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ADDRESS BY MR. JEAN-CLAUDE PAYE, SECRETARY-GENERAL OF THE OECD,

TO THE PARLIAMENTARY ASSEMBLY OF THE COUNCIL OF EUROPE

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Strasbourg, Thursday 30th September 1993

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Just a year ago I ended my speech to your Assembly with the hope that the pervading gloom would soon give way to dawn. This hope has not really been fulfilled. Whether one looks at the economy or at society -- in other words, at growth or at unemployment -- the situation may have improved in some of our countries, but it has worsened in others. For the OECD area as a whole, the forecasters have once again had to revise their predictions downwards and once again -- at any rate where continental Europe and Japan are concerned -- put back the date of any clearly perceptible upturn. Each successive survey of the mood in business and among consumers produces the same finding: confidence is still at a low ebb.

Yet it is not so long ago that euphoria and optimism were the order of the day. With the slowdown of the early 1980s having been followed by steady growth during a number of successive quarters, it did seem that, thanks to a judicious combination of prudent short-term policies, ambitious structural reforms and consistency in international co-operation, the OECD countries might have found the recipe for uninterrupted growth. The spectacularly successful development of a number of Asian and, more recently, Latin American economies strengthened that optimism, while the collapse of the communist bloc and the decision by its former members to opt for the market economy system put the finishing touches to what was an encouraging picture.

The mood is now one of some disillusionment. While the "dynamic non-Member economies", in OECD parlance, continue to enjoy strong growth, and while undeniably positive factors are emerging in the countries making the difficult transition to the market economy, the situation in the majority of OECD countries does not match up to our earlier hopes. It is almost as if -- and it is a question we are asking ourselves in the Secretariat of the Organisation -- far-reaching changes in the way our economies function have upset some at least of our analytical tools. It would not, after all, be strange for the rapid changes affecting the world economy to require us to update our understanding of the factors which determine how it functions. I hope that our discussions today may contribute to this objective. To this end, I propose briefly to describe the broad details of the economic situation in our Member countries and the short-term outlook. I shall then consider one of the possible explanations for this situation, before outlining some of the directions that economic policy might usefully take, and I shall end with some examples of the work and role of the OECD.

I - Situation and outlook

If a single word could convey the feelings prompted by the situation of the OECD countries taken as a group, that word would be 'disappointment'.

Disappointment because the results obtained fall short of expectations; disappointment because nowhere does a strong, broad-based and job-creating upturn seem to be either in progress or taking shape. Where recovery has begun it still seems hesitant, and the question that may need to be asked is whether, after such incessant efforts to stamp out inflation, we may not be threatened in some countries by a form of deflation.

To take a closer look.

In the United States GDP growth weakened during the first half, falling to an annual rate of 2 1/4 per cent. The good side of this unwelcome slowdown is that any fear there might have been of renewed inflationary pressures has abated. This by the same token reduces the risk of the central bank being led to raise short-term interest rates. Progress in consolidating the balance sheets of businesses and households and in controlling the federal budget deficit should boost confidence. We can therefore hope to see private consumption and business investment gaining momentum. If there is a gradual upturn in foreign demand, real GDP growth might reach 3 per cent in 1994, making for a moderate fall in unemployment to under 6.5 per cent in 1994, with inflation remaining at around 2.5 per cent. All in all then, a relatively encouraging but still rather lacklustre picture.

In Japan the situation is much bleaker than was forecast in the spring. Instead of a real GDP growth rate of 3 1/4 per cent in the second half of 1993, the OECD Secretariat is now predicting stagnation, and growth of only around 2 per cent in 1994. So despite the two major packages of fiscal stimuli voted last year and in the spring of this year, the Japanese economy has still not regained momentum. The main reason for its poor performance is the rapid appreciation of the yen -- over 30 per cent in one year. And unemployment, which various cushioning devices had hitherto kept at rates usually of less than 2.5 per cent, seems now to be becoming a source of concern for households. This is prompting them to be cautious and is counterbalancing the incentive to import that would normally derive from the appreciation of the yen.

In Europe, much of course depends on what happens in Germany. It is not certain that it is through its cyclical trough, GDP apparently being set to continue downwards in the second half of this year. In 1994 growth will probably not exceed 1/2 per cent, short-term interest rates having fallen less than we expected because of persisting inflationary pressures. Also, the tax burden will increase, weighing on consumption and, particularly where energy taxes are concerned, on the price index.

The situation in the other European countries is on the whole fairly mediocre. It is true that in the United Kingdom, which went into recession before the others, there have for the past year been obvious signs of recovery, holding out the hope of a 3 per cent increase in output next year. However, recent sets of figures show that there, too, uncertainty still exists. As it does also in Italy, where the energetic and indispensable programme of fiscal consolidation implemented by the government is inevitably exerting downward pressure on economic activity. As for France and the other countries in the European exchange rate mechanism, their desire to achieve fiscal consolidation and their understandable caution in lowering short-term interest rates are

serving to lessen the prospect of growth in the immediate future. The Nordic countries, for their part, are going through an extremely arduous adjustment phase.

