

## ECONOMIC DEVELOPMENT, ECONOMIC POLICY AND UNEMPLOYMENT

Statement by the Norwegian Prime Minister Kåre Willoch at  
the European Democratic Union, July 3, 1982

Mr. Chairman,

Let me express first how honoured I feel to have been invited to open this debate on the crucial economic problems facing us at this time and - I fear - for some years to come.

I would also like to stress at the very start that I consider mass unemployment as the most alarming aspect of the broad range of problems which we are now going to discuss. This does not, however, suggest that I accept the outmoded idea of a choice between unemployment and inflation. In the longer run inflation will, in my view, be much more a cause of rather than an alternative to unemployment.

The really worrying aspect is that unemployment has been on a continuously rising trend since 1974, and that this development is projected to continue. I shall not quote the unemployment figures. We all know that they are frightening, not least the massive unemployment among young people, and the fact that more and more people remain unemployed for longer periods.

True, many of our present-day societies are providing unemployment benefits sufficient to give the unemployed a reasonable economic compensation. But the social and political impact of so many able and willing people not having an opportunity to contribute to society can never be fully compensated. In spite of the fact that there are large unfulfilled tasks which require labour, we are not utilizing this important resource. If we fail to meet this major challenge, we are not simply suffering enormous economic losses. We may then also be faced with a situation which may increasingly affect the political stability in many countries, and thus even undermine western peace and security.

When attempting to assess the main economic causes of rapidly mounting unemployment, I think we can all agree that the two oil shocks in the 1970's are important in explaining why our economies have been thrown off track.

A second main set of factors explaining unemployment involves underlying structural changes in the working of our economies. Among these factors should be mentioned that various markets are not functioning as smoothly as they used to. The geographical and occupational mobility of labour is low, and often an excess supply of labour coexists with excess demand.

Another factor of considerable consequence may be that low profits in the private sector in turn cause low investments. This has to do with the altered structural relationships between labour income and wage costs on the one hand and entrepreneurial income on the other. Thus

many argue that a higher level of profits is a necessary precondition in many countries in order to bring about increased investment, employment and economic growth.

Another cause of low growth may be an inefficient allocation of resources, nationally as well as internationally, due to heavy government subsidies to private business, and hindrances to international trade. Thus past and unprofitable structures of industries are artificially maintained, until they break down and cause even more serious unemployment than would have been the case if less support had been given.

It is probably also an important factor that a significant slowing down of productivity growth has not been accompanied by an corresponding lowering of nominal income claims. Thus increasing labour costs per unit of production push inflation upwards, setting in motion wage-price spirals. And when inflation persists, people expect inflation to prevail and act accordingly in inflationary ways, both as wage earners and consumers.

I should also stress the problems caused by a rapidly growing public sector, accompanied by large and increasing deficits in government budgets, which in turn crowd out private activity. High tax burdens, reducing incentives to work, are important in this connection. High marginal tax rates will also tend to increase nominal wage claims, contributing in turn to tax-push inflation.

This list of structural problems is clearly not exhaustive. But I think it suffices to emphasize that to reduce unemployment, serious attempts have to be made to attack the whole range of underlying structural problems. The traditional "solution" of simply increasing demand through monetary or fiscal measures is no longer adequate.

Needless to say, the solutions and the cooperation called for to overcome unemployment and induce new growth will differ from country to country. But there will probably have to be some common features.

Public expenditures should be curtailed in order to both limit taxes and cut budget deficits, thus giving scope for more private investment. This will be no easy task, particularly when growth is weak.

Industrial and labour market policies should be changed in the direction of positive adjustment. That means gradually less support to ailing industries, and at the same time measures to improve productivity and the functioning of markets, deregulation and so on.

It will probably also prove necessary to consider various policies in order to make the present income formation processes less disruptive for production. I am quite aware of the fact that what may be called "incomes policy" is a controversial subject, and that the forms it should take will have to be quite different from country to country, according to differences in established institutions and other social conditions.

I may mention that in Norway a dialogue and a certain cooperation between the government and the social partners are established facts of political life. In other countries this approach may be less acceptable or feasible. But one should not underestimate the usefulness of mutual confidence and some rules of conduct between government and the social partners.

It has to be realized that government alone cannot solve the economic problems in the years ahead. The organizations on the labour market and in industry must take their share of the burden to make our economies move ahead again. Their own members will have the most to gain from such an approach.

Debating these fundamental issues, some views on what we should not do may also be relevant. The background for my remarks on such aspects of the matter is the tendency that internal problems with unemployment, inflation and negative foreign balances may make our Western industrial nations more inward looking and myopically selfish. I would like to point to two risks in such a trend.

The first is that of "beggar thy neighbour" policies between the Western countries. So far open protectionism has generally been avoided. But non-tariff trade barriers, support to ailing industries, and public sector procurement policies are sometimes used in a fashion which does not improve the conditions for the recovery of our economies.

The second risk which I would like to stress in this - connection is that of alienating the poor countries, the third and the fourth world. It is in our best interest that they are more fully integrated in the world community, both economically and politically. We would do a disservice to both ourselves and to them if we discourage their economic development by being too restrictive with regard to development aid or by obstructing their exports, thus in reality causing an even greater reduction in their imports from us.

The regard for the international repercussions of national measures should be prominent also in the financial and monetary policies in each country and of course particularly so in the biggest and most influential economies.

Obviously, the United States is a key factor in this respect too. Personally I do feel that much of the European criticism of United States policies in various fields is unjust or exaggerated. But I cannot leave unmentioned an impression that the present American economic situation, with an enormous borrowing by the central authorities, resulting in abnormally high interest rates, may lead to very serious consequences indeed for the entire world economy. Such interest rates, and particularly when combined with fairly low inflation, may have so depressing effects on investment and employment that strong alarm signals are natural.

The depressed status of the world economy raises the question whether the time has now come for a careful coordinated stimulation of demand again in a number of countries. There seems to be some scope for this in countries with large scale underutilization of resources, especially where inflation is now under reasonable control, and where foreign balances do not pose serious constraints. Such measures should, I think, primarily be aimed at stimulating investment, and not consumption to begin with.

I do of course stand by what I have already said about the insufficiency of a policy of fiscal or monetary expansion, and the risk that the effects of such a traditional policy may be more inflation rather than higher employment. But the question is whether the rate of unemployment is now so high that moderate reflation, combined with measures to facilitate increased productivity, can be pursued without disrupting the trend towards less inflation.

Summing up, I think a key question is whether we can accept a projected development of further increases in unemployment, or whether the time has come to adjust policies in order to break this trend as soon as it is possible. The position of the Norwegian Government is that higher priority must now be given, through national and international efforts, to breaking the trend of rising unemployment.

Before concluding I would, however, also like to emphasize that no country in the modern world can, in the long run, solve the problems of economic development and unemployment on a national basis alone. Even discovering oil and gas is not sufficient to make that possible for more than a limited span of time. We are all dependent upon international cooperation, in the form of a coordination of policies, reasonable stability in exchange rates, a free exchange of goods and services, and above all confidence between nations. I do feel that discussions like today's, - between close political friends - are important indeed to achieve such ends.