aiming at strengthened transparency and discipline in the field of tied aid credits and associated financing of exports will continue to be pursued expeditiously. A study is to be completed by 30th September 1985 so that new measures aiming at a further increase in discipline and transparency could be taken promptly. As a first step, there was agreement on reinforced notification and consultation procedures as well as an increase to 25 per cent of the minimum permissible grant element for those transactions.
- c) Serious tensions exist in the field of agricultural trade, particularly with respect to the generation and disposal of surpluses. Determined efforts will continue to be made to identify and implement urgently the indispensable adjustments in agricultural policies, and trade and financing practices, which are required to reduce these tensions.
- d) Initial conclusions from ongoing work show that access to markets for high technology products and access to high technology itself are both important. Open markets and free access provide the same advantages in this domain as in all other areas of trade.
- e) Given the growing significance of trade in services, continuing efforts toward their liberalisation are important.
- f) The rapid growth of international computer communications has become an important feature of the international economy. The Governments of OECD Member countries therefore have adopted a Declaration on Transborder Data Flows (*).

* Declaration on Transborder Data Flows, adopted by the Governments of OECD Member countries on 11th April 1985 [PRESS/A(85)30].

- g) Recognising the recent rapid development of information and communication technology and stressing the necessity of examining its impact on the interdependence of the world economy, Ministers welcomed the initiative of the Japanese Government to sponsor a series of international conferences on this theme.

15. Relations with Developing Countries. Economic and financial interdependence between developed and developing countries is an increasingly important factor in the functioning of the world economy. The diverse and often difficult situations of the developing countries create needs and opportunities for constructive, pragmatic cooperation. Improved trade access and concessional and non-concessional flows will be important means to this end.

- a) Many developing countries are making considerable efforts to improve their own economic performance, through sometimes painful domestic adjustment. Such efforts are to be welcomed and encouraged. The responsibilities of the OECD countries for assuring an international economic environment that facilitates the success of these policies are fully recognised.
- b) It is important to maintain and as far as possible increase the flow of development assistance, improve its quality and effectiveness and strengthen co-ordination.
- c) Special efforts are required to support the policy reform endeavours being pursued by many of the poorer countries and to assist them to resume economic growth and development. The World Bank, the IMF, and the other multilateral institutions -- notably those of the U.N. system -- as well as bilateral donors, have an essential contribution to make in assisting the efforts of these countries, particularly by strengthening their co-operation and the effectiveness of their action.
- d) Direct investment can, under appropriate conditions, make an important contribution to development. It not only provides capital but also technological expertise. It should therefore be encouraged.
- e) Although the overall debt situation has been contained, there remain difficult problems with social and political dimensions. The problems of the low income countries require special consideration. Continued world recovery, open trade, sustained capital flows, moderate real interest rates, and resolute domestic adjustment efforts are all essential to continued progress in resolving debt and development problems. The Interim and Development Committee meetings of 17th-19th April will provide an opportunity to review these issues with developing countries.

- f) The development crisis in Sub-Saharan Africa is an international priority calling for increased assistance. Both governments and the general public are responding to the immediate needs of the famine-stricken countries. Effective policies for longer-term development are critical and require continuing support. A broad consensus has emerged that aid programmes should focus on agricultural and rural development, food security, institution-building and human resource development. Emphasis should be given to the maintenance and rehabilitation of existing productive facilities.

16. Energy Policy remains an important element of economic performance. The energy markets are currently easy but it remains essential to continue long-term policies to diversify supply and rationalise energy use as well as maintaining readiness to handle any interruptions in oil supplies.

17. Environmental problems are of national and international concern. Environment policies are important in their own right and in relation to economic efficiency and growth. Ministers looked to the meeting of the Environment Committee at Ministerial level on 18th-20th June to make further progress in this field.