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II

(Acts whose publication is not obligatory)

COUNCIL

DECISION OF THE COUNCIL

AND OF THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER
STATES, MEETING WITHIN THE COUNCIL,

of 14 March 1977

adopting the fourth medium-term economic policy programme

(77/294/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES AND
THE REPRESENTATIVES OF THE GOVERNMENTS OF
THE MEMBER STATES, MEETING WITHIN THE COUNCIL,

Whereas the economic policies pursued by the Member
States must meet the objectives set out in Article 104 of the
Treaty,

HAVE DECIDED AS FOLLOWS:

Sole Article

Having regard to the Treaty establishing the European
Economic Community, and in particular the preamble
thereto and Articles 6, 105 and 145 thereof,

Having regard to Council Decision 74/120/EEC of 18
February 1974 on the attainment of a high degree of con-
vergence of the economic policies of the Member States of
the European Economic Community ⁽¹⁾, and in particular
Article 6 thereof,

Having regard to the Commission draft established on the
basis of the preliminary draft prepared by the Economic
Policy Committee,

Having regard to the opinion of the European Parlia-
ment ⁽²⁾,

Having regard to the opinion of the Economic and Social
Committee ⁽³⁾,

1. The fourth medium-term economic policy pro-
gramme set out in the Annex is hereby adopted. The
Member States express their intention of acting in ac-
cordance with the guidelines contained therein.

2. The programme will be kept under constant review
during its period of application.

3. Further analyses will be carried out in order to permit
the application in practice of the guidelines adopted in
Part Three of the programme.

Done at Brussels, 14 March 1977.

The President

D. HEALEY

⁽¹⁾ OJ No L 63, 5. 3. 1974, p. 16.

⁽²⁾ OJ No C 83, 4. 4. 1977, p. 27.

⁽³⁾ OJ No C 56, 7. 3. 1977, p. 56.

ANNEX

FOURTH MEDIUM-TERM ECONOMIC POLICY PROGRAMME

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FOREWORD

1. The fourth medium-term economic policy programme must be the framework for Community action in the economic field between 1976 and 1980. It lays down the economic development to be aimed at in the medium-term and the economic policy consequences which arise from this. It therefore provides a firm basis for the measures to be taken between now and 1980 with a view to achieving progress towards economic and monetary union.

2. The fourth programme reiterates the objectives put forward at the Tripartite Conference held in June 1976. It considers that the restoration of full employment must be the prime economic policy objective at Community and national level over the coming four years. The Community cannot, on social, economic and political grounds, accept a continuation of the level of unemployment recorded in 1975 and 1976. Full employment should be restored in the whole of the Community by 1980 at the latest.

The reduction in the number of unemployed required to achieve this ambitious and difficult objective means the achievement of at least two other basic economic policy objectives at the same time:

- GDP must grow faster and more evenly than in the past five years,
- inflation must necessarily be reduced to a tolerable level.

3. The 4.5 to 5% annual growth rate of GDP put forward in the medium-term programme for the period 1976 to 1980 must therefore be seen as a minimum.

An increase in the production of goods and services of at least one-quarter between now and 1980 is admittedly not an end in itself. It is, however, necessary if the Community is to be in a position:

- to restore full employment,
- to undertake urgent and necessary social reforms,
- to meet private and collective needs more satisfactorily,
- to reduce regional income differentials and to increase productivity in the less-favoured regions,

- to make long-term progress towards greater independence in energy and raw material supplies through necessary investment,
- to devote more resources towards improving the environment in general and working conditions in particular.

4. In the medium-term, the economic growth proposed in point 3 will help in restoring stability. However, the Member States will be unable to aim at growth on this scale unless inflation is brought under control.

In this context, reducing the rate of inflation in all the Member States to 4 to 5% by 1980 at the latest must be seen as a minimum requirement.

An ambitious objective on price stability is essential:

- on external economic policy grounds. Even with floating exchange rates *vis-à-vis* the rest of the world, the Community can only preserve or improve its international competitiveness, and therefore its capacity to import, if it has the highest possible degree of internal price stability,
- on social and economic policy grounds. The social tensions which have appeared in many Member States can only be resolved if there is a considerable reduction in the rate of inflation,
- on integration policy grounds. As long as inflation rates in the Member States are not reduced to a more or less common level, efforts to achieve greater convergence in economic policy and greater exchange rate stability between the Member States and, consequently, progress towards economic and monetary union will be impeded.

5. A return to full employment may thus be based on a strategy comprising three main elements:

- an active, regionally and sectorally balanced growth policy: the higher the growth rate of GDP and therefore of total demand in the Community, the greater are the chances of reducing unemployment,

- a sustained effort by the two sides of industry to take account of overall economic constraints in their attitudes to incomes. This is of major importance for the competitiveness of the Community in relation to the rest of the world and the maintenance or creation of jobs within the Community,
- an active and forward-looking employment policy to achieve a better balance between labour supply and demand.

6. The return to a stable situation depends to a large extent on an improvement in relations between socio-professional groups. This must be seen as an important part of any economic policy strategy which aims to reduce inflation.

Limits must be set to the self-interest of groups. Demands made on society must have their *quid pro quo*:

- the socio-professional groups should take into account the interests of the public as a whole to a greater extent. This should take place voluntarily, with the public authorities assuming responsibility for representing the interests of the general public with an appropriate degree of determination,
- no group should have the impression of being exploited or disadvantaged,
- the Governments and the Community, acting together with both sides of industry, must discuss and determine the necessary macro-economic framework for this.

A larger degree of social consensus in all the Member States is essential if inflationary pressures are to be reduced.

7. Greater social consensus can only be achieved if two important problems of society are tackled quickly:

- increased worker participation in decision-taking,
- a greater degree of justice in respect of income, wealth and taxation.

At the Tripartite Conference held in June, the Governments and the two sides of industry agreed to take steps to promote the participation of employees in decisions taken by undertakings and in capital accumulation. During 1977, therefore, discussions should concentrate on these two areas. Concrete reforms along these lines should be in force in all Member States by 1980 at the latest.

8. The success of this programme also depends on the carrying out of concrete measures in other fields of economic and social policy which, apart from their own intrinsic value, also help to improve the consensus in industrial relations. Particular importance must be attached to the following points:

- investment, employment and labour market policies,
- competition policy,
- consumer protection.

With regard to industrial policy in particular, the Commission must introduce the instruments needed to ensure:

- (a) detailed information on national industrial objectives and their compatibility with Community objectives;
- (b) better information on resources allocated by the national public authorities to support these objectives;
- (c) identification — on the basis of Community and national industrial objectives — of the main priorities;
- (d) coordination and concentration of Community resources on priority objectives.

A process of continuing and regular consultation and cooperation with the government authorities and the two sides of industry should be developed. The Commission will promote the production at national level of sector-by-sector analyses which will be assessed jointly by the Member States at Community level. At that stage consideration will be given to the extent to which these analyses could lead to Community decisions.

In these fields the guidelines set out in the programme must lead to concrete measures in 1977.

9. The return to greater stability also means that public deficits must be significantly reduced and public expenditure must grow much more slowly than in the past five years. However, this objective must also be set against the economic and budgetary problems which weigh against a short-term normalization of the public sector share of GDP in some Member States.

10. The programme in no way alters the desire to progress towards economic and monetary union which is an objective which must be retained in full.

It is clear from the analysis given in this programme that a real solution to the problems of economic policy coordination can only be political and institutional in nature. Even if no major institutional progress can be immediately achieved at present, the procedures and instruments for economic and monetary policy coordination must be improved and developed within the existing political and institutional framework.

The direct elections to the European Parliament will impart new momentum to the Community, thus providing a more favourable basis for the urgent and necessary task of **resuming progress towards economic and monetary union.**

11. Progress must also be achieved between 1977 and 1980 in the following areas:

- (a) the creation of a greater degree of convergence in the economic development of Member States;
- (b) the strengthening, both internally and externally, of the coordination of Member States' economic policies. Economic policy consultations at Community level must be greatly increased and must include all important national economic policy decisions. In concrete terms this means that:
 - the Community's medium-term economic programme must be seen as a yardstick for the implementation of national economic policies. The Member States' own medium-term economic policy programmes, all important structural reforms and any short-term action plans should be systematically reviewed to ensure their compatibility with the objectives of the fourth programme,
 - the annual updating of the medium-term projections should be complemented by quantitative information on how the short-term growth path fits in with economic conditions in the Member States. Particular attention must be paid to the employment position,
 - the compatibility of budgetary policy with medium-term stability and employment goals and with basic macro-economic data should be regularly reviewed,
 - guidelines should be set each year at Community level with regard to internal monetary policy;

- (c) increased efforts to achieve the gradual stabilization of exchange rate relationships between the currencies of the nine Member States. This means in practice:
 - the retention of the present exchange rate agreement between five of the Member States,
 - extension of exchange rate policy cooperation between these five Member States and the remaining four, with a view to allowing the gradual regrouping of all the Community currencies within the 'snake',
 - development of the European Monetary Cooperation Fund, within the meaning of the resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community,
 - improvement of the operation and organization of the capital market within the Community;
- (d) further progress towards relaxing and simplifying customs checks on persons travelling within the Community;
- (e) further development and strengthening of external economic policy.

The Community and the Member States must endeavour to promote a stable international order which will ensure in particular:

- the maintenance and development of free trade in the world,
- efforts to reduce exchange rate fluctuations.

In this context, the Community must in particular strengthen the existing procedures for joint action. It is the Community's duty, bearing in mind the growing international interdependence of economies and the search for a fairer distribution of wealth, to concentrate increasingly on enabling the developing countries to achieve their aspirations in the matter of economic and social development.

12. The reference framework which the programme represents will have to be translated into concrete economic policy measures; the Commission will put forward appropriate proposals for these.

INTRODUCTION

13. The preparation of the fourth medium-term economic policy programme covering the period 1976 to 1980 comes at a time when the situation is very different from that prevailing when the three previous programmes were drawn up.

Whatever the objectives and particular content of each of the first three programmes, one factor they all had in common was that they were drawn up during periods when the overall situation was relatively favourable. The Community's economies were operating in a world economy which seemed assured of continued growth. The Community was progressing along the road to integration, despite inevitable difficulties and temporary setbacks and was setting itself increasingly more ambitious objectives. In the western industrialized world, and more precisely in Europe, the past few decades have been characterized by exceptional economic growth, together with progress in social welfare and a spread of knowledge and culture, against a background of domestic political stability and international cooperation.

14. The background against which a new programme has to be drawn up is radically different. The Community has taken the full brunt of the economic crisis of the past two years, at the very time when the achievements made along the road towards integration were shown up in all their precariousness.

Thus, the period covered by the fourth medium-term economic policy programme must be seen as a crucial period for the Community, in which the Member States will have to achieve a joint recovery in economic activity while overcoming the hazards and constraints involved, to halt the process of disintegration in what has already been achieved in the Community and evolve new ways of stimulating integration, to define the role and place of the Community in a changing system of international relations, and finally to endeavour to find better ways of meeting the aspirations of our society.

15. Beyond the long-term objectives of developing and strengthening economic and social structures, the programme must as a matter of priority aim at achieving the following objectives:

- bringing inflation under control through the re-establishment of major domestic equilibria, through appropriate measures including structural measures, and by creating conditions making for a better social consensus within the Community,
- moving back to full employment, principally on the basis of a sustained and balanced rate of growth, by a reduction in cost increases and the stimulation of investment, and by *ad hoc* policies,
- progressing towards the restoration of external payments equilibrium.

16. The programme consists of three parts. The first presents the background. The second sets out the macro-economic guidelines for Community action over the period covered by the programme and a strategy for applying these guidelines. The third concentrates on the areas where they should be implemented rapidly.

In view of the uncertainty which continues to weigh on the economic situation, the programme must continue to evolve during the period it covers, with this document representing only the initial stage. There must be a continuous and detailed follow-up throughout the period 1976 to 1980.

This continuous process should involve regular examination and, if necessary, adaptation of the macro-economic guidelines presented here, and should thus make it possible to bring about greater convergence of economic trends in the Community.

PART ONE

THE BACKGROUND

A. The economic crisis

17. The world recession in 1974 and 1975 was of exceptional gravity; its scale and pervasiveness were without

precedent in the periods of economic downturn observed since the Second World War.

The gross domestic product of the OECD industrialized countries stagnated in 1974 and fell by 2 % in 1975, while

at the same time the total number of unemployed recorded reached a record level of some 15 million, with the Community accounting for one-third of this total.

The repercussions of this crisis, although varying in form, affected all the economic areas of the world, not least the Community.

18. The source of this recession is to be found mainly in the continuous and accelerated development of inflation which began in the mid-1960's. It was amplified by the interplay of several factors, some of which were themselves caused by inflation: the rise in oil prices, the restrictive policies adopted by the member countries, and a number of structural factors such as the saturation of the building and construction market.

19. While in the past the annual increase in the general level of prices in the industrialized countries was on average around 3 to 4 %, it has more than trebled since then. This inflation is the result of a combination of widely differing causes varying in importance and composition from one country to another and including:

- insufficient and belated awareness of the dangers of inflation,
- the excessive growth of domestic and international liquidity,
- the excessively high rate at which incomes have risen,
- the particularly marked economic boom in all the industrialized countries after 1969, together with the growing synchronization of cyclical movements within the Community,
- the rise in raw material prices, resulting from economic overheating, the short supply of a number of agricultural products and especially the sharp escalation in oil prices.

20. These factors, which explain the acceleration in inflation over the past few years, are part of a long-term structural inflation process, particularly in certain countries, whose roots are to be found in the changes which have taken place at economic, social and political level over the past 20 years:

- competitive pressures from different social groups for better shares in the distribution of national product and changes in the structure of incomes,
- an increase in social tensions, and growing difficulties in obtaining a political and social consensus,
- an increase in the number and size of dominant firms which, whatever their advantages, alter competitive

conditions and introduce rigidities into the economic system,

- a lack of flexibility on the labour market.

Differences in the relative impact of these structural factors explain in part at least the present differences between inflation rates in the member countries.

21. To the extent that they have to deal with structural causes of inflation, traditional demand management policies alone cannot provide a solution to them.

In most of the Community countries, not only were the necessary structural policies not implemented but also the tightening up of economic policy came too late. In particular, the excessive growth of domestic liquidity allowed excess demand to continue over too long a period, and led to excessive demands being made on domestic product. In the absence of deliberate policy decisions it was left to the indiscriminate effects of inflation to bring aspirations into line with what was actually feasible, a process which entailed high economic and social costs.

