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26 MAI 1999

***LA COHERENCE DES POLITIQUES DANS L'ECONOMIE MONDIALE :
AVANTAGES ET ENJEUX DE L'INTERDEPENDANCE***

ESPAGNE

Déclaration

**M. Rodrigo RATO y FIGAREDO
Vice-Président du Gouvernement, Ministre de l'Economie et des Finances**

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SPECIAL DIALOGUE AT MINISTERIAL LEVEL WITH INVITED COUNTRIES

26 MAY 1999

***POLICY COHERENCE IN THE GLOBAL ECONOMY:
OPPORTUNITIES AND CHALLENGES OF INTERDEPENDENCE***

SPAIN

Statement

**M. Rodrigo RATO y FIGAREDO
Vice-Président du Gouvernement, Ministre de l'Economie et des Finances**

DIALOGUE WITH NON-OECD COUNTRIES
SPANISH STATEMENT
(Minister Mr De Rato)

- The main challenge facing us at this turn of the century is how to increase employment, wealth and social cohesion in a context of growing international competition and rapid technological change.
 - In today's global economy the exchange of information, a shared analysis of problems and opportunities, and a better understanding between OECD and non-OECD countries are clearly matters of great mutual interest. Our economies have become more and more closely interlinked in recent years. To find proof of this, we need look no further than the effects of the recent crisis in certain emerging markets on the rest of the world economy. I therefore welcome the dialogue we are having today and hope it will bring about a closer relation between OECD and non OECD members.
- I. So let me start, if I may, with a few comments on the international economic prospects.
- As the Secretariat have pointed out, the international economic outlook has improved, and although growth in world trade and output will not differ much from last year's, the risks are significantly less on the downside than they were last autumn, for a number of reasons:
 - Not only has the recent performance of the US economy surpassed all expectations but the risk of a hard landing seems to be much lower than in the recent past.
 - There are clear signs of recovery in some South East Asian economies.
 - The exchange-rate instability affecting certain currencies at the beginning of this year has not engendered financial turmoil in other markets. Moreover, equity prices have made up the ground lost in the fourth quarter of last year and some equity markets have even recorded all-time highs.
 - Latin American economies as a whole will certainly suffer recession this year. The forecast, however, is that the slowdown will be short-lived, thanks to the

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efforts of the economic authorities of these countries to adjust fiscal imbalances, to avoid inflationary pressures and to press on with structural reforms, and

- Last but not least, I would like to underline the contribution of European Monetary Union and the successful launch of the euro, to financial world stability.

- But **there are still some fragilities** and elements of doubt.

- External account imbalances between the world's various economic areas are widening as a result of savings and investment mismatches at national level.

- Although the crisis in Japan may have past its worst, and significant measures have been taken, there still some vital adjustments to be made before we can talk of a truly lasting recovery, and finally

- Some key European economies have decelerated and business confidence is at a very low ebb.

In short, as the Secretariat have stated, the big downside risks for the OECD seem now to come more from the inside than from the outside.

- II. So what is the economic policy I believe should be adopted to deal with the new challenges that confront us?

First of all, I think it important to acknowledge the significant decisions made in **demand side policies**.

- Monetary policy has been eased in the US, Europe and Japan, and

- In fiscal policy, the recent stance has been neutral, at best, and in some cases tending towards relaxation.

- But besides these demand-side initiatives, we should know that this is not enough and that there is a **need for deeper progress in economic reform**. We have to recognise that those economies with more flexible product and factor markets are the ones which have performed and are performing the best in terms of employment, growth and inflation. There are several areas in which economic reform is paramount:

- Tax systems have to be reviewed in order to guarantee that supply side forces are not hampered by fiscal disincentives. In other words they

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have to be friendlier to savings, capital formation, entrepreneurship initiatives and employment creation.

- Competition and deregulation in product markets are crucial means to promote consumer welfare and increase investment opportunities and employment.

- Taking into account the high level of structural unemployment in some of our economies, labour market reforms must be an economic policy priority for national governments. Individual responsibility for jobsearch must be encouraged, and labour market regulation must seek to secure wage settlement processes more sensitive to business cycle developments and the geographical employment situation.

As the Secretariat of the OECD have pointed out several times, structural reforms give rise to higher potential growth in the medium and long term, amply offsetting the short-term social impact that these measures can entail.

III Finally, we should be aware of the risks that confront us and the mistakes we need to avoid. I refer here, essentially, to trade barriers and controls on capital movements.

- As tends to happen at times of financial crisis, protectionist pressures have been mounting in recent times. However protectionism clearly is not the way to solve economic difficulties. On the contrary it serves only to diminish international trade, and thereby to depress activity and employment.

Open economies like Mexico and Korea may have faced tough foreign competition, but their orthodox approach to economic policy is clearly paying off, as is evident from the better economic figures now coming through.

But domestic efforts are not enough in themselves to foster more open economies. Multilateral processes are the best way to beat protective pressures, as recent experience proves. This is one reason why we should all support the launch of a new round of negotiations in the WTO.

- Another effect of the crisis was the renewal of pressures to increase capital controls.

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Capital controls should not serve to postpone the reform measures that countries need. Nevertheless the process of capital liberalization should take into account the level of correction of macroeconomic imbalances and the degree of efficiency, transparency and prudential surveillance achieved in financial markets.

For these reasons, measures to promote macroeconomic stability and structural reforms are also vital for emerging markets. Alongside the right supervisory standards in the financial system and transparency rules governing public and private accounts.

However something should also be done at international level to diminish the risks of capital disturbances. Discussions have already begun on what is called the new financial architecture, and these discussions must be aimed at the reinforcement and not the weakening of existing International Financial Institutions. The best way to do so, I believe, is to seek a closer dialogue and the widest possible participation. I therefore welcome once more today's discussion with non OECD members and I urge the Secretariat to accelerate the process of selective enlargement of the Organization.

Finally, let me say a word about exchange rate schemes. OECD and non-OECD countries have adopted different currency regimes; and I think that the discussion in this regard should not only be centered in the best alternative for each economy because the vital issue will be, at the end of the day, the quality of economic fundamentals .

- In conclusion, dear colleagues, the prospects before us are a good deal more positive than six months ago. Some risks remain, it is true, but I am sure that through the correction of macroeconomic imbalances, the implementation of economic reforms; the opening of our economies and the dialogue among countries, we will ultimately be able to overcome the difficulties we are confronting at the moment.