

## EMPLOYMENT AND ECONOMIC POLICY

Prime Minister Odvar Nordli's speech at the European meeting of Trade Union and Social Democratic leaders in Oslo  
2 April 1977

The trade union organizations and political parties which are represented at this meeting all play an important role in the politics of their respective countries. They bear a heavy responsibility for the economic policies followed in the individual countries.

This does not only apply to the political parties responsible for the government of the country. It also

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applies in those countries where the Social Democratic parties have an important part to play as a leading opposition party.

In all these countries the trade union movement plays a key role in influencing the development of incomes and other economic questions.

Here in Europe, in the last three decades, we have conducted an economic policy directed towards the freest possible exchange of goods and services between the various countries.

We have shared in the belief that development along the freest possible lines, allowing for each country's natural advantages and potential, would be of the greatest benefit to

the countries individually as well as to our overall economic and social development.

In our view, our human skills and material resources will be put to best use through such a working fellowship among the nations.

This year, as you know, we shall finalize the process of creating a free trade system in Western Europe. By then we shall have established duty-free trade in industrial goods both within and between the two great trading organizations in Western Europe - a community totalling 300 million inhabitants.

The extensive liberalization of international economic relations serves to increase the interdependence of the countries involved. Price increases in one country are

easily exported to its neighbours.

An expansive or a contractive tendency in one country's economy is transferred to other European countries by way of trade intercourse and the industrial and financial relationship which follows in its wake.

The marked international interdependence between the various countries intensifies the demands made on national economic policies, even though the shaping and implementation of a purely national economic policy is primarily aimed at influencing the country's own economy.

Through the extensive and open economic relations which now prevail, economic and political measures taken at home

will automatically affect countries abroad. In consequence, those who are responsible for their own countries' economic policies also become jointly responsible for economic policy in a broader international context.

As early as the great international economic crisis in the beginning of the 1930s, it was realized that fluctuations in economic life were not caused by some elements of natural forces, but came about as a result of the actions of individual human beings and their societies.

Until then the belief in the excellence of the liberalistic system had dominated all economic thinking. At the time it was recognized that in addition to the free play of market forces, there must also be a strong element of leadership and influence on the part of the public

authorities.

At that time the primary aim was to increase employment and production in the industrial part of the world.

Through most of the post-war era we have seen that the West European countries have been reasonably successful in upholding the expansive and stabilizing forces which have led to increased production and a high level of employment, coupled with a marked increase in the international exchange of goods and the elimination of economic distress as the major social problem in these countries.

For much of the post-war period we succeeded in maintaining progress and stability, while at the same time the rise in prices was kept within acceptable limits.

From 1960 until 1970 the average rise in prices in Western Europe amounted to 4-5 per cent.

It took some time before we accepted that this was the price we had to pay to achieve general economic expansion together with the high level of employment which was so successfully maintained during this period. In the majority of countries there was a tolerable degree of success in solving the inequities of distribution created by this long-drawn-out rise in prices.

However, towards the end of the 1960s and above all since 1970, we have witnessed a rate in the rise of prices to heights never reached before. This rise in prices has been so marked that it has represented a serious threat to economic stability in many countries.

The excessive rise in prices has contributed towards upsetting the basis of investment estimates, and of the distribution of incomes in the various countries, as well as fundamentally shaking the international balance of payments system.

Parallel to this serious development in the price structure, in the years following 1974, we have in Europe been faced with the most profound economic recession since the 1930s.

In the past two winters there have been roughly 5 million unemployed in the European OECD countries. At the moment there are few signs of any improvement in this respect in the short term view.

A fundamental objective within the Social Democratic parties, and in that part of the trade union movement from which we draw our main support is to combat unemployment and to lay the foundations for a policy capable of providing full employment.

But it must also be accepted as a fundamental precept that full employment in the long term view can only be achieved if we succeed in safeguarding the necessary economic and financial stability.

Should the countries be exposed to serious balance of payments problems, and/or should these countries be afflicted by a radical and uncontrollable rise in prices, it would in the long term no longer be possible to carry out a policy of full employment.

It has therefore come to be recognized that economic policy must be directed at one and the same time towards all three problems - namely unemployment, rising prices and balance of payments difficulties. Up to now we have failed to arrive at any policy fully capable of adequately tackling these three problems simultaneously.