22. Inflation has been made possible and reinforced by the growth of international liquidity. International liquidity, whose growth had been relatively moderate up to 1968, increased at an average annual rate of some 20 % between 1969 and 1975. This trend was initially triggered off by the emergence of balance of payments deficits in key currency countries, particularly the United States. Reference should also be made to the problems connected with the conditions of deficit financing and with the growth of the Euro-currency market.

Although the dangers involved in the deterioration of the international monetary system were perceived at a very early stage, the scope which it allowed for domestic liquidity to expand without major balance of payments constraints was at first broadly accepted.

During the mid-1960's, when the United States ceased to be the major centre of stability in a system of fixed exchange rates, the other less important zones of stability experienced increasing difficulties in entirely escaping the inflationary environment.

23. Unsuitable exchange rates were maintained over too long a period. This was true of a number of currencies, in particular the dollar, which was overvalued for a long time. Although a new structure of parities was established in December 1971, it was impossible to maintain a balanced relationship between the various exchange rates. This process led in February 1973 to the widespread introduction of a system of floating exchange rates.

24. The system of flexible exchange rates gave increased autonomy to national policies. However, the countries whose currencies were falling in value came to recognize that, apart from their short-term perverse effects, alterations in exchange rates do not lead to an improvement in the balance of payments in the absence of an adequate domestic policy. Within these countries, pressure for the re-adjustment of nominal incomes made it more difficult to transfer real resources towards the foreign sector. Countries whose currencies were rising in value were better able, though not entirely able, to dissociate themselves from external inflation.

The very different policies pursued by the countries led, in some cases, to short-term variations in exchange rates which considerably exceeded actual cost and price differences. Some currencies fell heavily in value, thus causing further surges of inflation, and this process was in some cases reinforced by the general tendency for prices and nominal incomes to be adjusted almost exclusively upwards.

The flexibility of exchange rates did, however, make external disequilibria more tolerable and has so far made it possible to avoid general recourse to protectionist measures.

25. The liberalization of trade, which was already well advanced at the beginning of the 1960's, provided the basis for a considerable development of world trade and contributed to the improvement in living standards. At the same time, this led to the development of relationships, though sometimes unequal relationships, of economic and monetary interdependence between industrialized countries and between such countries and the raw-material-producing developing countries.

26. At the end of 1973, the prices of oil rose sharply. This rise has increased the disparity in economic structures between the industrialized countries and the developing countries and between the developing countries themselves. The oil deficit has been spread unequally among the various importing countries, giving rise to or aggravating balance of payments problems at world level.

27. The deterioration in the terms of trade in the oil-importing countries induced by the rise in oil prices resulted firstly in indebtedness, then in the transfer of real resources, in the form of additional exports, as the oil-exporting countries were able to convert the increase in their revenue into additional imports. However, this adjustment process has so far produced only partial results.

28. All these factors, and in particular those referred to in paragraphs 18 to 20 finally triggered off the world recession and a massive rise in unemployment.

During the recession, it also became clear that what was involved was a crisis of 'stabilization' and restructuring. The recession highlighted the unsatisfactory allocation of resources between private consumption, investment and the foreign balance, distortions between the various categories of incomes, between the private and public sectors, between the various branches of the economy and between countries, and the saturation of the market in a number of sectors. Unit labour costs increased very rapidly and the profitability of firms deteriorated to such an extent that an insufficient amount of job-creating investment took place. Hardly has recovery begun to get under way when the fear is expressed of a further acceleration in inflation, and this from a Community inflation 'base' of almost 10 %.

B. Weaknesses of the Community

29. Although the dangers of disintegration have so far been overcome, the Community is now under a particularly serious threat, and the period covered by the third programme has been one of setback. The objective of achieving a Community of growth and stability has not been achieved, there has been no progress towards economic and monetary union, and the Community has shown itself to be incapable of finding a collective and creative response to the crisis.

30. Attempts to coordinate economic and monetary policies proved incapable either of containing the Community's average inflation rate or of avoiding the dispersion of national rates. Over the period covered by the third programme, the average annual rate in some countries was double the rate in other countries. In 1975, the spread of private consumer price rises ranged from 6 to 20 %. The process of liberalizing capital movements within the Community area has, depending on the case, come to a standstill or has been reversed — the degree of liberalization in this field is less today than it was at the beginning of the 1960's — while no common policy has been defined with regard to external capital. The common agricultural policy has faced continuous difficulties. Most of the other Community policies, despite partial progress, have remained below the threshold of minimum effectiveness. Given the fact that the customs union for industrial and similar products remains the principal cement in the Community edifice, the considerable current account payments deficits of some countries continue to pose a threat to the free movement of goods within the Community.

31. In the face of the problems posed by developments in the international monetary system, the Community has admittedly been able to achieve coordinated or joint positions on particular points, but it has proved incapable of justifying a coherent overall solution and all the more incapable of putting it across at international level. It has not been able to insulate itself from external disruptive factors, and has had to give up hope of achieving any substantial progress on the road towards economic and monetary union. The 'snake' has been subject to grave difficulties and now includes only a section of the Community.

32. The oil crisis developed at a time when economic policy divergences within the Community were particularly marked, and it accentuated balance of payments discrepancies even further.

The Community has been unable to define and apply a common strategy, either in the face of the oil embargo or to deal with the economic effects of the rise in oil prices, and has encountered considerable difficulties in avoiding appearing in disarray in the various international negotiations which have followed the oil crisis.

Although it has so far managed to avoid protectionism between the Member States and has exercised a dissuasive effect on the other countries in this area, the Community has not succeeded in exerting sufficient influence on the international situation, nor in coordinating effectively its domestic policies. If Community action had been decided on and introduced in time, the economic and social costs resulting from the crisis could probably have been reduced for all concerned.

33. The causes of this inability are complex. However, three broad ranges of factors can be identified as basic reasons:

- the disparity of economic and social structures and the different priority given to various economic policy objectives,
- differences in adapting to changes in society, and the erosion of the social consensus in several countries,
- finally, inadequate policy coordination within the Community.

34. Community coordination comes up against differences of priority between the Member States in the conception of economic policies, differences which are based on structural disparities of an economic, institutional and social nature⁽¹⁾

Some of these disparities relate to, for example, demographic factors, the productive apparatus, and in particular the degree of industrialization, differences in real income per head of population between countries, and the varying scale of regional disequilibria.

Although these disparities are not a recent phenomenon, they have not been sufficiently taken into account.

Regional disequilibria and the differences in *per capita* income they entail are of particular importance, especially since they have persisted and have sometimes even increased, thus accentuating, despite sustained growth, the tensions existing between the economies of the Member States, if not within the countries themselves. Sustained growth is a necessary precondition for solving the problems involved in regional disequilibria, but a conscious and purposive regional policy is also vital. Community policies have on the whole proved insufficient.

35. At national level, apart from direct financial redistribution measures, these disparities are reduced by spontaneous mechanisms based on, for example, the availability of an integrated banking system, the existence of a single tax and social security system, etc.,

At Community level, redistribution through spontaneous mechanisms can take place only slowly in step with the gradual integration of the whole fabric of the economy. A necessary precondition for greater financial solidarity is, however, the achievement of control of overall equilibria and progress at the institutional level, since without these it is difficult to find acceptance for the very notion of solidarity. However that may be, the available Community instruments should be put to more effective use.

36. Other structural factors have had a varying effect on the degree of economic policy flexibility in each country. These factors (tax structure, extent and system of social security, method of formation and redistribution of incomes, level, composition and financing of public expenditure, and the organization of competition), had and still have a widely differing impact within the Community.

37. Disparities of another kind result from the fact that machinery for cooperation and dialogue between the social groups and participation at the various levels of the decision-making process differ in effectiveness from one country to another. Furthermore, while there is in some countries very broad acceptance of the existing economic and social framework, in other countries important social groups dispute its operation and its objectives.

⁽¹⁾ Some of these disparities have been highlighted in the document entitled 'Structural indicators system'.

38. The sustained growth of the post-war years provided the basis for a considerable improvement in living standards and in education, but it was inevitably accompanied by very far-reaching changes in economic and social structures. For a very large section of the population, this has resulted in migration and changes in occupation, way of life and job. Examples here include the movement from outlying areas to industrial centres, the drift from rural to urban life, and the tendency for small-scale independent preneurs, farmers, traders, and craftsmen to move to positions as wage and salary earners in larger industrial or tertiary organizations. At the same time, the traditional social units, the extended family and the village community, have often lost their importance.

39. The boom also went hand in hand with problems arising from the lack of proper control over the development of conurbations, pollution of the environment, and an increasing drain on irreplaceable natural resources. This process led to increasing protests and demands, and the attempts which have been made to meet them have not been homogeneous from one country to another, nor can they always be considered satisfactory.

In some cases, the differences in income and wealth between and within social groups are considered too wide and jeopardize the efficacy of government policies. In other cases, the tendency towards levelling of incomes is felt to have gone too far, and the growth of government activity is considered to be too rapid, entailing the risk of stifling the will to work and of harming private initiative.

40. The recession has clearly highlighted employment problems. Irrespective of the level of and arrangements for unemployment benefits provided under the various national systems, the fact remains that to be in receipt of social assistance often has unfavourable social and psychological connotations, even if the cause of unemployment is economic, as is indeed the case for most of the unemployed in the Member States. This means that the acceptance of a high rate of unemployment in the medium- or long-term would bring about a deterioration in the social fabric with unforeseeable socio-political implications.

41. A gap had already emerged in previous years of high growth between the structure of qualifications and that of jobs available on the labour market. There are various reasons for this widening gap. The rise in the general standard of education and level of knowledge of workers has naturally led to higher demands not only as regards remuneration but also the quality of jobs and the nature of

working conditions. However, the technical choices made have shaped the structure of available jobs in a very different way: the greatest demand, apart from a limited demand for executive staff, is for highly skilled workers and, in certain countries, for unskilled workers who can quickly be trained to carry out repetitive duties.

42. At the same time, there are increasing demands for broader participation in the decision-making process and management of firms. On a more general level, the two sides of industry are expressing their desire to be more closely associated with the making and implementation of economic policy decisions. As in other areas, reactions to these problems vary considerably from one country to another.

Finally, the consumer is not always wholly in a position to assume his role as a fully equal partner in economic activity. Competition only functions partially in certain areas, and in some countries the consumer does not have sufficient information to deal properly with the market strategies adopted by firms.

43. Coordination within the Community has proved inadequate.

The definition of a common policy assumes, firstly, the existence of the political will and political trade-offs permitting the common interest to be identified. Secondly, it cannot always be guaranteed that the decisions taken will be the most appropriate ones, and it is therefore necessary to accept the notions of solidarity and joint risk.

At national level, the definition and implementation of economic policies meet these requirements. The risk of a bad trade-off is counter-balanced by national solidarity and political responsibility to Parliament and, in the last resort, to the electorate. Consequently, an unsuccessful economic policy does not usually jeopardize national unity.

At Community level, any differences in assessment of the situation or on the nature of policies to be pursued make it very difficult to find a Community solution, as national preoccupations predominate in the absence of real political responsibility at Community level. Consequently, there is little scope for notions of joint risk and solidarity.

This means that there is a constant danger of differences and tensions jeopardizing Community unity. This situation can perhaps be improved to some extent by developing the technical analysis of Community problems, but the real solution must be political and institutional.

PART TWO

MEDIUM-TERM PROBLEMS AND GENERAL ECONOMIC POLICY GUIDELINES

A. Medium-term problems

44. Analysis of the problems facing the Community over the next five years has been based on work carried out by the Study Group on Medium-Term Economic Assessments.

(a) The international situation

45. The Community's economic development is very significantly influenced by the international situation since the Member States are very heavily dependent on external trade.

This means that if world trade expands weakly, if any restrictions are placed on freedom of trade and if inflation continues at a high level in the OECD area, the Community would find it very difficult to solve its internal economic problems and would have to initiate very vigorous action of its own in order to prevent the situation from developing too unfavourably.

The problems dealt with in the following pages are based on assumptions which disregard such extreme developments and assume an unadjusted average growth of 8 to 8.5% a year in the volume of world imports. This rate corresponds to that observed during the 1960's and the beginning of the 1970's. Taking into account the catching-up of the effects of the recession, this means that the underlying trend growth rate is lower.

In addition, it has been assumed that the GDP price index for the main industrial countries in the OECD area will rise by 7 to 8% a year. This figure corresponds to the trend in recent years, if one ignores the effects of the oil price increases on the general level of prices. But, whereas this average reflected an upward trend in the past few years, the tendency should in future be reversed, with a marked deceleration in inflation over the 1976 to 1980 period.

(b) Growth and employment

46. In view of the under-utilization of factors of production in 1975 and of the catching-up effect usually evident in periods of recovery, actual growth should exceed potential growth between now and 1980, and from then onwards attain a sustained rate.

However, a certain amount of production capacity has been permanently lost as a result of the closing down of establishments or because it has been idle too long, while other capacity has become out of date as a result of changes in relative prices and the structure of demand. This is a continual process, but there is some indication that it has accelerated in some countries due to the recession. This implies that the trend of potential growth has been weakened.

Moreover, potential growth between now and 1980 will be affected first and foremost by the general decline in investment over the past two years. In a number of countries, Germany, Italy, the Netherlands and the United Kingdom, the weakness of investment had become apparent well before the crisis.

47. A fresh outbreak of conflicts over income distribution and, consequently, of inflation, together with the difficulties involved in reducing external disequilibria at world level, could result in 'stop-go' policies and thus again sap potential growth by affecting investment. In particular, it should be noted that the effects of oil price increases on the balance of payments have been partly masked by the recession. Economic recovery will not only mean that the inevitable deficit of the oil-importing countries will worsen, but also that the 'redistribution game' between the oil-importing countries concerning this deficit could well start up again. This means that there is a danger of a devaluation race, resulting in new inflation adjustments, or of a slowing down of expansion by turns.

In sum, without a particular economic policy effort, it is difficult to foresee actual growth in the Community significantly exceeding 4 to 4.5%. This rate is slightly lower than the long-term trend in past years and would not allow for any recovery of losses suffered in 1974 and 1975.

48. Achieving high growth appears particularly difficult in the case of Italy, Ireland and the United Kingdom. This presents the Community with a problem, since without such growth these countries, which have the lowest incomes per head of population, would be unable to catch up with the other Member States.

49. There is a risk of high unemployment over the next few years. The present high rate of unemployment reflects firstly the impact of the recession, but in a number of

countries the fall in the proportion of GDP invested over the past number of years had already resulted in a decline in job creation, particularly in industry. The high relative cost of labour, quite apart from its impact on overall investment, has had the effect of encouraging rationalizing investment. Eliminating unemployment could be a slow process in view of the substantial number of under-employed workers at present in firms.