Taking a broader view of the OECD area as a whole, what is the picture?

First, the employment situation is deteriorating markedly in countries where activity is stagnating or in recession, and is improving only slightly in countries enjoying positive growth. Generally speaking, unskilled jobs are either disappearing or are being less and less well paid; the average duration of unemployment is increasing; the proportion of temporary or part-time jobs and of part-time replacement work is growing; in short, good jobs in the traditional sense of the term are becoming scarce.

Second, there is renewed exchange rate instability. Neither the efforts made since 1985 to stabilise and rationalise the dollar, yen and DM parities, nor the implementation of the exchange rate mechanism in Europe have in the end ensured the looked-for stability on a lasting basis.

Third, while a number of Asian and Latin American countries are enjoying enviable rates of growth, they are not -- not yet at any rate -- capable of acting as the locomotives of the world economy, even if their buoyant imports represent welcome support to OECD exports. Their share in world trade is still relatively small, and they are not an independent source of innovations and initiative. As for the countries in transition to a market economy, even the most advanced among them are only just beginning to pick up following the severe shock of a complete change of system.

Under these circumstances, it is hardly surprising that economic agents are still short of confidence and that uncertainty reigns. Can this situation be explained? And what corrective measures need to be taken?

II. Some of the causes

The conditions normally required to ensure a cyclical turnaround and recovery have now been in place in many countries for up to two years. There have been time lags attributable, in particular, to the specific impetus that German unification gave to activity in Europe for a few months. Following the excesses relating to the "financial bubble" which had developed in a good many OECD countries, the necessary corrective measures had been taken. Having been raised sharply in order to stifle the surge in inflation, short-term interest rates were reduced appreciably, while the increase in spare capacity, the rise in unemployment and concomitant wage moderation completed the usual picture of a situation restored to health, on the basis of which recovery could take place. Lastly, widening cyclical budget deficits gave an added boost to economic activity. True, nobody expected an exceptionally brisk upturn, since what had been experienced had been a slowdown rather than a definite recession. On the other hand, nor did anybody necessarily expect the number of false starts, hesitant advances and retrogressions which have marked the last two years.

Has there been some change in the way economic mechanisms function? Have the instruments used by government to promote the development of economic activity become less effective and, if so, why? Have the structural reforms of the past decade been inadequate or, on the contrary, excessive?

Many things, undoubtedly, have changed. But one thing which has probably changed more than any other is the intensity of competition. The latter is now omnipresent and immediate. Ask any head of any business, big or small, and he will tell you that that has been the main change in recent years. As far as competition is concerned, Seoul or Bangkok is now closer to Strasbourg than were Luxemburg thirty years ago and Manchester fifteen years ago. I will, if I may, dwell a moment on this aspect of the present situation, for it is undoubtedly one of the main explanatory factors, even though it is certainly not the only one.

Competition is now wide-ranging and all-pervading. It reaches into our economies via all sorts of channels. It affects almost every aspect of economic activity: products, many services, the conditions surrounding investment. It spurs economic agents to adapt more and more rapidly. Speed of adjustment and mobility, including that of production units, have become imperatives for survival.

Economic theory tells us that all this is a good thing for consumers. And it is true that consumers benefit greatly from the fierceness of competition with regard to prices, quality and innovation. Economic theory also tells us that this is a good thing for producers. It stimulates increases in productivity and enhances the remuneration of labour and the return on capital. It is thanks to competition and the innovation it stimulates that factors of production are withdrawn from obsolete and unproductive uses and assigned to new and more efficient activities.

But what does present-day reality reveal? It reveals that while in our countries consumers are benefiting amply from competition, the advantages to producers seem less obvious. The situation in this respect differs from one country to another. Very briefly, and leaving aside Japan which is a somewhat specific case, I would say that competition has weighed on wages in the United States, while in Europe it has weighed more on the level of employment.

In the United States, where there are few rigidities, where labour is very mobile and where entrepreneurship remains a very active tradition, the adjustments necessitated by competition take place rapidly. Many jobs have been created since the upturn began to take shape two years ago, but they are fewer than were expected and, in terms of security, stability and remuneration they do not compare well with the past. The stagnation, or even deterioration in the average standard of living, which has been apparent for some twenty years for a good part of the U.S. population, has continued and the number of people classed as poor is now in excess of 30 million.

In Europe, where social insurance systems and workers' guarantee schemes have been developed over the past century, and where there is a tradition of extensive government intervention in economic life, unemployment rates are rising inexorably in almost every country.

