



# Statements and Speeches

---

No. 78/11

## THE OECD CONSIDERS A CONCERTED ANTI-INFLATION PROGRAM

A Statement by the Secretary of State for External Affairs, the Honourable Don Jamieson, at the OECD Ministerial Meeting, Paris, June 14, 1978.

Over the past two years, economic recovery in the area of the Organization for Economic Co-operation and Development has been uneven. The real rate of economic growth has been below that which this Ministerial Council considered feasible when it met in 1976. Unemployment has, as a result, remained at a high level. However, we must not lose sight of the real progress that has been made in other areas. The rate of inflation has been halved from the critically-high levels of 1975/76 and many member countries that, at that time, had large and unsustainable current-account deficits have managed to reduce or eliminate these imbalances. This has occurred without the widespread use of protective trade restrictions or similar measures. These gains have been hard-won and it is not, therefore, surprising that we have not achieved total success in reaching all our fairly ambitious objectives.

For the period ahead, we must take great care that, in our attempts to combat our remaining difficulties, we do not put to risk the successes we have already achieved. In formulating Canadian economic policy, we have been very much aware of this danger, and for this reason the Minister of Finance has announced measures in his latest budget that will strengthen domestic demand, lower inflationary pressures and promote structural change.

In the same spirit, the Secretary-General is proposing a program for concerted action that seeks to produce non-inflationary growth through a better utilization of labour, capital and resources. It is a concerted program not only in that it requires action by many countries but also in that it involves many areas of policy. Not only does it include the traditional "macro-economic" targets but it also embraces elements such as energy and trade — both within the OECD and with developing countries — and even extends to a common approach to the problems being created by structural distortions that are in danger of becoming imbedded in our domestic economies. This set of proposals is a constructive response to our current problems and deserves our support.

The need for faster growth in the OECD area is widely acknowledged. The continuation of slow growth would lead both to a self-perpetuating under-utilization of our resources and to the inefficient employment of those resources actually at work. The expectation of slow growth would lead to a low rate of new investment and innovation, as businesses reacted to pessimistic expectations of the future course of demand. This would inhibit the process of structural change and adaptation and make the expectation of slow growth a self-fulfilling prophecy. A low rate of real growth would not be sufficient to lower unemployment rates significantly. Continuing high unemployment will generate ever-increasing pressures on governments to take unilateral action to protect sectors that are in difficulty. This process of protecting and sustain-

ing industries that are no longer competitive will inhibit the necessary process of structural change and thus reduce the scope for improvements in productivity and corresponding gains in real income and perpetuate the slow growth of our economies. Given the strong interrelations between our economies, we cannot correct the tendency towards slow growth if we formulate our policies in isolation from each other. When one of our economies is put on a significantly more expansionary course, much of the impact of the expansionary measures can be lost through increases in the level of imports if other economies are not also expanding. The deterioration of the current-account balance of the expanding economy in such circumstances may make it impossible for it to continue its policy of economic stimulation. For this reason, the solution to our problem must lie in international co-operation so that our individual policies can be formulated in the expectation of support from the policies of our trading partners. The Secretary-General's plan for concerted action is such a solution.

I should like to point out that Canada, as one of the countries that is called upon to achieve a higher rate of growth in 1978 and 1979, intends to play its full part; we are aiming at a real rate of growth significantly above that of 1977, and have taken measures to achieve this target. At the same time, we are actively using both "macro-" and "micro-economic" measures to contain inflationary pressures. Concerted action on growth will make less room for Canada to provide even further stimulus than we have already injected than is the case for some other countries. But we do see this approach as beneficial for Canada and for the world at large, both through the direct effects of stimulation that it entails and through the confidence that it can create in the private sector about the future health of our economies. We look to other OECD members who are in a sufficiently strong position to undertake whatever expansionary measures their institutional and policy constraints allow. In this regard, avoiding reacceleration of inflation must, of course, be a key element in our program of concerted action. For the Secretary-General's plan to be successful, it is particularly important that countries with large current-account surpluses take firm measures to bring these imbalances within acceptable limits by means that will permit the growth of other countries' exports. Removal of restrictions on trade is an especially helpful way to achieve this objective, since it promotes efficiency at the same time that it fosters growth. By the same token, those countries whose current-account deficits are tied in an important way to their oil imports can use better energy policies both to help their balance of payments and improve resource-allocation. Current-account imbalances — whether surplus or deficit — that do not have a counterpart in sustainable capital flows can also have a disruptive influence on foreign-exchange markets. Continual large movements in an exchange-rate add to the uncertainty faced by business and increase the pressures for government intervention. On the other hand, exchange-rate movements are a necessary part of international adjustment to different rates of inflation, changing competitiveness, and the flows of long-term capital. And it is not in our interest to try to do more through intervention policy than dampen erratic short-term movements. This is, in fact, the policy Canada has been pursuing. However, disequilibria in underlying domestic economic conditions are reflected in exchange-rate movements, and it is these fundamental imbalances that must be removed if we are to achieve exchange-market stability.

An essential component of the program suggested by the Secretary-General is that the members assembled here reaffirm their belief in the use of policies at a "micro-economic" level that encourage positive adjustment. As I mentioned earlier, there is a tendency during a period of slow growth to accept any short-run solution that saves jobs and keeps firms solvent. Such defensive measures, however, if they protect inefficiency and high-cost operations, have serious longer-run implications for our ability to return to a higher-growth path. Canada has sought, with a reasonable degree of success, to avoid measures that inhibit structural change. In terms of manpower policy, for example, our programs are aimed at encouraging occupational and geographic mobility and maintaining income-levels for the unemployed instead of job security in a given occupation and location.

Thus we support the endorsement of the Secretary-General's proposal concerning positive adjustments on the understanding that this endorsement does not restrict our Government's freedom of action to pursue valid non-economic objectives or to make selective interventions to alleviate cases of true hardship and brutal adjustment. In this spirit, we welcome the orientations on adjustment policies put forward by the Secretary-General and agree that it would be useful for them to be made public. It is an important part of the concerted-action program, and its adoption by members would serve to ensure that a strong economic recovery will lead to real improvement in the living standards of people both within and outside the OECD area.

---

S/C