Reducing the unemployment rate is made more difficult by the foreseeable trend in labour supply. Demographic factors will have the effect of increasing the numbers of school-leavers seeking work, while at the other end of the scale there will be fewer people eligible for early retirement (see Table 1). Beyond 1980 to 1985, this trend will be reversed as a result of a marked drop in the birth rate over recent years. This ageing of the Community population is a cause for concern and calls for further thought.

There is no reason to believe that the underlying growth in the female participation rate will fall to any appreciable extent despite the reduced attractiveness of the labour market. On the other hand, some slowing down in immigration may be anticipated, though this trend will be limited in scope by association agreements, the particular commitments of certain Member States, and by the specific nature of the needs which this immigrant labour meets.

50. Whereas in the past the public authorities sector played an important role in job creation, it seems less likely that this pattern will continue in future, particularly in view of the constraints weighing on public finance management. Since agriculture is continuing to shed its labour force, the creation of jobs must be based more on the non-agricultural private sector.

In addition, a large number of rigidities of attitude which have traditionally stood in the way of any satisfactory balancing of labour supply and demand, have become more prominent over the past few years. Resistance to geographical mobility is particularly significant here. Indeed there seems to be a tendency towards greater resistance to mobility within regions. Job expectations, both in terms of remuneration and job content, are now higher, particularly as far as the young are concerned. Unemployment is thus being prolonged by the desire of those seeking work to find jobs which meet their qualifications and aspirations.

Finally, differentiations in wage and salary levels between industries and different jobs do not always compensate properly for the differences in terms of attractiveness, ar-

duousness, or social status between certain jobs or occupations. This produces a distortion in the supply of labour which has the effect of creating bottlenecks and pockets of unemployment at one and the same time.

51. These analyses taken as a whole show clearly that the major economic policy problem during the coming years will be the achievement of a return to full employment. In view of the unemployment rate of some 4% in the Community in 1975, a particularly active policy will be necessary to ensure that the level of unemployment falls below 3% by 1980; this compares with a rate of between 1.5 and 2% for the Community during the 1960's.

(c) Price trends and external equilibrium

52. While the return to stability can only be gradual, the maintenance of high rates of inflation implies serious risks for growth and employment: wage and cost drift, exacerbation of labour disputes, misallocation of resources, balance of payments disequilibria, and the need for new restrictive policies.

Given the very marked interdependence of economies, it is difficult for the Community to set price objectives differing to any appreciable degree from the international pattern, in the absence of exchange rate alterations and a deliberate internal policy. There is a clear danger of substantial divergences developing within the Community if, as in the past, some countries align themselves on the average inflation rate of their main trading partners while others opt for a vigorous stabilization policy and try to dissociate themselves from the international inflationary trend.

53. Other differences in rates of inflation could result from the forces introduced by recent exchange rate movements. Particularly in those countries whose currency has fallen sharply in value, thought should be given to ways of stabilizing the trend of costs so as to make it possible to revert to a more satisfactory balance of payments situation and to avoid the development of an exchange rates and prices spiral.

These possible differences in trends between countries show that monetary tensions and the problem of adjusting relative costs and prices will not be easy to overcome.

The achievement of economic and monetary union would be hindered by the persistence of substantial divergences in cost and price trends. Indeed, the Community's cohe-

sion would be jeopardized if the present divergences were not reduced or, worse, if they widened further.

54. In the past, achievement of a positive external balance (goods, services and factor incomes) of some 1% of GDP enabled the Community to achieve external equilibrium. It was indeed this surplus which provided the means of financing transfers to immigrant workers and development aid.

Looking to the future, account must firstly be taken of the trend of imports by the oil-exporting countries. So long as these countries are not in a position to absorb their surplus *vis-à-vis* the industrialized countries, the Community as a whole should accept its share of the resulting deficit.

Account must also be taken of the distribution of oil deficits. In 1975, the Community's external balance was in surplus as a result of the economic situation; the oil deficits were mainly borne by other industrialized countries and particularly by the developing countries. As economic recovery gets under way, this situation should alter in favour of these other countries, and the Community should accept an external deficit.

55. Looking ahead to 1980, an adequate positive external balance (goods, services and factor incomes) could once again be achieved under the following conditions:

- the OPEC countries should record a current account equilibrium with the industrialized countries by 1980. Given the situation within OPEC, this means that a number of oil-producing countries would have a current account deficit while others would continue to have a considerable surplus,
- the industrialized countries should continue to provide substantial development aid. An additional effort should be made by the oil-producing countries and through the agency of the international institutions, and if necessary also by the Community, to finance the oil deficit of the poorest developing countries,
- the Community should continue to expand its trade with the State-trading countries,
- Community trade with other industrialized areas should continue to show balanced growth.

Under these conditions, a satisfactory external situation may be envisaged for the Community as a whole by 1980; however, it will remain very difficult for each individual Member State to achieve a return to equilibrium, given the initial situation and the possible divergences in cost and price trends.

(d) *Utilization of resources*

56. The structure of uses of GDP at constant prices has altered appreciably over the past few years as a result of the recent development of the economic situation, and also as a result of a number of structural factors, such as the rise in oil prices and in particular the trend of wages and salaries and of taxes and parafiscal charges.

57. From 1970 to 1975, at 1970 prices, the share of GDP accounted for by consumption and the external surplus in goods and services rose by 3.5 and 2.2 points respectively. The increase in the balance of goods and services at constant prices partly offset the deterioration in the terms of trade by transferring real resources to foreign trade (see Table 2). By contrast, the relative share of investment fell sharply by 5.7 points. About half of this difference can be explained by variations in stock levels, which is a purely cyclical phenomenon; as far as gross fixed capital formation is concerned, part of the difference can also be attributed to the economic cycle. For the rest, the change in the pattern is part of a process which began several years ago, especially in Italy, the Netherlands, and Germany, with the changes in Germany being especially marked in investment by firms.

58. As has been seen over the past few years, a decline in gross fixed capital formation makes job creation difficult and affects growth potential. This means that there must be a significant increase in the share of productive investment in GDP. The transfer of real resources towards foreign trade (balance of goods and services) must increase still further its relative importance, so as to cover not only the deterioration in the terms of trade, but also the interest in the oil debt. In contrast to the pattern in 1974 and 1975, with all its detrimental effects on the employment situation, this increase must not be at the expense of investment.

This means that it is consumption, particularly private consumption, which must be looked to in order to achieve the necessary redistribution of the uses of GDP. It must be emphasized that these adjustments must take place in the medium-term, while in the short-term the picture is different. This point is explained in Part Three.

59. This overall assessment calls for individual qualifications as regards the various countries. The countries which had a difficult balance of payments situation before the crisis or which have been hardest hit by it, that is to say Italy, the United Kingdom and Ireland, will have to curb private consumption most sharply. For the countries with a comfortable balance of payments surplus, particularly Germany and the Benelux countries, this constraint is obviously weaker. In France, the adjustment, although it will

have to be on fairly substantial scale, is essentially cyclical in nature.

Achieving these changes in the structure of uses of GDP implies considerable difficulties, since it entails, at least to some extent, adjustments in the distribution of incomes and in the trend of public finance.

(e) Trend of primary incomes and public finances

60. The adjusted share of wages and salaries must revert to a more normal level before a more satisfactory growth rate and unemployment level can be achieved. The share of wages and salaries in GDP, adjusted to take account of the proportion of wage and salary earners in the working population, is a rough means of measuring the division of incomes between wages and salaries and profits.

Up to 1970, this ratio tended to be relatively stable, both for the Community as a whole and for most of the Member States (see Table 3). From 1970 to 1975 there was a steady increase in this ratio throughout the Community, rising in so far as their impact on the net income of wage and salary earners had been offset by additional rises in gross wages and salaries, the under-estimation of the effects of counter-inflationary policy and of the risk of recession in the conclusion of collective agreements, etc. This trend has led to a considerable squeezing of firms' profit margins and has reduced their propensity to invest.

61. Numerous factors in the process of wage and salary formation lay behind this trend; the effects of changes in exchange rates, the deterioration in the terms of trade which has not so far made itself felt on the real income of wage and salary earners, the increase in tax and social security charges in so far as their impact on the net income of wage and salary earners had been offset by additional rises in gross wages and salaries, the under-estimation of the effects of counter-inflationary policy and of the risk of recession in the conclusion of collective agreements, etc. This trend has led to a considerable squeezing of firms' profit margins and has reduced their propensity to invest.

In the case of France, Ireland and Luxembourg, the rise in the adjusted share of wages and salaries seems to be basically due to a failure to take account of the deterioration in the terms of trade and to the recession. Over and above the cyclical effect, in Germany, Belgium, Italy, and to a certain extent, the United Kingdom, the increase began in 1970, while in the Netherlands and Denmark the change seems to have been part of a long-term trend. In these last two countries, the trend is to a large extent a reflection of the growing importance of public services in GDP.

62. In all the Member States, there was a continuing rise in the share of public revenue and expenditure in GDP between 1960 and 1973 (see Tables 4, 5 and 6), and in cer-

tain countries a substantial deficit has emerged. The financing of these deficits on the capital market means that less is available for financing investment by firms. When private investment increases again in the medium-term, unless there is a high level of private saving, these countries are faced with a choice between improving their public finances and accepting permanent external indebtedness. The extent to which these two alternatives are followed depends on various economic and political factors inherent in each country, and also on the measures taken, where appropriate, at Community level.

63. In 1974 and 1975, the deterioration of public finances in all the Member States has been largely the result of the built-in effects of the recession, the rise in prices, and the short-term economic recovery programmes pursued. Nevertheless, a number of the measures introduced may prove difficult to reverse.

In general terms, the growth rate of expenditure accelerated very appreciably over these last two years mainly as a result of the marked growth in transfer payments and, to a lesser extent, in public consumption.

64. By contrast, except in some countries where as a result of deliberate policies taxes have risen, revenues have not increased due to the decline in economic activity and, in some countries, to losses resulting from tax reforms. In 1975, revenue continued to increase at its long-term growth rate or in some cases stabilized at its 1973 relative level. This resulted in deficits on a quite exceptional scale. Admittedly, in the present situation, these deficits make up for the lack of investment, absorb the temporary excess of private savings and, where applicable, counterbalance the external deficit. They also provide short-term support for demand and economic activity, but, once recovery has been achieved, they cannot continue in the medium term. Their persistence would in the first place pose the problem of financing a considerably swelled public debt. The re-establishment of external equilibrium and the rate of investment in firms would also be jeopardized with serious consequences for growth potential and job creation. In view of this evident contradiction between short- and medium-term requirements, public finance policy flexibility is of major importance for the growth path of the next two or three years.

65. Besides the problem of deficits, attention should also be given to the growth rate of public authorities' share in GDP. The decision to be taken on the scale of the needs to be met by society and on the resulting tax and parafiscal

burden is basically political in nature, but it must also take full account of the economic consequences.

66. Over the past few years, partly as a result of inflation, there has been an escalation of both collective and private needs. In countries having a highly progressive direct taxation system, the tax burden has grown, without any deliberate political decision, as a simple result of inflationary swelling of nominal incomes and the increase in taxes (fiscal drag). The growth in the burden of taxation has often resulted in additional increases in gross wages and salaries so as to maintain the growth in net income.

Such a process, resulting in fact from a refusal to accept this heavier burden, either stimulates inflation or acts as a company tax where firms are no longer able to pass on these increased costs. In this latter case, profit margins are squeezed and the propensity to invest declines.

Thus, allowing public expenditure to continue its relative growth at such a high rate would present many Member States with the problem of increasing further the level of the tax and parafiscal burden without jeopardizing the economy's normal operation. This is more particularly the case for the Benelux countries, Ireland and Denmark, but the problem is also pressing in Germany. Consequently, recourse to a further increase in the tax and parafiscal burden should be limited.

B. The quantitative guidelines

67. In order to meet the problems outlined, above, the Community proposes, within the framework of the fourth medium-term economic policy programme, to set itself objectives which are both balanced and ambitious, especially as regards a lasting return to full employment and the gradual control of inflation. However, these objectives must be realistic and credible.

68. Realism demands that account be taken of the constraints which continue to weigh on Community action:

- the degree of economic and social consensus differs among the various Member States,
- structural disparities with the Community remain excessive,
- the Member States are inclined to give different priorities to major economic policy objectives.

The necessary political and institutional basis for Community action capable of overcoming these obstacles does

not yet exist. However, achieving the objectives set would help establish this basis.

69. Credibility requires that, at the same time as quantitative guidelines are set, conditions necessary for their realization be defined. There will also have to be growing awareness not only by public authorities, but also by all those involved in economic activity, of the dangers which exist and, consequently, the need to accept these policies on a joint basis.

If this is not the case, the trend could be much more unfavourable and would have serious consequences at political and social levels.

70. The quantitative guidelines given below constitute medium-term macro-economic points of reference; they must be related to an overall strategy and backed up by overall and specific policies.

Between 1976 and 1980, as present uncertainties lift and the necessary economic, social, political and institutional conditions are met, these guidelines can be made more ambitious.

They will have to be examined annually and possibly updated as part of the first examination of the economic situation in the Community provided for in Decision 74/120/EEC.

71. To reduce unemployment and allow needs to be more fully met, there must be continuous and sustained growth. This is vital in order to halt the continuing under-utilization of existing capacity, the waste of productive resources, to allow income allocation and distribution problems to be more easily solved, and to achieve social and societal objectives.

In so far as Community action is able to reduce the constraints weighing on each of the Member States, the growth objective can be more ambitious. No Member State taken in isolation can pursue a policy aimed at vigorous growth without entailing the risk of substantial disequilibria, nor is any individual member country acting alone capable of influencing trends in the rest of the world. Consequently, there is a need for concerted action aimed at growth which is both more sustained and more stable, while at the same time ensuring a satisfactory equilibrium between Member States.

The mere announcement of such a policy by the Community, which in several respects occupies a more important position in the world economy than the major powers, would have positive psychological effects both inside and outside the Community (see Table 7).

72. The Community's guideline for the period 1976 to 1980 is to achieve an average annual growth rate of GDP in volume terms of 4.5 to 5%. The growth rate in France should be about 5.5%; this is necessary as a result of the growth of the working population and possible since the fall in investment has been less marked in France than in many other countries. Italy, Belgium, Ireland and Denmark should achieve growth of between 4.5 and 5%. In Germany and the Netherlands, growth should lie between 4 and 5%. The United Kingdom could well achieve a growth rate of 4 to 4.5% if every effort is made to ensure that it develops its growth potential. In view of its structural characteristics, with its industry not very diversified and centred on steel, the growth rate of the Luxembourg economy should reach 3 to 3.5%.