Though different, these two experiences are both worrying and they prompt one to ask whether competition, the traditional engine of progress and generator of opportunities, may not have lost some of its attributes. The impression gained -- and unfortunately the figures confirm this impression -- is that jobs which are lost are not replaced by a sufficient number of new and unarguably better quality jobs. The explanation is no doubt that our countries do not have sufficient capacity to adapt as quickly as present-day competition demands.

The world economy is a network of interconnecting vessels between which flows an increasingly liquid solution, so it is not surprising that the levels should tend to become equal. To prevent the level falling in the reservoir in which it is highest, i.e. in the OECD countries, it has to be constantly supplied with new activities. There is no reason to think that this has become impossible, even if it does now seem more difficult. This is what our countries' policies must strive to achieve.

It is vitally important that they succeed very soon, failing which lack of confidence, or in other words fear of the future, will continue to hold sway. Fear being a poor counsellor, the already dangerously strong pressures being exerted by those who find persuasive charms in inflation, competitive devaluation and protectionism are liable to increase. But it would be assuming a heavy burden of responsibility to overlook the anxieties of those, now numerous, people who feel hurt or threatened by change, vulnerable to competition which they consider to be unfair, and bereft of the means to adapt to this changing world and take advantage of the opportunities it offers.

III. What policies?

Before describing the broad lines of the policies that are needed, it should be remembered that the latter must in any event meet two conditions.

First, they must cover a large number of areas. What we have to contend with is a rapid and far-reaching change affecting all sectors of our economies and societies. So action has to be taken in every sector.

Second, the policies must be compatible and complementary across countries. They must not be conflicting from one country to another but, on the contrary, be mutually reinforcing. No country can claim any longer to have a sufficient critical mass to be able to look after itself and use its assets to the full.

If these two conditions can be met, then it will no doubt be possible to restore the confidence which is now so elusive and the lack of which makes the isolated and sporadic efforts now being made so uncertain and ineffective.

A. Structural policies

Foremost among the measures needed are structural policies. Whatever the explanation proffered for the present torpor, improving the efficiency of the economic engine can but be beneficial. All the more so if the partial explanation outlined above is right.

To detail the whole long list of structural policies would be tedious, so I shall confine myself to a few examples which may be divided into two categories.

First, the policies which directly prepare the future -- those which enhance our ability to grasp, to develop, and also to create the opportunities offered by change and progress. I refer of course to education and training policies and to the encouragement of research. And I refer as well to all those schemes and measures which stimulate entrepreneurship and the creation of new firms. It is through them to a large extent that innovation takes material form, that new jobs are created and that change and progress take place.

Second, the policies which improve the flexibility and speed of reaction of our economies. The obstacles and rigidities of all kinds which affect the markets for goods, services and factors of production in our countries are so many impediments which curb our economies' buoyancy and cause them to lose ground in world competition.

So while it is important to press ahead with structural policies, it should not be forgotten that adjustment requires an effort and that that effort is especially painful and often frightening when it has to be rapid and the economic situation is bad. So while using the spur, it is important to restore confidence. I very clearly remember a television report on temporary work in the United States, in which a young woman of about thirty explained that she had seven jobs of quite different kinds, of unpredictable duration, without adequate social insurance, offering no pension, and deemed by the banks not to provide a sufficient guarantee for a housing loan. The young woman, whose husband was in the same situation, had thought it wise to give up the idea of having children. She concluded: no proper job, no security, no house, no child -- is that the American dream? Just an anecdote, of course. But many of the inhabitants of our countries, of all our countries, would consider this as being not untypical of their own situation.

For structural policies to bear fruit, they have to be accepted; and for them to be accepted, the burden of adjustment must be seen to be fairly shared. In other words, solidarity both within and between nations must not be forgotten. Also, we must as far as possible have an idea of what the future holds. What will tomorrow's jobs be? How will society be organised? How will work and leisure, money and culture, risk and security be valued in relation to one another? In short, in what direction is so-called post-industrial society going to go? Throwing light on the future is certainly one way of providing reassurance, for I do not doubt the capacity of the human race to continue striving successfully for improved standards of living -- provided it is given the time and the assistance.

If we were to fail in this effort to reassure, it is highly probable that the consequences would be unfortunate, in the first instance for the multilateral trading system.

B. Trade policy

It is largely international trade that has brought economic growth. I have therefore absolutely no doubt that encouraging international trade is an essential factor in whatever action may be taken to restore confidence and revitalise growth in the OECD countries.

