

TI.A.24.2

Paris, 17th April 1986

MEETING OF THE COUNCIL AT MINISTERIAL LEVEL

17th and 18th APRIL 1986

---

**GREECE**

---

Statement by

Mr. Constantine SIMITIS

Minister of National Economy

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

---

MEETING OF COUNCIL AT MINISTERIAL LEVEL

17th - 18 April, 1986

---

G R E E C E

---

Statement by

Mr. C. Simitis

Minister of National Economy

Mr. Chairman,

I have noted with great interest the optimistic picture that emerges from the thorough analysis of recent developments and the prospects for the OECD economies presented in the documents that have been prepared for this meeting. I join my colleagues in complimenting warmly the Secretary-General and the Secretariat for their achievements.

I think we would all agree that the fall of oil prices, lower international interest rates and the decline of the dollar have significantly improved the prospects for sustained recovery, waning inflation and the gradual reduction of imbalances in the period ahead, although the outlook for individual member countries remains uneven.

These improvements are indeed welcome. But it would be quite wrong to allow ourselves to be affected by the current climate of euphoria over the present situation and to draw the conclusion that we are out of the wood and that all we need to do is to wait and let the current economic recovery spread further and gather strength. There are far too many disturbing features and problems that have yet to be resolved in the present situation to warrant this conclusion. These are set out clearly in the Secretary-General's Note.



Unemployment remains unacceptably high, particularly in Europe, with little hope of a decline in most of our countries in the years immediately ahead. This is regrettable and a matter of great concern to governments.

Interest rates, though falling, remain high in real terms, aggravating the strains on our own economies and adding to the difficulties of the developing world.

Many developing countries have yet to share in the recovery and the outlook for the economies of less developed oil exporters remains bleak. At the same time there are renewed pressures of debt in the developing world, particularly for oil producers, creating serious social and political strains in their societies.

Some progress has already been achieved towards better convergence among the OECD economies but large imbalances still exist. Few countries are yet in clear equilibrium; and several, including my own, are still faced with uncomfortably large external and internal deficits.

No one can be content with this situation. The main tasks facing us are clear enough: we must maintain the momentum of the world economy and work to restore more balanced growth and financial stability in the period ahead. Our efforts must be focused also on the need to create sufficient jobs

to bring about a lasting return to lower levels of unemployment. In particular, we must strengthen the forces that can spread further the benefits of growth, both within the OECD area and also to the developing world.

We all know that our ability to establish the conditions for sustained growth and increased employment will depend primarily on the efforts, and, in many cases, the sacrifices, that each of our countries is prepared to make in order to eliminate the underlying sources of imbalance.

My own country has recently embarked on a vigorous stabilisation programme designed both to bring about a rapid and significant adjustment in the external and the domestic fields and lay the ground for the restructuring of the economy. Our policies will remain firmly consistent with these objectives, but the success of our effort, like in so many other small open economies, will depend upon world economic conditions.

The immediate priority needed to sustain the present world recovery is to get a further cut in world interest rates. This would ease a number of strains in our economies. It would also reduce the pressures of debt in many developing countries. Falling oil prices, the prospect of further declines in the inflation rates and the sharp change in the



pattern of exchange rates, have opened new possibilities for another round of interest rate cuts. Further reductions in interest rates will depend on skilful management of the fiscal - monetary mix. The United States, by virtue of its relative weight in the world economy, is critical and we welcome recent and projected US developments in this area.

Sustained growth will require also greater international compatibility of fiscal policies. Developments over the past year have clearly demonstrated both the benefits and the scope for international policy co-ordination. A large degree of consensus has already been reached in earlier discussions here on the need to maintain a commitment to reducing high budget deficits and making further progress against inflation. But the process of adjustment is likely to take a long time. Over a shorter period, policies of fiscal consolidation should allow a more flexible stance in those countries where the margin for manoeuvre exists, in order to sustain the present world recovery.

As regards the need for better control of the scale and composition of government expenditures, and the problem of tax reforms, this question is preoccupying my government a great deal.

The need to bring the scale of government spending under control is generally accepted. But it is also important to restructure public expenditure towards those items which

best contribute to the productivity of the economy. To the extent that funds are misallocated or disincentive effects are apparent, these should be tackled directly by specific reforms. But such a policy must take account of the level of development and of the particular situation of each member country. For those countries, like Greece, still catching up with the OECD average, there is an important role for the public sector both in the provision of infrastructure and other elements of social and human capital as a means of raising productivity and living standards and in the achievement of social equity.

Coming back to the main line of my argument, Mr Chairman in order to achieve more balanced and sustainable growth it will be necessary also to tackle the current payments imbalances. The sharp-adjustment in exchange rates over the past year should be conducive to moves towards better equilibrium. But it seems unlikely that exchange rate changes will achieve the correction of the present large current account imbalances on their own. They must be accompanied by an appropriate modification of the macro-economic framework if the imbalances are to be corrected.

Turning to structural problems, I share the Secretary-General's view that we should continue our efforts to achieve the necessary structural changes in our economies, by eliminating rigidities that have build up over the years. This task indeed requires firm and persistent endeavors, as the problems are both deeply rooted and widely spread. Active labour market policies can play an important role in improving the flexibility and supply response of our economies and thus reducing



structural unemployment. We also agree on the importance of continued nominal wage moderation. Countries such as my own still face both high unemployment and inflation and the pursuit of a moderate increase in wages remains necessary to deal with both problems simultaneously.

Problems created by the continuous price support of certain agricultural products are well known. However, a change in agricultural policy should be pursued taking into consideration particularities such as : structural inadequancies, regional imbalances and long standing problems in productivity performance of agriculture in comparison with other economic sectors, in order to ensure adequate income for farmers.

In concluding my remarks, I would like to say that the tasks facing us are immense, and their attainment is not easy. But there is room for greater optimism than at any time over the past few years.