73. Ambitious guidelines for the reduction of unemployment imply both the achievement of sustained growth and the implementation of a specific employment policy. Recovery should permit a rapid reduction in cyclical unemployment. The promotion of investment and a specific employment policy should lead to sustained growth which will reduce the level of structural unemployment.

It is difficult to quantify the effects of the acceleration of growth and the specific employment policy on both productivity and on employment itself. Moreover, the concept and the measure of unemployment vary at different times and in different countries. Whatever the case, the objective for the Community between now and 1980 must be a return to full employment, that is to say a situation in which anybody willing to work should be in a position to find a job, through additional training if necessary, so that nobody need be subject to prolonged or repeated unemployment.

74. The Community's objective on prices must be twofold:

- to give price trends an autonomous value independent of price trends at international level, so that the Community can progress towards its goal of becoming a 'Community of stability and growth',
- to reduce divergences in price trends between Member States so as to reduce the risk of changes in exchange rates, and thus to promote intra-Community trade and create the basis for renewed progress along the road towards economic and monetary union.

The rate of inflation in the Member States of the Community should be gradually reduced to one compatible with lasting stability and should be of the order of 4 to 5% by 1980 at the latest.

For some countries such an objective is no doubt extremely ambitious. But it is essential that every effort be made to achieve it and that, in particular, the policies outlined in Part Three should receive all the backing that proves necessary.

75. The Community's external equilibrium objective must be defined flexibly; it must be adapted to the balance of payments situation at world level.

At the beginning of the projection period, the Community should accept an external deficit, but by 1980 it should achieve a positive external balance (goods, services and factor incomes) of some 0.5 to 1% of GDP.

The servicing of the oil debt is already included in this balance, and repayment of the debt will hardly begin before 1980. In addition, transfers, particularly to the developing countries, should continue in at least the same proportion as in the past. The guidelines adopted correspond therefore to equilibrium or a slight deficit in the balance of payments, as past experience has shown. However, this objective is conditional, since it presupposes a fairly strong deterioration in the balance of payments position of some countries outside the Community. If this does not come about, the Community would have to tolerate an even higher deficit so as to maintain the priority given to growth and full employment. In that case, problems would arise if the deficit was concentrated in certain countries.

C. A Community strategy

76. The quantitative guidelines outlined above must form part of a strategy setting out the relative priority of objectives and specifying the general economic policy conditions necessary for their achievement. This strategy should provide the framework for the policies described in Part Three.

In the present situation top priority must be given to the objective of achieving a lasting return to full employment.

Growth and price stability are essential if a better satisfaction of needs and an optimal allocation of resources are to be obtained, but they are also a basic condition for achieving a satisfactory level of employment.

The guidelines for the external balance are general conditions for achieving equilibrium; they should be qualified in the light of the international situation and the short-term path.

77. These four quantitative guidelines clearly cannot cover the whole range of social and economic objectives.

Other objectives, often more qualitative and more difficult to formulate systematically, have a very important place in the aspirations of the public at large and in the thinking of those responsible for policy. They include in particular the achievement of a better regional equilibrium, protection of the environment, justice in the distribution of wealth and income and the reduction of inequalities, the improvement of living and working conditions, and social progress in general. Other factors are the need to save energy and materials which are in short supply, and to help the developing countries.

78. Present socio-economic conditions and the progress already achieved in the more qualitative areas vary between the member countries. Thus, it is not surprising that there are differences of priority in defining the components of social progress and growth as well as in the choice of instruments. Although one should not seek uniformity in this area, certain conditions making for convergence within the Community should nevertheless be fulfilled.

79. The apparent contradiction which is felt in certain quarters and in certain countries between the pursuit of macro-economic objectives and equilibria on the one hand and the achievement of more qualitative objectives on the other, should be overcome: full employment based on sustained and steady growth, in conditions of stability and respect for the constraints imposed by macro-economic equilibria, is a necessary condition for social progress and a better achievement of other qualitative objectives, and is thus a prerequisite for social stability.

Attempting to achieve qualitative objectives by slowing down or halting economic growth would be unrealistic in view of the scale of needs still to be met; to try to press ahead with social progress in such a situation without taking account of the restrictions placed on what is economically possible would be self-contradictory. To aim at 'unrestrained' growth in order to achieve full employment and enlarge the area of social progress runs up against the imperatives of macro-economic equilibrium, and in particular the constraint imposed by the external balance: social progress 'at the expense of others' must inevitably prove ephemeral. All these solutions in the end result in the bidding up of aspirations and in struggles over the distribution of resources which remain limited. At the same time, the heedless pursuit of macro-economic objectives, without a minimum consensus between social groups and with the public authorities on the definition of the medium-term common interest, is an exercise equally doomed to failure.

The first option can only result in the medium term in accelerating inflation, persisting unemployment and economic decline. The second option would result in inadequate economic performance, restricting or stifling so-

cial progress. Both would in the long run jeopardize the democratic order of society.

80. An essential condition for the achievement of the guidelines laid down in the fourth programme is the promotion of a *de facto* consensus reached by the two sides of industry, both amongst themselves and with the public authorities, not only at national level, but also in overall terms at European level. This consensus should not be restricted to the objectives of full employment, growth and stability. The general objectives of qualitative and social progress must also be included, while at the same time ensuring their compatibility with the former objectives.

81. On a practical level, the achievement of the programme's objectives is dependent on a short-term growth path policy which would permit sustained and continuous growth in more stable price conditions; this growth path must take account of the differences of phase in the economies of the member countries, differences which are necessary for the re-establishment of macro-economic equilibria within the Community. This path should be achieved through overall economic management policies and with the help of appropriate behaviour by the two sides of industry with regard to incomes. It should also be the criterion in establishing a timetable for structural policy measures and economic and social reforms.

82. The return to full employment and the achievement of sustained and regular growth will be largely determined by success in controlling inflation. In particular, stricter and steadier management of monetary and credit policy must play a major role in achieving a gradual reduction in inflationary expectations by economic agents. In this connection, there could be advance notification of the limits of monetary expansion in relation to anticipated growth, a practice already followed in some countries and being studied in others. Thus, the two sides of industry and the public authorities would have a point of reference for possible overall nominal expansion.

The Member States' monetary and credit policies should be closely coordinated; this would also be an important factor in the gradual alignment of cost and price trends within the Community, and in exchange rate stabilization.

83. Public finance policy has a key role to play in this overall strategy. It must be conceived around the following broad guidelines:

- contributing to steadier economic growth, with continuous monitoring of the part played by financing balances in macro-economic equilibria,

- eliminating or reducing deficits; the relative reductions in expenditure or increases in taxes and social security contributions which this calls for could provoke defensive reactions from the social groups concerned,
- continuing to meet public needs by means of public financing; the public authorities must set an example of rational management, and, while aiming to meet legitimate needs in full, must avoid giving rise to aspirations which are impossible to satisfy and eliminate costly policies which are no longer justified.

Finally, this overall conception of stabilization policy should be supplemented and backed up by more specific measures in the field of competition and consumer protection and by measures to promote a fairer distribution of wealth and income and social progress.

84. In view of the priority given to full employment, the overall strategy must give particular emphasis to the creation of new employment, the maintenance of existing work opportunities by restricting cost increases, and the reduction of unemployment.

The creation of new jobs means the promotion of productive investment, and consequently a slackening of domestic consumption, a trend which is also necessary if external equilibrium is to be lastingly restored. This implies, in the short term, a slower increase in private households' disposable income in exchange for a stronger medium-term growth of real income and employment. If private investment is to increase again and become employment-creating rather than labour-replacing, profits and relative labour costs must return to more normal levels. Income trends are the key to this process. Difficulties in allocating national product may be reduced by regulating short-term cyclical movements so as to avoid abrupt changes in income distribution as between wages and profits, and by asset formation policies and measures to promote savings.

85. However, solving the employment problem also requires the introduction of a specific employment and labour policy.

Measures to reduce labour supply, such as bringing forward the age of retirement and reducing hours of work, do not provide a fundamental solution to the unemployment problem; their effects on social progress and the improvement of the unemployment situation must be weighed against their costs for society, costs which will become very heavy, particularly as a result of longer-term population trends.

Positive measures, such as premiums for the vocational training of young people in firms, accelerate the absorption of cyclical unemployment and thus bring in high social returns.

More general measures connected with improving vocational training, retraining and mobility contribute, especially in the medium term, to a reduction in structural unemployment and to an increase in the economy's flexibility. The policy of humanizing the work context must be continued and developed.

These matters are above all subjects for discussion and agreement with the two sides of industry. Moreover, time should be allowed for undertakings to adapt to the measures to be taken.

86. If the main elements of the overall strategy which have just been outlined can be implemented in all the Member States, decisive progress will have been made in strengthening the Community.

But the use of the Community dimension and weight must, in its turn, be an element of the overall strategy.

The Community's external economic policy must be such as to allow the Community to exercise its full powers and must be further developed along the lines it has set itself: the extension of liberalization and resistance to the growing dangers of protectionism, development aid, the transfer of real resources and technology to the developing countries, the opening of frontiers to certain products, and the establishment of an accepted order, based on multilateral agreements, in relations with the other industrialized countries, the developing countries, the OPEC countries and the State-trading countries.

Over and above this important contribution to establishing a better international economic order, the Community is of sufficient size to achieve sustained stable growth, even if the international economic situation develops unfavourably; this assumes, however, that the overall strategy contained in the programme is carried out and that the Community's cohesion can be strengthened.

Efforts to coordinate national economic policy measures within a Community framework must continue.

In such a stricter Community framework, Community solidarity, policies designed to reduce regional and structural imbalances and, more generally, common policies aimed at strengthening the Community's internal structures could all make greater progress.

PART THREE

IMPLEMENTATION OF THE GUIDELINES

A. Policy adjustment to short-term economic conditions

87. A key factor in the implementation of the overall guidelines of the fourth programme will be the growth path of the next two or three years. Overall economic management policy and the behaviour of both sides of industry with regard to incomes will therefore have to look beyond short-term economic requirements and take account, from the beginning of the period, of the requirements of more balanced medium-term growth.

Economic policy will have to achieve a balance during this period between the obvious conflicts of short- and medium-term objectives. Thus, during a period of recession, economic activity is sustained by public deficits and private consumption; at a later stage, however, the relative share of private and public consumption must be reduced in favour of investment, while public deficits, depending on the country, must be appreciably reduced or eliminated. The measures to be taken in this direction should be modified, however, if the weakness of overall demand persists.

The external balance should deteriorate as recovery gets under way, but its level of equilibrium must be restored in the medium term. This must not be to the detriment of investment rates, as was the case in 1975. In order to facilitate the economic upswing, consumption should at first be stimulated by a reduction in the savings rate of private households; but as investment begins to pick up, the savings needed to finance them must be available; finally, once external equilibrium is restored, domestic savings must be increased to take the place of the foreign savings linked to the external deficit.

88. During any recovery period, there is a danger of straying off course and of labour conflicts developing. If short-term economic development is not kept under a tight rein, the risk of inflationary overheating of the economy, bringing growth prematurely to a halt, will be very great especially if the same situation occurs simultaneously in a number of other major countries.

Although the short-term forecasts and the present time-path scenario assume that cyclical trends in the major countries, both within and outside the Community, will be out of phase to an appreciable extent, it is possible that relatively soon activity will be expanding strongly in vir-

tually all the industrialized countries. Multiplier effects could well then give rise to world-wide inflationary tensions.

89. This would make it impossible to achieve the growth rates projected. For this reason, an effort must be made to avoid too rapid an acceleration in growth and to achieve instead a more regular profile. Such a profile would help to dissipate the fears and expectations which would be unleashed by an interruption in growth and would thus help to promote the rapid and continued re-establishment of the rate of investment. A sharp and rapid recovery of investment is indeed a necessary condition for a return to full employment and for the elimination of bottlenecks which might make an early appearance in certain industries.

90. Consequently, given the vigour of the recovery which is now evident in a number of major countries, the Community's actual growth in 1977 and 1978 may be expected substantially to exceed potential growth. It is important that the policy pursued should aim to avoid overheating. At the end of the period, actual growth must revert to the level of potential growth.

The growth paths of some individual Member States will necessarily have to be out of phase with the average pattern adopted for the Community (4.5 to 5% between 1976 and 1980) in view of their particular economic situation.

Recovery within the Community has begun to get under way in Germany, followed by the Benelux countries, France and Denmark. Italy, the United Kingdom and Ireland should above all endeavour to control their costs and prices so as to enable exports to act as the driving force in generating growth.

91. In the countries where there are prospects of profits expanding too sharply during the recovery period, measures should be prepared now to avoid new struggles over income distribution, while at the same time allowing conditions of profitability to return to normal. In this context, income distribution problems could be made easier to solve by policies aimed at steering the economy in such a way as to avoid disruptive changes in factor shares of national income.

More generally, measures should be envisaged to improve the social consensus and to involve the two sides of industry more closely in economic decisions. This point is treated in greater detail later.

B. Progressive control of inflation

(a) General guidelines

92. In order to achieve greater control over inflation an effort must be made:

- to find a solution to the delicate problems of demand management, of monetary policy and of public finance equilibrium,
- to tackle gradually the more structural causes of inflation.

With regard to the problems involved in the control of liquidity and the trend of public finance, the desired objectives for the Community may be summarized once more here:

- the growth of domestic liquidity should be better controlled,
- public deficits should be gradually reduced, in particular through rigorous control of expenditure, so as to avoid a further surge of inflation as a result of excessive increases in taxation and parafiscal charges,
- at international level, the maintenance of free trade and better cooperation with the rest of the world should help to contain rising prices,
- in so far as governments can control them, exchange rate fluctuations should be limited to changes which are economically justified.

In addition, the following problems deserve particular attention:

- control over the trend of incomes and participation of broad sections of the population in asset formation,
- the effectiveness of competition policies.

(b) The growth of incomes and asset formation

93. The fight against inflation requires supplementary measures, one aspect of which must be better control of incomes; their overall development and distribution must be made consistent with the output actually achieved and with the requirements of its continuing growth. This means firstly, that, profits must return to a normal level to

allow the necessary productive investment, and, secondly, that both sides of industry agree not to seek to maximize their share of national income in the short-term, but direct their efforts towards optimizing the medium-term development of their real income. Such an optimization requires that they accept the burden, in the form of lower income increases, of an appropriate share in the costs imposed by a return to balanced growth.

Because of its relative weight in total income, the trend of the adjusted share of wages and salaries in GDP is the determining factor here. Any increases in real wages and salaries made possible by growth in real GDP per head of the employed population should not take up the whole of such growth. Wage and salary earners must also bear an equitable share of price increases or income reductions resulting from any deterioration in the terms of trade or from tax or parafiscal measures.