There is still a need for an economic policy which ensures that total demand is kept at a suitable level and so balanced as on the one hand to secure minimum unemployment and on the other to avoid too sharp a rise in prices.

It is even more important to engender a new way of thinking on economics so that, more than before, we are

enabled to achieve a high level of employment without a concomitant sharp increase in prices. This new thinking must first and foremost be directed towards two sectors in particular.

One of these relates to a greater will to make use of selective government measures with a special emphasis on those regions, industries and worker categories afflicted by unemployment.

The other relates to possibilities of finding new forms of cooperation in the formation of incomes, so that a higher level of employment will not result in major rises in incomes and prices.

The final attempt to balance these different measures will necessarily be different in the various countries,

depending on how far they themselves are able to influence their own price development and the balance of payment situation in which they find themselves.

But there are also important divergencies in the fundamental political thinking underlying economic policy.

One main trend of thought goes in the direction of placing greater emphasis on internal financial stability and the profitability of individual enterprises rather than on labour-market considerations. In my opinion a Social Democratic policy should be characterized by the fact that it places greater weight on being able to provide work for all.

I think it is important that, on the basis of the talks we are to have today and tomorrow, it should be made abundantly clear that we as Social Democrats have a philosophy on economic policy-making which clearly indicates that we are the spokesmen for the major wage-earning groups in these countries.

Our technological ability to meet the material needs of our peoples, together with our insight into how the economic system functions, today provide us with greater opportunities than at any time before to exert a decisive influence on the development of the European societies.

We have it in our power to decide the course of economic progress, if only we can agree on a suitable policy. Today we are well placed to arrive at such a policy aimed at

gradually improving financial stability and reducing unemployment.

The economy of the United States, which represents such an important stimulus to Europe shows definite signs of an upswing. As far as Europe is concerned, the picture is more uneven and a good deal more confused.

By and large, the OECD estimates that, in the course of the year, the European member countries taken as a whole will increase their production by  $2\frac{1}{2}$  per cent. However, there is considerable diversity behind this average, and many of the leading countries show a rather weak production trend.

Our task must be to reinforce the current impulses to progress, to include all countries in this effort and to iron out the major discrepancies between them.

The price rise in Europe has slowed down somewhat this year compared with last year. This is an important and welcome aspect in the situation, creating as it does the basis for a more expansive economy. I am well aware, however, that if expansion should grow to such an extent that it disrupts this gradual process of stabilization in regard to prices, the next stage would be that we had impaired the very basis for further growth in production and employment.

We should also realize that while international commodity prices have for some time been falling and have

been at a generally low level, there are now signs of a new upward trend for several of them. This adds a new and unfortunate complication to the price situation.

I do not think that the purpose of this meeting should be to bestow praises on individual countries for the degree of success with which they have fulfilled their duties in the exercise of their national and international economic policies.

My feeling is rather that our meeting should lead to a general desire for, and act as a general incentive to, all national governments to review their countries' economic policies in the light of the effects such policies may have on employment and price development for their immediate



trading partners in Europe.

In this context it seems evident that the economically powerful countries, with their relatively low rate of price increases and a satisfactory foreign trade balance, should use their strength to encourage demand in order both to increase the level of employment at home and to stimulate economic development abroad.

On the other hand the countries which are less well placed as regards price stability, and which are encumbered with substantial foreign debts, will have to exercise caution where the general problem of demand is concerned.

In these countries a reduction in unemployment may principally be achieved through the use of selective measures

to improve labour market conditions without leading to any great rise in prices.

As Social Democratic leaders in Europe, we bear a particular burden of responsibility where the 5 million unemployed of Western Europe are concerned.

In accordance with the OECD medium term strategy, to which the Council of Ministers gave their approval last summer, even by 1980 we shall only have made moderate progress towards full employment and a reasonable degree of financial stability.

The resolution of the OECD Council of Ministers must not be allowed to become a pretext for inaction.

On the contrary, we should regard it as a challenge to utilize all possible means to reach our goals even sooner. It will take all our imagination, daring and fixity of purpose to formulate a policy with such an aim in view.

Economic development is influenced by political actions no less than by natural forces.

