

ORIGINAL: German

STATEMENT BY MR ALOIS PFEIFFER AT THE OECD MEETING OF COUNCIL  
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There is now broad international agreement that the economic situation and the economic environment improved significantly last year and that this development will probably continue this year. But at the same time the labour market situation, especially in Europe, remains very unsatisfactory and the trend shows no sign of turning in the near future. The Commission of the European Communities, therefore, sees as its clear priority an effective and sustained fight against unemployment, ensuring simultaneously price stability and external equilibrium.

On the question of what can be done politically to achieve this goal, I should like to concentrate on two main points:

- (1) the international environment;
- (2) measures at European level.

(1) As part of a medium-term strategy for economic growth, it is crucially important to have coordination to mitigate disturbances emanating from the international environment and to reduce uncertainty.

This relates above all to the future development of the United States economy. Europe is quite preoccupied by the question of when and how the US-current account deficit - which is unsustainable in the long term - will be reduced, and what will be the resultant effects on world demand, the level of interest rates and the exchange rate of the dollar. For the world economy it is important for the necessary reduction in the US current account deficit to be achieved in orderly fashion. Here, United States fiscal policy is crucial:

- A step-by-step, but sizeable reduction in the US budget deficit, backed by a continuing stability-oriented monetary policy, would make a major contribution to an orderly adjustment process. This would admittedly produce some slowdown in the growth of demand in the United States, but it would at the same time help to bring capital market interest rates down worldwide, on a sound basis. For the other OECD countries, the slacker growth in their exports to the United States would contrast with an opportunity to boost their investment demand as a result of interest rate effects, and to improve their business climate. Such an orderly adjustment process could also lead to a normalization in the development of the dollar exchange rate, which - combined with the interest rate effects - would ease the developing countries' debt servicing burden.
- Should the US budget deficit not be reduced, but expanded even further, it is difficult to conceive of an orderly adjustment process. Either interest rates would have to climb even higher with all the attendant unfavourable consequences for both the United States economy and the world economy, or the pressure on United States monetary policy to abandon its stability-oriented course would become so strong that rising inflation and "downward" overshoots in exchange rate movements would again become a possibility.

I feel there is no point in painting a fuller picture of what is hopefully an improbable scenario. But I should like to emphasize the Commission's view that one of the key conditions for a long-term improvement in the economic climate is an orderly reduction in the disequilibria of the United States economy through a marked narrowing of the budget deficit.

It is also important to limit erratic exchange rate fluctuations and to fight protectionist tendencies. The Commission sees greater expansion and liberalization of world trade as one of the central tasks and opportunities of the next few years, and is anxious to devise new initiatives and provide impetus in this area. Here trade policy aspects must be seen in the context of general economic and monetary issues.

- (2) In addition to the international aspects I have just referred to, the most important need at European level is to generate more employment through higher growth, particularly growth that is more employment-intensive, while at the same time safeguarding stability.

The strategy for achieving this goal was set out in the Annual Economic Report 1984-85, which was endorsed by the Community's Council of Ministers in December 1984.

The new Commission's concern now is to implement the Community's economic policy strategy rapidly, to build upon it and to emphasize certain features of it.

It will be easier to implement the strategy if the main parties concerned cooperate in a positive spirit. This means not only the national governments, but also the two sides of industry, i.e. employers and unions. An important new feature is therefore greater readiness to engage in dialogue. We need to establish a climate in which the willingness of European firms to create jobs is strengthened, without neglecting the social values of security and justice.

It would be easier in such a climate to promote the necessary structural changes through greater adaptability not only of the labour market, but also of the other markets. Consideration should also be given here to ways of reorganizing or reducing working hours that are neutral in their impact on costs. An active and forward-looking labour market policy is needed, one which includes the promotion of vocational training and specific measures tailored to the needs of disadvantaged groups, industries and regions. It will also be up to the governments, for example, to reduce the growth and employment-impeding distortions created by the tax system and by administrative restrictions.

However, the measures needed to increase flexibility and improve supply conditions in the economy are slow in acting. On the other hand, if economic activity were more buoyant, it would be easier for the necessary economic and social adjustment processes to be carried out. Steps should therefore be taken to introduce a dynamic element into the macroeconomically necessary policy mix of monetary stability, budgetary consolidation and wage moderation.

A relatively moderate development of wages and stronger growth make for more employment-intensive growth. At the same time greater success in the area of employment gives meaning to wage moderation, the reason for which it is accepted.

Since the United States cannot provide the same strong impetus to world economic growth as last year, the dynamic element which Europe needs must be developed more in Europe itself.

This means that:

- in the Member States, any existing and future room for manoeuvre, however small, should be used to the full to promote employment-intensive growth;
- over and above this, the Community will have to examine what contribution it can itself make to strengthening economic dynamism. The speedier opening up of the Community's internal market for goods, services and capital will certainly be an important contribution to this process. Consideration should also be given to further development of the Community's borrowing and lending instruments for the purpose of financing investment, especially by small and medium-sized firms, innovation, environmental protection projects and infrastructure investment that will help the European transport and telecommunication system to adjust to the requirements of the large internal market.

One final remark, Mr. Chairman. Our response to the unsatisfactory employment outlook in Europe should not be to call for purely cyclical expansion programmes which cannot solve our fundamental macrostructural problems. Nor must we take refuge in inactivity or, in trying to prove that we do act, rely on an assortment of isolated ad hoc measures. What we need is new economic policy ideas that will allow the inevitable corrective measures to be more closely reconciled with the necessary improvement of the employment perspectives. I hope that my comments have made a contribution to this.