This self-discipline on incomes required of the two sides of industry will be all the more easily attained if policies designed to share out the constraints satisfactorily are implemented.

In some Member States, adjustments to the wage structure designed to reduce dispersion; upgrade manual labour and attenuate present disparities between men's and women's wages would be justified both for reasons of social justice and on economic grounds.

More generally it is imperative that the existing inequalities in income between regions be reduced, taking into account paragraph 136 *et seq.*

In the field of personal non-wage income, the elimination of certain unjustified gains — in particular through an extension of competition in various professions — would at the same time allow direct action on one of the causes of inflation and make it easier for the other social categories to accept the self-discipline required of them.

Improving the distribution of incomes, so as to reduce excessive inequalities and ensure a fairer distribution of the costs involved in the process, call for improved knowledge on actual incomes. In some cases the limited nature of this knowledge and the diversity of individual cases do not permit a clear view of either the situation or the way in which a collective effort should be shared between the social groups and, within groups, between individuals.

94. Achieving this self-discipline could be complicated by relative trends in the various income categories over the trade cycle. In countries where there is a possibility of profits expanding too sharply during the recovery period, over and above the level needed for their reconstitution, measures should be prepared now to avoid new conflicts over distribution, while at the same time allowing profitability conditions to return to normal. If actual economic trends differ substantially from those anticipated when collective agreements are concluded, both sides of industry must be able to renegotiate the adjustments necessary to take account of forecasting errors.

In this context greater participation of wage and salary earners in asset formation should be encouraged, though this should not have the effect of harming investment. Such a move could be based on profit-sharing schemes or other forms of ownership, or on 'investment wages and salaries' (in which part of the wage and salary is put into savings and reinvested). More generally, an active policy to encourage household savings by means of various incentives (bonuses, savings-schemes, etc.) would improve the conditions for financing investment, while at the same time contributing to the establishment of a better social consensus.

(c) *Competition policy*

95. Implementation of the programme must draw on an active competition policy. Such a policy can improve the effectiveness of the instruments of overall demand management and in particular help to fight inflation. Its objective, in the general interest, must be:

- to obtain as rational as possible an allocation of the factors of production, in particular by exerting constant pressure on costs and prices,
- to promote continuous adaptation of the productive apparatus by encouraging a rapid reallocation of labour and capital towards those sectors which have the greatest future potential,
- to prevent firms from using restrictive or abusive practices to compartmentalize and dominate the market, or indeed manipulate demand.

96. Action aimed at controlling the inflationary effects resulting from inadequate competition in the public or private sectors must have three objectives:

- improving information on, and control over, dominant positions,

- promoting the creation and maintenance of profitable small- and medium-sized enterprises,
- more generally, combatting all artificial obstacles which distort competition.

Control of concentrations

97. In certain sectors and in certain countries, the high level of concentration reached poses problems not only from the point of view of the economic performance of the firms concerned, but also from the point of view of the social and political impact of their economic power. Firms dominating particular markets can abuse their strength to the detriment of both consumers (in particular by introducing a downwards rigidity in prices), and of other firms — those supplying goods or buying finished products and smaller competing firms. In the case of particularly large firms, government economic management, both by sectoral policies and macro-economic policies, may even be affected.

In this area, a realistic effort must be directed both to improving information and if necessary strengthening control over concentrations.

98. Taking particular account of the recommendation adopted by the OECD on the economic impact of multinational companies, consideration should be given to introducing measures at Community level so as to reinforce national measures.

In the field of information, a basic requirement for improved control, ways should be studied of collecting, expanding and standardizing the information which the public authorities possess. The possibility could be studied of making it obligatory for certain firms to supply information in sectors where there is a strong presumption of a dominant position.

99. Simply controlling abusive practices on the part of dominant firms will not prevent the emergence of dominant positions. Without parallel control of concentrations, controlling abuses will remain simply an attempt to deal with the symptoms.

The Community's present legal provisions are not sufficient to deal with these problems. The Community must therefore acquire the necessary means of checking whether a concentration represents a barrier to effective competition.

The control of restrictive or abusive practices and large-scale concentrations calls for coordinated action at Com-

munity and national level. The Member States should therefore set up the necessary legal instruments, by instituting laws in areas where none exist or by extending the field of application of existing laws.

Promotion of profitable small- and medium-sized firms

100. It is in the interests of economic and social balance and dynamism as well as of competition that there should be a sizeable number of small- and medium-sized firms. However, it is becoming increasingly difficult to set up viable firms of this type, let alone keep them in business. Keeping marginal firms in business artificially may contribute to inflation.

The viability of small- and medium-sized firms could perhaps be improved by:

- developing and coordinating vocational training, re-training and technical assistance,
- improving the financial machinery to allow small- and medium-sized firms easier access to risk capital and credit without curtailing their independence,
- ensuring that all small- and medium-sized firms have easier access to new technological developments through joint research centres and, in the same field, reviewing the system of patents and licences; such arrangements could especially favour firms whose work lies in the development of new ideas.

Elimination of artificial advantages

101. For competition to be able to play its part, artificial advantages which distort competition must be eliminated as far as possible by:

- giving management in public enterprises and public corporations greater responsibility by allowing them to charge realistic prices. This may involve a reduction in public subsidies to public enterprises and corporations by means of:
- greater recourse to the principle that such firms should cover their own overall costs, including depreciation of equipment and debt servicing,
- limiting subsidies to expenditure explicitly authorized by public decision (for example, where justified on social grounds),
- abandoning the practice of setting off losses and surpluses between various public enterprises or public corporations;

- strengthening the control of State subsidies to firms through strict application of Articles 92 and 93 of the Treaty;
- proscribing all abusive restrictions on access to the market and in particular:
 - re-examining restrictions on access to a profession imposed by the profession itself, and exclusive contracts and concessions,
 - regularly examining the official or 'authorized' rules relating to the fees of certain professions, particularly those which have the effect of supporting, by fixing their rates, a monopoly position (notaries, architects, doctors, depending on the country), etc.,
 - working for public contracts to be opened up as widely as possible;
- avoiding the use of labour receiving lower wages than those provided for under national regulations.

(d) *Consumer protection*

102. A consumer protection policy aimed at ensuring that consumers are better informed can make a useful contribution towards fighting inflation. A first step would be to apply the Council resolution of 14 April 1975 on a preliminary programme of the European Economic Community for a consumer protection and information policy ⁽¹⁾.

103. Particular attention must be paid to marketing practices, advertising and commercial information with the aim of promoting a real opening up and transparency of markets.

The legal provisions in this area should aim to supplement efforts at self-discipline within this sector. If need be, the public authorities could establish minimum rules to appear in the code of conduct of the sector. Excesses should be dealt with by recourse to the following methods:

- the extension of preventative measures by the public authorities,
- the development of action by consumer groups.

104. Substantial price differences exist within the Community from one country to another for identical or similar products, going considerably beyond variations in taxation or the structure of trade.

⁽¹⁾ OJ No C 92, 25. 4. 1975, p. 1.

Consumers should therefore be given increased opportunities of purchasing where they want to, in other Community countries in particular. For this purpose, and to allow consumers to derive effective benefit from the opening up of markets, the possibility should be considered of setting up, at Community level, a system for gathering and publishing prices for a number of important and identical products.

105. All the abovementioned measures should be supplemented by action aimed at:

- taking more into consideration the quality of life, in all its aspects, thus curbing the triggering of purely quantitative claims,
- combating waste. This action is particularly recommended to avoid an imbalance between the supply and demand of relatively scarce commodities (in particular sources of energy, raw materials, etc.).

Study of the problems involved in consumer information and consumer protection should continue during the period covered by the programme.

C. Public finance

106. Quite apart from the scale of the public sector deficits, there is also the question of the weight of public expenditure in national income.

Several Member States argue against any further substantial increase in the share of public expenditure, firstly because it would entail a parallel increase in the tax and para-fiscal burden, secondly because it would mean withdrawing too large a volume of resources from the influence of market forces, and thirdly because it would make for cost-push inflation since the economically active would attempt to maintain their disposable income.

107. At the same time, there is pressure for increased provision of public services. This applies in particular to traditional functions (public health and social security), but also to new social demands (protection of the environment, living conditions in conurbations, culture and vocational training).

Attempts to reduce inequalities of opportunity and living conditions have also weighed heavily on public finances. Moves in this direction are continuing and indeed increasing in a number of Member States: unless there is a significant change in public finance intervention methods, this objective could result in a further extension of the share of public finance.

Finally, much is expected of the public authorities in reducing structural unemployment, and unemployment of this kind could well persist over the years ahead. Although some of the necessary resources can be provided by reducing expenditure linked to cyclical unemployment, attempts by the public authorities to create more jobs, either directly or indirectly, could well entail additional expenditure.

108. If these contradictory requirements are to be reconciled, public finance intervention strategy will have to be gradually adapted over the next few years.

Given the limitations to which public finances are subject, there must be improved allocation of expenditure so that it accords in the best way possible with the most legitimate collective aspirations.

Strict trade-offs will have to be made between the different categories of expenditure. Parallel measures will have to be introduced to offset the forces of inertia which will probably tend to maintain existing budgetary allocations. The redistributive impact of public finance must also be made more effective, especially as regards expenditure and revenue linked to social security whose effect on incomes is often regressive.

109. Budgetary strategy over the next few years will have to aim at the following objectives depending on the country involved:

- to reduce the public authorities' borrowing requirement,
- to increase the redistributive impact of public finance,
- to contribute to job creation,
- to limit the increase in the share of public expenditure in national income, and to increase the effectiveness of public expenditure.

110. Reducing the disequilibria resulting from present economic difficulties will be made easier to the extent that the objective of growth is achieved.

This general point of view must be qualified for each of the different countries. While in some countries a return to equilibrium should come about in large measure as a result of economic recovery, in other countries far-reaching changes will have to be made both as regards revenue and expenditure.

In the light of the trend of demand in the various Member States, the following objectives for the borrowing requirement of the authorities as a whole could be set for

1980, assuming that 1980 is a year of normal economic development: public sector deficits of zero or almost zero in France, Denmark and Luxembourg; between 1 and 2% of GDP in Germany; some 2% in Belgium; and a still higher public sector deficit in Italy, the Netherlands and the United Kingdom. In Ireland, the objective should be to reduce further the serious public finance disequilibrium at a rate consistent with the achievement of overall growth, employment and price objectives.

111. These objectives imply some increase in the tax and parafiscal burden in several countries.

This is particularly the case in France where, with the prospect of a high and steady growth rate, a slight increase in tax pressure may be envisaged, and in Italy, where the tax burden is significantly lower than in the other Community countries.

In the other Member States there is limited scope for increases in public revenue; they can only make a marginal contribution to re-establishing budgetary equilibrium in view of the scale of the present deficit.

In many of the Member States, a return to better equilibrium in public authority budgets must also be based on an appreciable slowdown in the growth of the share of expenditure in GDP, or indeed on a reduction of this share. This reduction should apply first and foremost to current expenditure.

112. In two Member States, France and Italy, the share of direct taxation in overall public revenue is low. The necessary changes in the level of revenue could be brought about by widening the basis of assessment for income tax, and through more efficient assessment and collection, which would reduce tax fraud and tax evasion. This is the aim of the reforms or measures recently introduced in these two countries.

113. The whole range of guidelines outlined above must be made more detailed in line with the development of the economic policy programmes drawn up or being prepared in the Member States and in the light of the conjunctural time-path of the budgets over the coming years. To the maximum extent possible, statistics should be made available, for the forecasting period, on the major budgetary aggregates, the major expenditure categories whose growth is expected to be particularly rapid or particularly slow, and on balances.

Parallel to these efforts, an increasing proportion of budgets should be governed by medium- and long-term guidelines. This would make it easier to ensure that urgent public expenditure is carried out, while allowing the budget to retain the necessary cyclical flexibility.

D. Investment, employment and labour market policies

114. The promotion of employment over the next few years will require policy measures in a number of fields; this chapter devotes particular attention to efforts to stimulate investment, to restrict unit labour costs, and to the adoption of a specific employment and labour policy.

(a) *Promotion of investment*

115. In order to achieve a rapid and lasting return to full employment, productive investment must increase over the next few years at a rate higher than that of GDP. However, certain conditions must be observed to allow a lasting improvement in the investment ratio.

A first prerequisite is the creation of a climate of confidence favouring investment. By outlining positive and realistic goals, the Community can help firms to overcome their pessimism. Investment may be carried out for a number of reasons, but a key factor is sales and profit expectations, together with financing conditions in general and those specific to individual industries and individual firms. However, over recent years, overall investment financing capacity has shrunk and, apart from a few sectors, the profit situation has deteriorated. Many firms are faced with a precarious financial situation and might either find themselves unable to raise new funds for investment or might prefer to run into debt rather than create new capacity. In more general terms, thought should be given to improving forms of financing (own funds, borrowing, increasing capital) and to the tax policies pursued in this area. The necessary policy to promote productive investment must avoid use of inflationary means of financing. This implies the mobilization of long-term saving at interest rates which will ensure an optimal combination of capital and labour. Moreover, it may be appropriate in some countries to stimulate productive investment by budgetary measures.

116. In most Community countries, programmes to stimulate demand have already helped to improve market prospects and profitability expectations.

These measures must be given greater backing at production cost level so as to sustain the recovery in investment and improve the employment situation. Action in this area is all the more important as the effects of cost increases run

counter to stabilization policy objectives. Admittedly, production costs are partly beyond the influence of economic policy (for example, raw material prices) or are not easily reduced (for example, fixed asset costs). This means that greater importance attaches to the medium-term role of budgetary and incomes policies in reverting to a more appropriate growth rate and a high level of employment.

117. Public finance management should be such that taxes and parafiscal charges rise only very slowly, if at all, over the next few years. As recovery gets under way, the growth of wage and salary costs per unit produced should slow down spontaneously as a result of the productivity gains made possible by improved utilization of production capacity. It is, however, open to question whether the resulting increases in profits will lead to a sufficiently high rate of return to provide additional investment and cover the risks involved. Consequently, particular restraint in wage and salary claims is a key factor in re-establishing the propensity to invest and in creating new jobs. It will be particularly important to ensure that any increases in the tax or parafiscal burden are not passed on in wage and salary increases.

118. Over and above the usual causes which compel firms to adapt continually to changing conditions, a whole range of factors, both domestic and international, has given the problem of industrial adaptation a more important dimension than in the past.

It is for this reason that firms in the Community should have further information available on current trends. A clearer view of structural adaptations would help to induce a more forward-looking attitude on the part of management. With this in mind, the available forecasting information on sectoral developments carried out at national level should be brought together and studied at Community level. This would make it possible to improve assessment of the necessary policies.