Though calls for the Uruguay Round to be brought to a speedy and happy conclusion have become something of a litany, they are nonetheless still as fully justified as ever, economically and politically. Every effort must therefore be made to steer this ambitious and necessary enterprise towards a successful outcome. The gains would be great. The dangers inherent in failure are greater still. Failure would entail a very real risk of the OECD countries and the rest of the world being drawn to the edge of the slippery slope leading, via protectionist measures and reprisals, to the point where the global economic area would disintegrate or -- at best -- be broken up into much smaller, much less efficient economic zones.

But after so many years of bargaining and in the present gloomy economic climate we have to be aware, here again, of the need to reassure in good measure those who, rightly or wrongly, fear the consequences that a further and significant step along the road to liberalisation might bring for them. Perhaps the best way to reassure them, as the Round draws on to its conclusion, is to point to the progress already made or planned in order to back up the GATT negotiation results with rules which for their part too would contribute to ensuring greater fairness and transparency in international competition, enabling us to draw yet further benefit from the powerful motor for progress that international competition represents.

C. Macroeconomic policy

The action that requires to be taken should certainly not be confined to the areas I have referred to. While the crisis we are living through is largely structural and so calls for mainly structural remedies, it is also cyclical and now, in the trough, there is reason to believe that much of the world is currently suffering from inadequate demand. In the OECD countries, consumers are understandably reluctant -- in particular because of their fear of unemployment -- to spend or to get into debt; investors are maintaining a prudent reserve because they see the sluggishness of consumption; and virtually all governments are having to reduce their budget deficits and public debt. As for the developing countries, many of them are badly hit by weakening commodity and energy prices; and many still lie crushed under the weight of debt.

If this is an accurate diagnosis, two questions have to be asked. First, has not the time come to fuel demand world-wide a little by furnishing some extra means of payment -- in other words, to allocate special drawing rights? This could give many countries, including developing countries, increased room for manoeuvre by reducing the constraints relating to their debt and balance of payments situation.

Second, we have to ask ourselves whether our countries' monetary and budgetary policies do not, after all, afford a little more room for manoeuvre than is generally admitted. In fact, many OECD countries, more or less discreetly and little by little, are implementing macroeconomic policies that are more accommodating than they seem. Rather than firing off in all directions the small amount of ammunition at their disposal, would they not do better to investigate the possibility of concerted action? The question ought perhaps to be carefully considered.

IV. The contribution the OECD can make

In a world that is in the midst of rapid and far-reaching change, the OECD can and must make a valuable contribution to examining problems and arriving at solutions. As a multidisciplinary organisation, at the interface between research and action, attentive to the rest of the world's difficulties, there is no doubt at all that the OECD will have a particularly useful role to play in the years to come.

Let me give a few instances of this.

First: the scope and diversity of the work afoot to gain a better understanding of the changes taking place and thereby light the way for action by governments. A wide-ranging study on unemployment and employment was begun fifteen months ago; an interim report on it was put out in the spring of this year, and the study is now approaching completion. It will, I am sure, contribute to a better understanding of the way our economies now work, as well as to a clearer appreciation of the upheavals in our society, and hence to policies more suited to the challenges and opportunities of tomorrow's world. Around this project, prompted by it, a number of activities are being conducted; our statistics and modelling are being improved; light is being shed on globalisation in all its aspects; the processes, pace and impact of technological advances are being analysed; the short- and long-term interactions between the economy and the environment are being scrutinised.

Second: what can be called 'the rules of the game'. Patently, if everyone is to reap their due reward from international trade in all its forms, the rules governing that trade must be clear and equitable. The OECD has for a long time worked at identifying the areas where progress needs to be made and at devising instruments to make that progress possible; now it is redoubling its efforts. I repeat: everything that can make international competition more stimulative and at the same time more transparent, everything that can reduce the risks of distortion and unfair trading practices, contributes enormously to restoring confidence.

Third: opening up to the rest of the world. Negotiations for the accession of Mexico to the OECD have started. Korea will probably soon follow that example. Several of the countries of central and eastern Europe, too, wish to become members of the Organisation and are already taking part in the work of many committees. The dialogue that began in 1989 with the Dynamic Asian Economies has been extended this year to some Latin American countries. Contacts with China have commenced. Attention to development issues now extends through very many sectors of the Organisation's activities. So the

OECD is adapting quickly to changes in the world. In doing so, it is taking care not to jeopardise the quality that underpins its usefulness and is its {raison d'être} -- that is, its capacity to prompt collective debate with a view to action.

Mr. Chairman,

I shall conclude on an optimistic note. The economic and social problems that beset our countries are now more clearly understood. That is the prerequisite for policies that will enable people to adjust to and make the most of the changes now under way. Looking at the world as a whole, progress has continued, though admittedly it has been uneven. There is no reason to doubt the ability of our countries and their peoples to open up the roads to the future and to go on pioneering the still largely unexplored territories of post-industrial civilisation.

END-OF-TEXT