It is up to the governments in the various countries - and also in a broader international system of cooperation - to exploit all possibilities for pursuing a policy which combines our basic social philosophy with a rational economic policy.

But governments are not alone in conducting national policy. Nor could they succeed in their endeavours unless the major organizations shared their aims - and unless they

used their power and influence in such a manner that growth be achieved in a more balanced manner than we have witnessed in recent years.

I should also like to say a few words about a problem which arises when the policies of individual countries are out of step in this field.

When a country pursues a policy with higher employment than its trading partners, then there is usually a greater relative increase in wages and costs in this particular country. This in turn weakens its competitive ability and thus jeopardizes its high level of employment.

This means that if one country to a greater degree

than others, chooses to comply with a public demand for a high level of employment, it may as a result find itself penalized for doing so.

This aspect stresses the need for a policy of solidarity in this field, beyond national borders as well.

So far, I have largely concerned myself with the responsibility devolving on us as trade union and political leaders in Western Europe to influence the domestic situation in our own countries, as well as the responsibility we have as members of a group of countries which, through an extensive trading partnership, are heavily dependent on one another economically speaking.

But given our common social democratic background and

the demand for international solidarity, which form such a vital part of our political philosophy, we must also look beyond the limits of Europe.

Regardless of the domestic economic problems we have to contend with at the present time, there is no getting over the fact that we belong to the richest part of the world. It is we who must bear the main responsibility for aiding the course of economic development in the third world.

It has been argued that continued economic growth in the richer part of the world takes place at the expense of the poor countries, and that we must therefore refrain from still further increasing our own output. In the last few

years we have been made painfully aware of how unsatisfactory this line of thought is.

An economic setback in the industrialized countries may hit the developing countries harder than it hits ourselves. It is almost embarrassing to have to admit that the financial transfers through development aid channels from the rich part of the world to the poor countries have actually diminished in the last few years.

Furthermore, the generally depressed economic climate has reduced our purchases from the developing countries just as it has reduced our direct participation in investment projects in the poor countries.

Added to this, there is the fact that the developing countries have obviously been the main losers when it comes to

the great dislocations which have taken place in international prices in recent years.

We know that in the follow-up of the results from UNCTAD IV in Nairobi last year, the governments of all the developing countries are closely watching the economic and political decisions which the governments in Western Europe are making.

To be quite honest, in Western Europe in recent years, we have not come up with many new epoch-making initiatives in favour of a new international economic order.

It is difficult for us to muster any great pride in the results achieved in Nairobi last year. At the same time

we know that the problems in the third world are becoming more acute and that attention is being focussed on what we in our countries do as well as on what we do not do.

We are hardly likely, within a larger group of European countries, ever to reach full agreement on what measures in the end would be the wisest and the most appropriate for the benefit of the poor countries.

In some instances, however, we face such massive demands and expectations from this great majority of the world's population, that the need to do something in the right direction is far more important than to fail to reach any decision at all, merely because some of us feel that other measures are better.

Even though relations with the third world are not an actual theme for this conference, I have nevertheless found it necessary to express certain thoughts on this relationship, not least because in the follow-up of UNCTAD IV now in progress in Geneva, it seems that we have reached a very difficult phase in the proceedings.

Finally, I should like to stress the following points:

The high level in oil prices has come to stay. We must therefore expect that the Western European countries taken as a whole will have a deficit in their trading account with the OPEC countries for some years to come. I have referred to the significance of our attempting to reach a

more equitable internal distribution of this deficit, so that we may facilitate employment opportunities in countries suffering from a weak foreign trade balance.

As far as Europe as a whole is concerned, and for each individual country, the possibilities for increasing employment would be much improved if the balance of trade deficits could also be reduced.

In line with what I have just said about our responsibility, and our solidarity with, the poor countries of the world, I should in this connection like to point to the possibilities for increasing our aid and our credits to the poor countries, so that we may in this way increase the export of goods and services which these countries so sorely need.

In particular this might apply to capital goods for the development of local industry.

By means of increased aid and increased credits to the poor countries we may contribute towards an international solution of the balance of payments problems which may at one and the same time serve to help the poor countries and to increase employment in our own countries in Europe.

If the labour movement in Europe proves able to carry such an idea forward so that practical results may be attained, this will be in accordance with all that is best in the Social Democratic traditions.