119. In the present international situation, only a continuous effort to develop new ideas and techniques will allow the Community's industries to achieve their full potential in meeting competition from the rest of the world. By introducing improved products or new products, they can create additional activities and increase the level of employment. Thus, European industry's capacity for innovation and technological advance must be developed as a matter of priority.

(b) *Employment policy and, in particular, labour market policy*

120. Efforts will have to be concentrated firstly on strengthening and broadening policies to allow a better matching of labour supply and demand. Implementing these policies and those intended to promote job creation will entail expenditure. This might necessitate choices between various items of public expenditure. In this respect, the cost of these measures must be seen in relation to the cost to the Community of supporting a higher number of unemployed.

121. In some Member States, the relative weakness and the dispersion of the institutions responsible for the labour market is one of the causes of its defective functioning. In view of the importance of the role of these institutions governments should give them greater powers.

Where appropriate, employment services should extend their role of finding jobs by widening the range of services provided for those seeking employment (information, guidance, advice, training) and by intensifying their efforts to investigate job openings with existing firms and potential investors. Training and retraining will have to be intensified so as to take account of the uneven growth of the working population and the labour market and of the redeployment of the productive apparatus. There should be further development of links at regional level between those responsible for employment, education and investment.

122. Without prejudice to what is said on regional policy in the third programme and in paragraph 137, voluntary geographical mobility must be encouraged. Mobility aids of varying size exist in all the Member States, but instead of simply providing compensation, they should provide a real incentive.

Bearing in mind the limits to geographical mobility, regional measures should aim at diversifying the range of jobs available in order to promote the intersectoral mobility necessary for growth.

123. Certain deficiencies in the labour market are due to particular causes (fragmentation and the growing discrepancy between the kind of jobs available and the qualifications or aspirations of workers) and therefore call for specific and long-term action. The upgrading of manual work and changes in productive techniques should be examined in certain countries.

124. Reducing the labour supply is an area in which it is advisable to proceed with caution. Its effects would be very limited in the short term, mainly because of the under-employment existing in firms and the time needed for their reorganization. In the longer term, if the measures taken were not reversible in character, they could reduce growth potential and increase the burdens borne by the working population.

Within these limits, a number of measures can be taken which come within the sphere both of employment policy and a policy to improve working conditions.

125. While it would not seem desirable to bring forward the age of retirement on a general basis throughout the Community, measures could nonetheless be introduced on a voluntary basis, and to the extent that financial resources allow, in those countries which lag behind the rest of the Community in this respect. The methods should be adapted to each national situation, but the objective should be to allow those who have worked longest and in the most arduous jobs to benefit first from any such schemes.

The same principle of selectivity should operate in reducing working hours whether on a daily, weekly or annual basis. However, reducing working hours raises a difficult problem in terms of wage and salary levels. Any attempt to maintain overall wage and salary levels would mean an increase in costs, while a proportional reduction in wages and salaries would be hard to envisage and could in addition bring about too sharp a reduction in demand.

126. The large numbers of school-leavers arriving on the labour market over the next few years could produce considerable economic and social difficulties, if sufficient jobs are not available. The raising of the school-leaving age is not the answer to this problem, if only because it would take time to introduce and would entail considerable additional costs. Here again, the aim should be to seek measures to cope with specific problems, for example, the granting of an allowance for on-the-job training or measures to help unskilled young people.

127. Over the past few years, the combination of the factors of production has been influenced by the escalation of wage and salary levels and the emergence of negative real interest rates, encouraging the carrying out of rationalization investment or the setting up of highly capital-intensive production units. The objective of employment policy is not to introduce an artificial and constraining change in the capital/labour ratio for the economy as a whole. The slowing down of inflation and the moderation of wages

and salaries should lead to a gradual change in the combination of the factors of production to the benefit of the labour factor.

To the extent that investment aids are granted, for example for regional purposes, they should aim at encouraging as far as possible the creation of new jobs. Community assistance should be concentrated on regions where unemployment is likely to remain very high, and where national resources alone cannot be expected to bring it down to an acceptable level.

Use of the Community's existing financial instruments must be such as to increase appreciably the number of jobs created: an example of this is already provided by the European Regional Development Fund which, in granting assistance, takes account of the relationship between the aid granted and the capital invested on the one hand, and the number of jobs created on the other.

128. The employment outlook differs today from the situation prevailing over the past 20 years. Vigorous and, in many respects, imaginative action will be required if a solution is to be found to the cyclical dilemma existing between inflation and unemployment.

The guidelines set out above offer only an initial range of solutions. Work is continuing at Community level to define them more closely and more fully. They will have to be developed further, while ensuring that a close watch is maintained over both the economic and the social aspects of employment.

This further development might concentrate on the following five areas which will dominate employment problems during the coming years:

- future job-creation potential,
- the productivity of capital and capital intensity,
- attitudes to changes of job,
- trends and changes in job-content and qualifications,
- working conditions.

E. Strengthening the Community

(a) *Economic and monetary organization*

129. The approach to the problem of achieving progress towards greater economic and monetary organization in

the Community should be purposive but at the same time realistic, that is to say, it should take account of the diversity of national situations, while at the same time including them in a well-defined Community framework. This framework must be an element of stabilization and, at the same time, an instrument of economic discipline.

It is important to obtain sufficient convergence of economic trends through close and effective coordination of economic and monetary policies. Without this coordination, efforts towards greater exchange rate stability would be fruitless.

130. Decision 74/120/EEC and Council Decision 71/142/EEC of 22 March 1971 on the strengthening of cooperation between the central banks of the Member States of the European Economic Community⁽¹⁾ should be strictly applied. Guidelines should be set each year at Community level with regard to domestic monetary policy and budgetary policy. Obviously this would not mean adopting identical objectives or prescribing the use of the same instruments in all the Member States, but defining modified guidelines to take account of special situations. While objectives may vary from one country to another, all the countries would be under the same obligation to observe the objectives set.

To the extent that implementation of these policies leads to sufficient stabilization in the Community, it would be possible to resume efforts to achieve economic and monetary union, and to allow all the Community currencies to regroup gradually within the 'snake'.

(b) *External economic policy*

131. In international discussions on various aspects of the world economy, the Community must promote a more stable international order. It must endeavour to ensure the maintenance of free trade and to improve economic policy coordination so as to allow the gradual establishment of less erratic exchange rate relations. Efforts to establish a common position in the monetary field should be increased. In pursuing this goal, the Community must develop its capacity for action, which is already considerable in the commercial field and growing in the area of economic relations between developed and developing countries.

132. The Community has committed itself firmly to maintaining a liberal system of world trade. This objective

must be pursued in the multilateral trade negotiations currently taking place. The Community must in addition continue to resist protectionist pressures throughout the world, which presupposes that it succeeds in resisting such pressures itself, and ensure fair and equal treatment in commercial practices (particularly with regard to prices and access to markets) applying in trade with its various partners. The weaknesses which continue to exist in the implementation of commercial policy should be overcome. It is essential, in order to avoid disorderly competition between Member States, that action be taken to prevent disparate export-promoting policies at national level. In concrete terms, the process of harmonization, and where necessary, definition at Community level of trade policy instruments must be initiated, continued or accelerated as the case may be. This applies particularly to export credit and export insurance and to framework agreements on commercial and economic cooperation, and new forms of international economic collaboration.

133. The Community occupies a key position with regard to the East bloc countries because of its geographical position, its supply potential, its share in these countries' imports and its international banking system. It must increase its cohesion in order to maximize its ability to compete with the other industrialized countries on these markets.

134. In its policy towards the non-oil-producing developing countries, the Community must take account of several imperatives created by the crisis. More generally, an effort must be made to promote these countries' growth — on which their capacity to import from industrialized countries depends — in various ways: a diversified expansion of their industrialized exports, greater stability in earnings from raw materials, official financial aid, and contributions of private capital in the form of credits and direct investment. Owing to the considerable loss of resources which the recession has caused them, the non-oil-producing developing countries will only be able to maintain a sufficient level of growth in so far as the industrialized countries and the OPEC countries are in a position to offer them an appropriate combination of these types of action.

135. The Community must open its market more widely to products from developing countries. Other means of action are available. In the first place, development aid should provide non-oil-producing developing countries, and particularly the poorest countries, with additional resources. The countries whose balance of payments is favourable should be prominent in their contributions, especially through the opening of their capital markets to international financial institutions whose task is to

⁽¹⁾ OJ No L 73, 27. 3. 1971, p. 14.

finance projects in the developing countries. Secondly, an enhanced policy of technical and commercial assistance might well enable the non-oil-producing developing countries both to make greater use of the tariff advantages which they have already gained, and to expand their trade with each other.

(c) *Reduction of regional disequilibria*

136. Reducing the main regional disequilibria within the Community is one of the major objectives of the fourth programme. Improved regional equilibrium will lead to improved use of available resources and lower economic and social costs.

The particular difficulties which a number of Member States are facing and which are reflected in substantial differences in the trend of their rates of overall productivity, are to some extent due to the fact that these countries have to bear the burdens involved in the under-development or reconversion of large areas of their territory.

The convergence aimed at in the economic policies of all the Member States implies, therefore, a reduction in the main regional disequilibria. The countries with the strongest economies should assist the efforts undertaken by the weakest countries.

137. To be wholly effective, regional policy must be based on an overall approach, tackling the problem from several angles and not only through financial means, and must aim at restoring balanced economic activity in the Community as a whole. This implies the development of the backward regions, the redevelopment of declining regions, and better control over growth in the highly concentrated areas.

These objectives must be attained by a variety of measures, even if certain financial instruments are used more specifically to solve certain types of problems or in certain types of regions.

All the measures to this end should be directed towards promoting investment and job creation in the less-favoured areas.

138. Overall economic policy measures should be as flexible as possible in line with regional requirements.

Regions in difficulty should, as far as possible, be given priority in the allocation of budgetary funds provided for in economic recovery plans; in particular, efforts to im-

prove the provision of infrastructure in these regions should receive deliberate encouragement.

Agricultural policy should place greater emphasis on modernizing agriculture and promoting the growth of incomes from agriculture in less-favoured regions where agriculture is the main source of livelihood, but pursuit of these objectives should be matched by efforts to create additional sources of employment.

Transport policy should also take account of the regional dimension in defining infrastructure priorities. The Commission will continue to examine, on the basis of the Treaties, transport prices and conditions, taking particular account of regional policy requirements and the needs of the under-developed regions.

The new geographical pattern in the energy field, resulting from policies at present being worked out or pursued, will have to be such as to allow a more balanced development in the Community; particular attention will have to be paid to the choice of new locations for the production and distribution of energy, particularly nuclear energy.

139. With a view to achieving more effective coordination of the Community's financial instruments, the definition of objectives for regional development and conversion should be such as to ensure that Community assistance has a more marked regional impact. In this respect, particular mention should be made of the EIB, which should continue to earmark a substantial proportion of its loans for projects serving regional objectives.

This coordination should not, however, be limited to the Community's financial instruments and policies. To be fully effective it must also include national regional policies so as to avoid any competition or discrimination between Member States. The regional development programmes currently being drawn up in the Member States on the basis of the outline worked out in 1975⁽¹⁾ are the most appropriate framework for the practical implementation of organized coordination.

140. Within Member States too, the implementation of overall and sectoral policies should be subject to a detailed examination of their regional impact. Carrying out this exercise at national level will complement the overall approach in regional policy at Community level.

(1) OJ No C 69, 24. 3. 1976, p. 2.

141. Very special attention will have to be paid to the effectiveness of projects financed by the European Regional Development Fund. During this period of readjustment, the choice of projects to be financed will have to be pursued with particular strictness and selectivity, so that they are not used as simple transfers to the backward regions but make a contribution to solving both regional difficulties and the general economic problems in the Community.

(d) *Development of common policies*

142. A number of courses of action have been outlined in the programme: for competition policy, employment policy, regional policy and external economic policy. These guidelines must be given more substance and expanded rapidly so that specific action can be planned.

143. Policies pursued in other fields could also help in the attainment of the objectives of the programme.

Industrial policy must create conditions favourable to the continuous adaptation of structures to changing economic conditions, while warding off the negative social or regional side-effects of over-rapid changes. In this respect a deliberate policy of promoting industrial reconversion is necessary.

Agricultural policy should be made more effective on both a long-term and a short-term basis.

Energy policy must make progress in a number of areas: the development of alternative sources of energy, increased energy saving and solidarity in times of crisis.

Environment policy is closely linked to economic policy; it must be highly cost-effective given the constraints of the economic situation. At the same time, environment policy objectives change the framework within which economic activity is pursued. The success of policies to combat pollution and reduce waste is an economic condition which is becoming increasingly apparent. Such policies should in particular help not only to satisfy people's qualitative aspirations, but also to harmonize at the lowest cost the new constraints imposed on economic operators. In particular, this result is to be sought through strict application of the principle that the polluter pays. Achievement of this objective will be easier to the extent that the objectives and priorities are laid down at Community level.

In order to improve assessment of these policies, it would be helpful to supplement traditional economic accounts by greater attention to systems of structural, social and welfare indicators.

F. *Social consensus*

144. As has already been emphasized, the objectives set in the programme cannot be achieved unless a better social consensus is established in the Member States of the Community.

The new aspirations, which have come to the fore in recent years, differ in the directions they take, are sometimes contradictory and vary widely from one Member State to another. They relate in particular to the return to full employment, the achievement of better employment, the fight against inflation, the reduction of inequalities and increased participation in decision-making processes in economic activity.

145. In the process of Community integration, the establishment of the common market has far outstripped the development of common attitudes. The economic and social progress which integration is expected to bring are dependent on a certain degree of compatibility being achieved in social attitudes. Indeed, the convergence of economic policies is a function of these attitudes, which both depend on and determine the attitudes of governments.

146. It is important therefore to strengthen the arrangements for Community consultations with the two sides of industry on the main aspects of economic policy. This coordination must first of all allow an exchange of information on the problems involved in economic policy at European level. This would provide a basis on which the specific content of coordination could more easily be defined, as a result in particular of the alignment of ideas within the social groups and between governments.

147. The question of worker participation in decision-making processes in firms is being discussed in various forms in all the Member States.

There is a growing consensus today in many areas on the need to give workers greater influence in decision-making processes in the firms where they work. The need to inform workers and consult them on all the decisions affecting them is recognized more and more clearly. Profound differences of opinion continue to exist, however, particularly in trade union circles, on the extent to which workers should be integrated into the economic system, taking on

their share of the responsibilities involved. The Commission has just published a green paper on worker participation and the structure of companies. The aim is to initiate a wide-ranging debate among all those concerned in the Community, with the objective to be achieved, bearing in mind differences in national situations.

148. On another level, the growth of multinational firms calls for improved information at national level for workers and their representatives so as to facilitate the negotiation of balanced solutions to important problems such as employment or working conditions. This improved information is essential in promoting awareness in workers of the problems of multinational interdependence in the world today.

149. Over and above the objective of achieving greater social justice, vigorous action against the very marked in-

equalities in a number of countries is also a necessary precondition in the fight against inflation. The Community has already taken a number of steps in this direction. Besides the problems of distribution of income and wealth, dealt with in the chapters on inflation and public finance, social inequalities may take many forms: they involve for example, access to public services and facilities, access to training and employment, discrimination and differences in status of jobs. The desire to avoid any deterioration in the competitive conditions of firms within the Community justifies the seeking of a minimum consensus in this area.

The Community has already made progress towards this goal, having introduced initial legislation aimed at eliminating a number of inequalities (Directives on the employment and the remuneration of women, and an action programme for migrant workers). Other possible Community measures could be examined in the area of working conditions and hours of work, for example.

ANNEX

TABLES

TABLE 1

Age structure of the Community's population in 1974

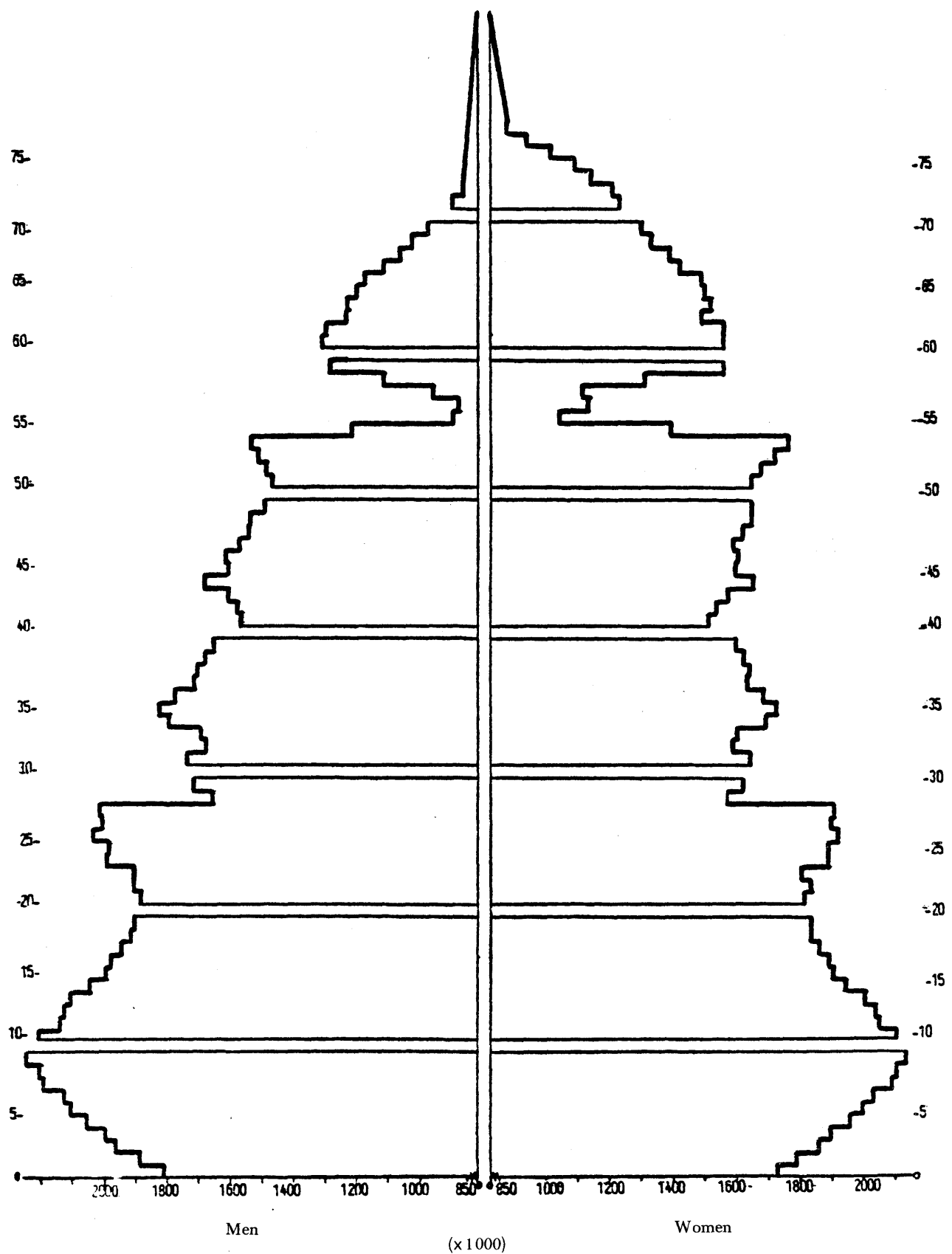


TABLE 2

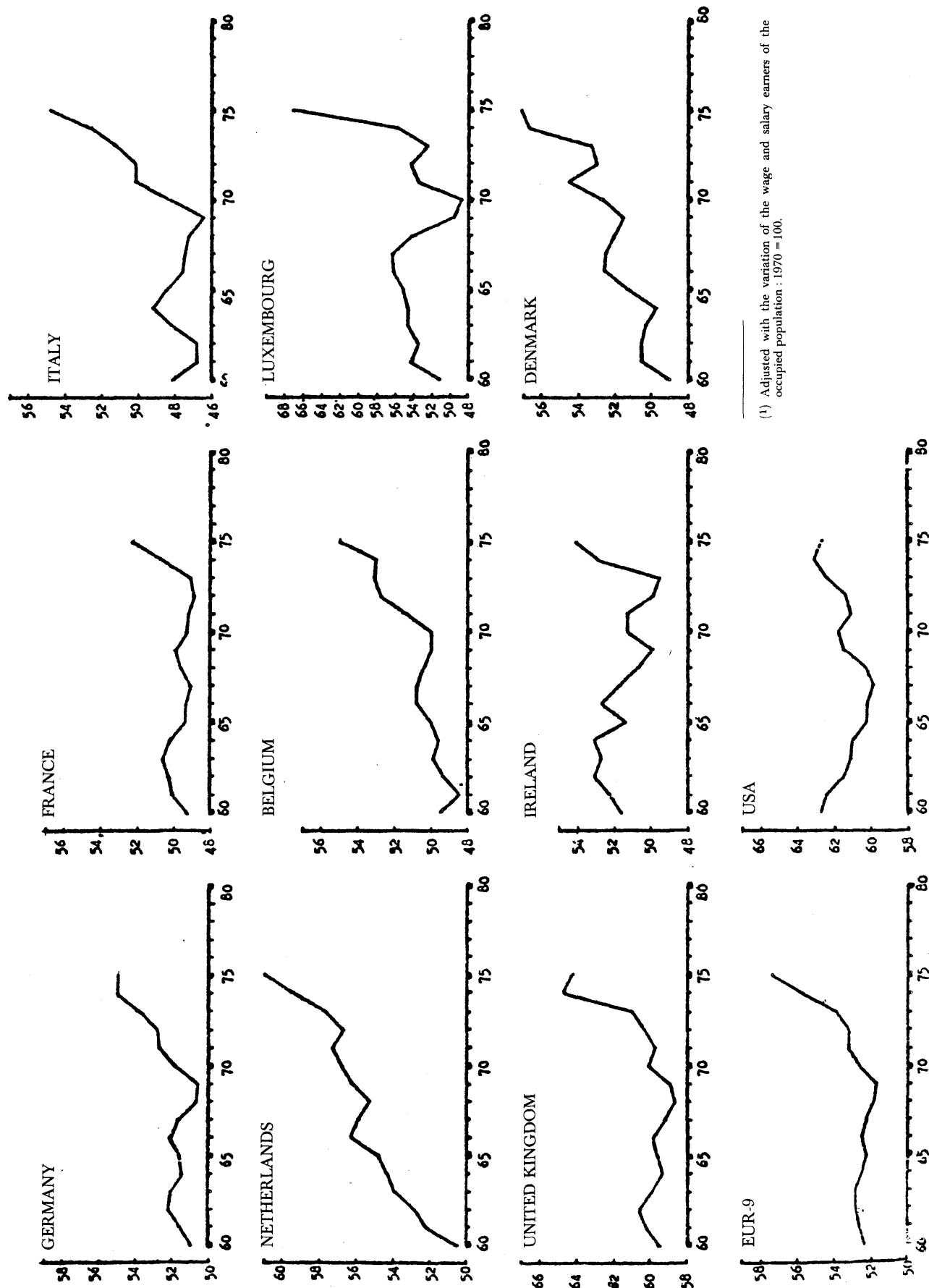
The structure of the use of the GDP of the Community ⁽¹⁾ in %

- Prices and exchange rates for 1970 -

	Ø 1961 to 1965	Ø 1966 to 1970	Ø 1971 to 1975	1960	1965	1970	1975
Private consumption	61.2	60.7	61.3	61.3	60.7	60.3	62.9
Public consumption	15.3	14.4	14.1	15.4	14.9	13.8	14.7
Investment total	23.2	24.1	23.0	22.4	24.0	25.2	19.5
External balance ⁽²⁾	0.3	0.8	1.6	0.9	0.4	0.7	2.9
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

⁽¹⁾ Definition : ESA.⁽²⁾ Only goods and services.

TABLE 3
Adjusted wage share ⁽¹⁾ in %



⁽¹⁾ Adjusted with the variation of the wage and salary earners of the occupied population : 1970 = 100.

TABLE 4
Public finance in % GDP
General government
Definition: National accounts

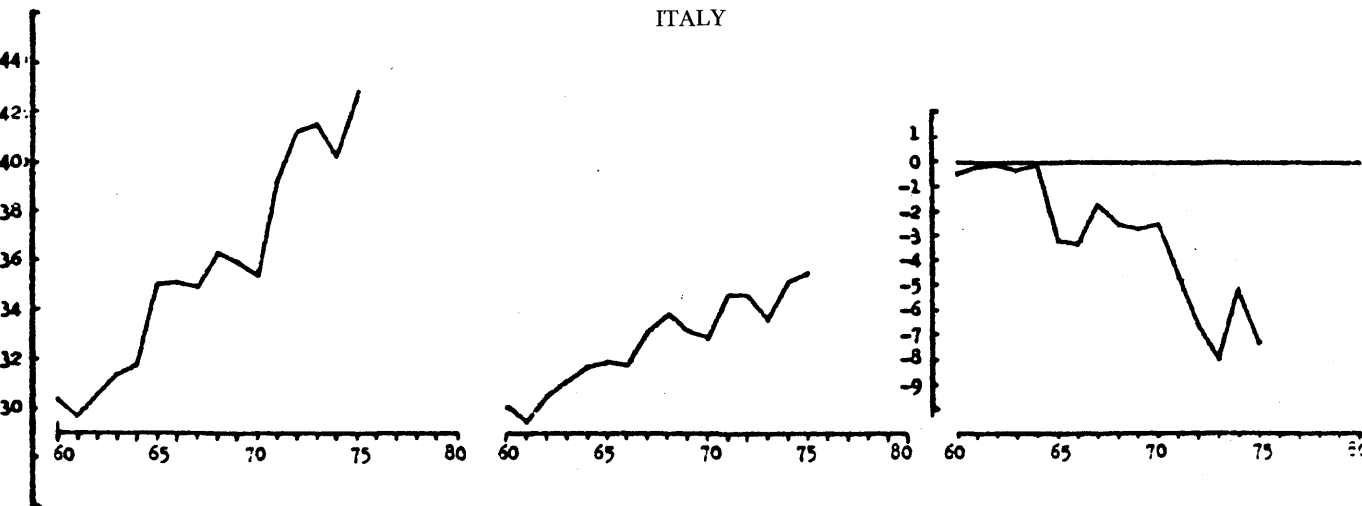
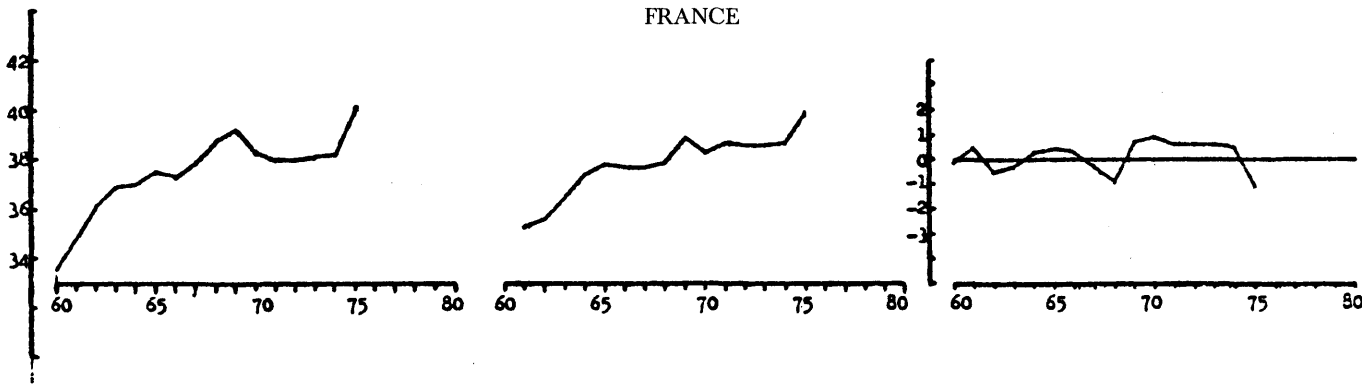
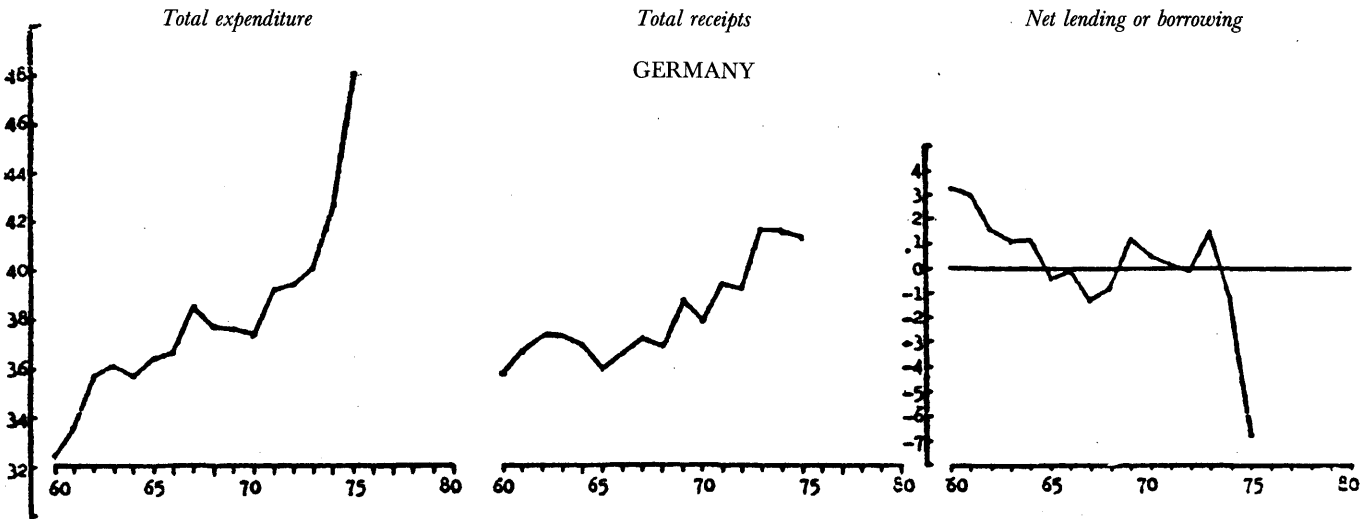


TABLE 5

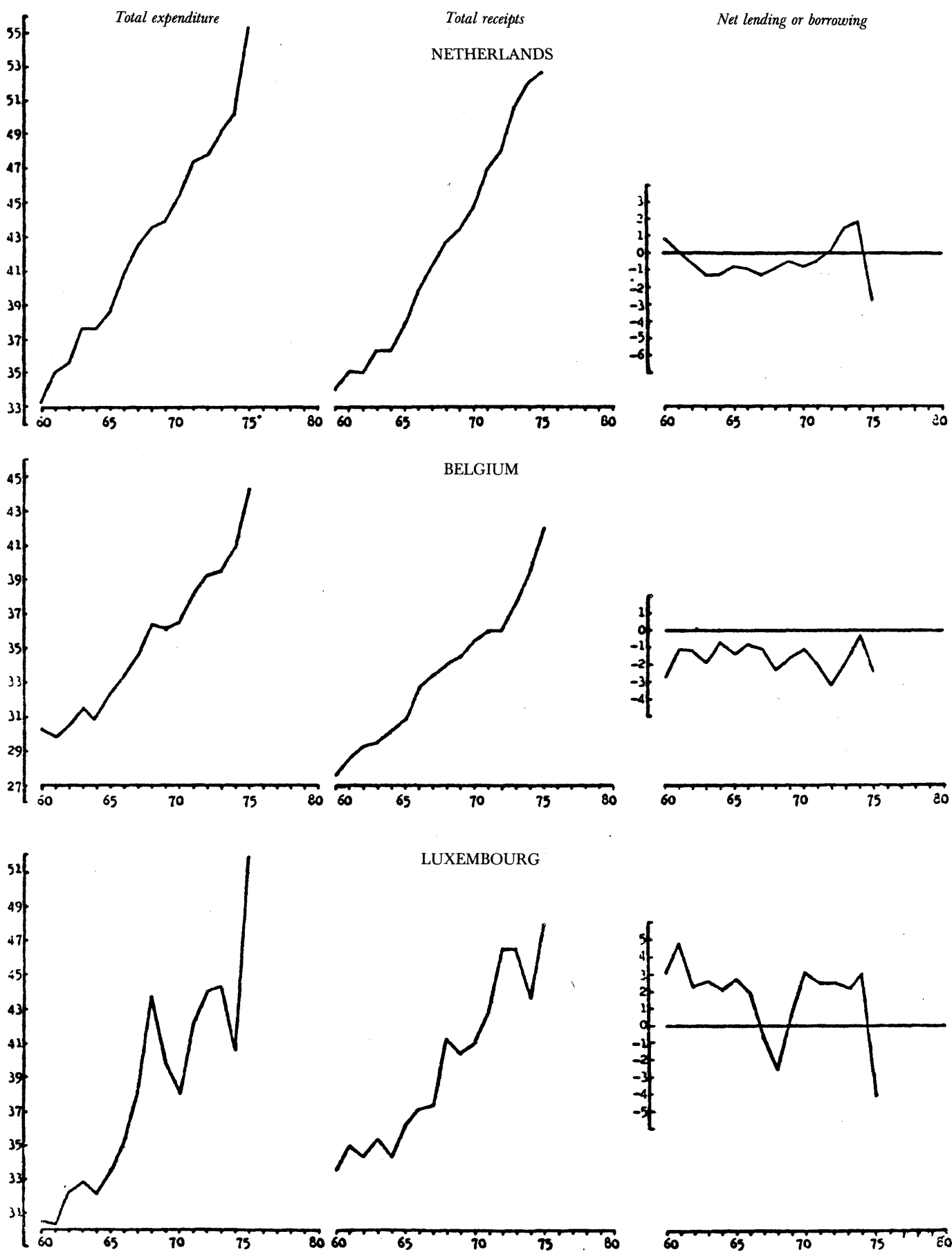
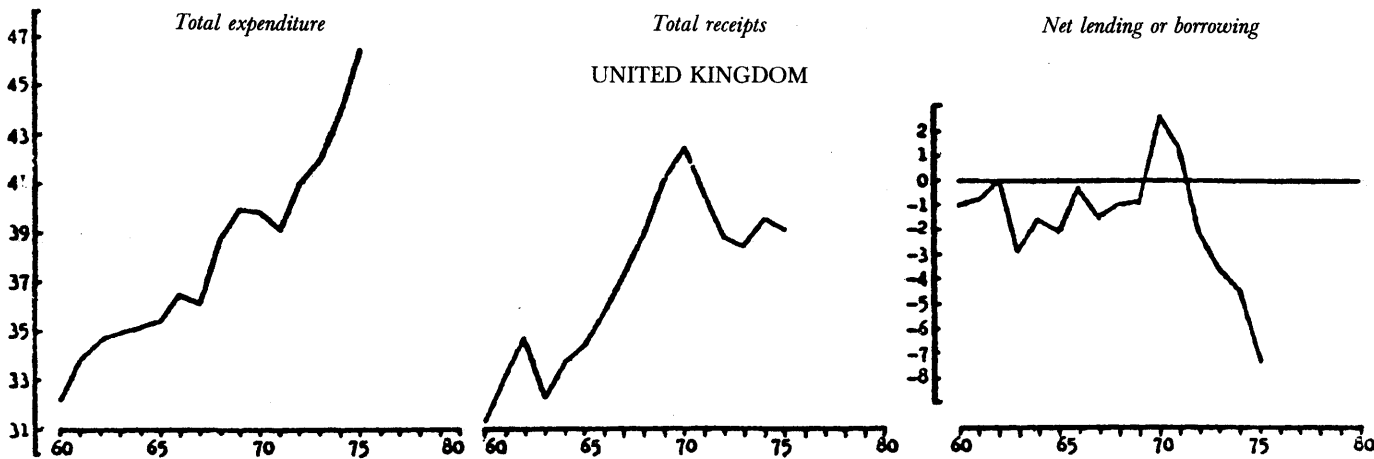


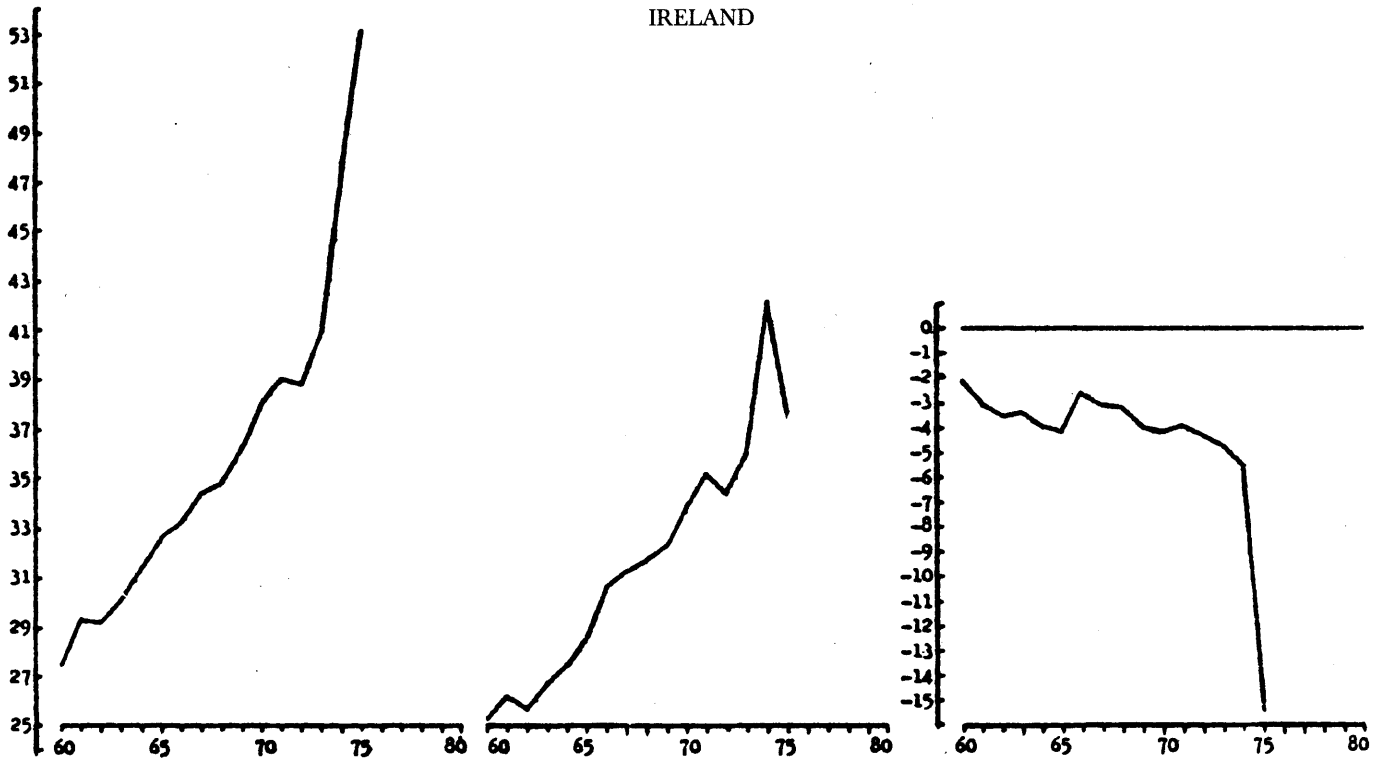
TABLE 6

Total receipts

UNITED KINGDOM



IRELAND



DENMARK

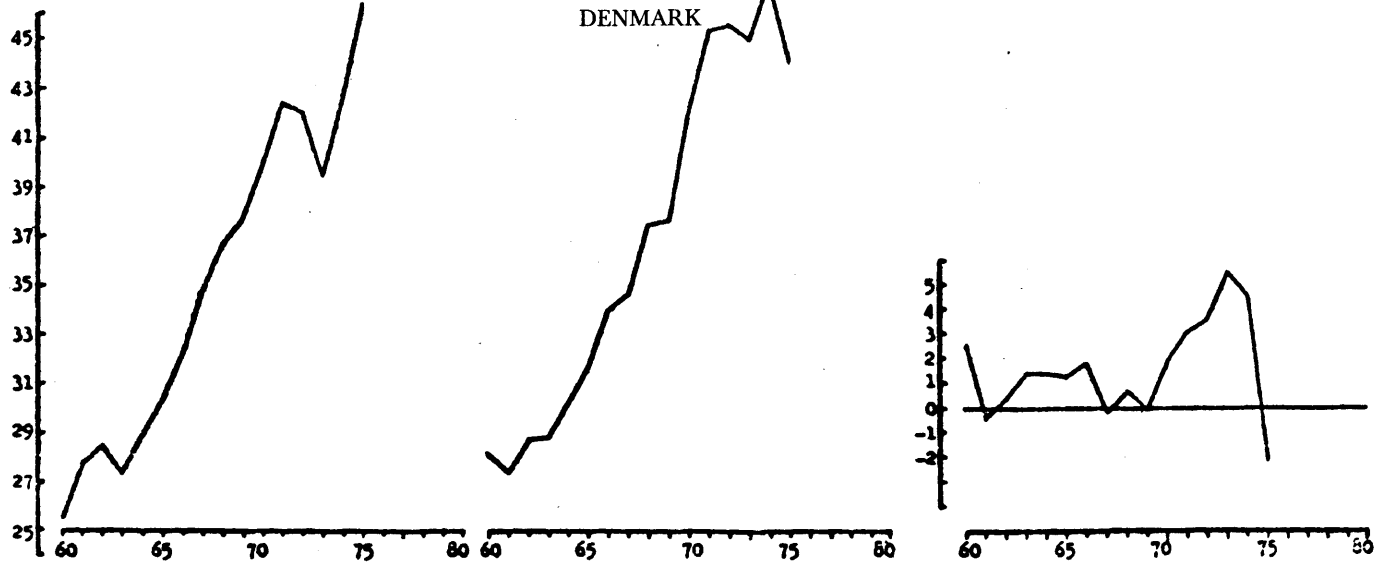


TABLE 7

The weight of the Community in the world

Estimates for 1974

	Absolute figures						World percentage					
	EUR-9	USA	Japan	USSR	China	World	EUR-9	USA	Japan	USSR	China	World
Population (millions)	258	212	110	252	920	4 000	6.4	5.3	2.8	6.3	2.3	100.0
Area (km ² million)	1.53	9.4	0.37	22.4	9.6	135.8	1.1	6.9	0.3	16.5	7.1	100.0
Population/km ²	168.8	22.6	297.3	11.2	95.8	29.5	5.7	0.8	10.1	0.4	3.2	1.0
GNP (\$ milliard)	1 130	1 397	431	710	205	5 560	20.3	25.1	7.8	12.8	3.7	100.0
GNP per capita (\$)	4 380	6 590	3 927	2 817	223	1 390	3.2	4.7	2.8	2.0	0.16	1.0
Trade: \$ milliard (% GDP)												
— EUR-9 intra included	284 (25.1 %)	100 (7.2 %)	59 (13.7 %)	26 (3.7 %)	5.5 (2.7 %)	840 (15.1 %)	33.8	11.9	7.0	3.1	0.7	100.0
— EUR-9 without intra	145 (12.8 %)	100 (7.2 %)	59 (13.7 %)	26 (3.7 %)	5.5 (2.7 %)	700 (12.6 %)	20.7	14.3	8.4	3.7	0.8	100.0