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Directorate-General of Economic and Financial Affairs

Brussels, 8 March 1975

REPORT OF THE STUDY GROUP " ECONOMIC AND MONETARY UNION 1980 "

The poor quality of some pages is due to problems in the original text.

PREFACE

At the start of 1974, the European Commission asked a group of experts in different scientific fields (economists, lawyers, sociologists) to draw up a study on economic and monetary union (EMU). The group of experts, called the "Study Group on Economic and Monetary Union 1980" has met under the chairmanship of Mr. MARJOLIN, former Vice-president of the Commission, in charge of economic and monetary affairs. (The names of the group members figure on a list herewith attached).

Another member of the group, Monsieur CLAPPIER, was called upon to assume other responsibilities which prevented him from continuing to participate in the work of the group. The group sincerely thanks him for the important contribution which he made to its work.

In conformity with the mandate of the Commission, and in order to continue in greater depth the examination of the development of economic and monetary union within the framework of the establishment of a European Union, the object of the study has been to undertake an analysis of the problems raised by the achievement of EMU taking into account the major changes to be expected by 1980.

In view of the originality of the problems posed by the formulation of this policy, the group was given a very high degree of freedom, both in the choice of problems to be tackled and in the methods to be considered for their solution.

The group has approved its report as a whole, although it does not reflect each member's opinions in every nuance. The coherence of the whole programme is more important than each proposal taken alone.

The report is divided into four chapters. The first draws up a balance sheet of past events and an analysis of the movement towards economic and monetary union. The second deals with the urgent problems which endanger the existence of the European Community. This chapter is followed by a short-term programme (chapter III), which given the evolution which the Community has undergone in recent years, is still largely devoted to monetary policy. In general, however, this programme can be considered as a test of the political will of the member states' governments. Finally, chapter IV examines in greater detail the first steps towards economic and monetary union.

Two annexes are added to the report : annex I contains details of the Group's proposal relating to a Community unemployment benefit scheme and which has the agreement of all the members of the Group. Annex II brings together some personal contributions.

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LIST OF THE MEMBERS OF THE STUDY GROUP

"ECONOMIC AND MONETARY UNION 1980"

Chairman :

R. Marjolin	- Former Vice-President of the Commission of the European Economic Community

Members :

F. Bobba	- President of "Acqua Pia Antica Marcia", Rome
H.W.J. Bosman	- Professor of money, credit and banking at the University of Tilburg
G. Brouwers	- Chairman of the Chamber of Commerce and Industry at The Hague
L. Camu	- President of the "Banque de Bruxelles"
B. Clappier (until June 1974)	- Director-General of "Crédit National", Paris
I. Foighel	- Professor in Law at the University of Copenhagen
F. Forte	- Vice-President of ENI, Rome
H. Giersch	- Director of the "Institut für Weltwirtschaft an der Universität Kiel"
P. Lynch	- Professor in Economics at the National University of Ireland
Sir Donald MacDougall	- Chief Economic Adviser of the Confederation of British Industry, London
H. Markmann	- Director of the "Wirtschaft- und Sozialwissenschaftliches Institut des DGB"
F. Peeters	- Professor in Economics at the University of Louvain
A. Shonfield	- Director of the "Royal Institute of International Affairs", London
N. Thygesen	- Professor in Economics at the University of Copenhagen

Secretariat of the Commission :

J.C. Morel

J. Schüler

H.C.A. Tieleman

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I. THE MOVEMENT TOWARDS ECONOMIC AND MONETARY UNION - BALANCE SHEET AND PROSPECTS

1. Where have we got to ?

It became clear to the Group that in order to be able to say anything useful about the future it was essential to draw up first of all a balance sheet for the past and in particular of the results of the efforts made since the Hague Summit of 1969 towards the creation of a European Economic and Monetary Union (1).

To avoid any misunderstanding, the Group wishes to emphasize that it remains deeply committed to the idea of European unity and that this appears to it more necessary than ever if the States of Western Europe are going to be able to continue to play a rôle in world affairs and protect themselves against the dangers which threaten them from all sides. Alone, their impotence becomes every day more obvious; only unity can restore to them the influence which they have lost.

But without denying certain progress of a technical nature, notably as regards cooperation between the central banks, the Group is of the opinion that the efforts undertaken since 1969 add up to a failure. The "snake" has exploded and the "narrowing of the margins of fluctuation" no longer exists except between those currencies which are more or less closely linked with the Deutsche Mark; the Monetary Cooperation Fund only plays a minor rôle in European monetary affairs.

Europe is no nearer to E.M.U. than in 1969. In fact if there has been any movement it has been backward. The Europe of the Sixties represented a relatively harmonious economic and monetary entity which was undone in the course of recent years; national economic and monetary policies have never in 25 years been more discordant, more divergent, than they are today.

The only thing to be said is that each national policy is seeking to solve problems and to overcome difficulties which arise in each individual country, without reference to Europe as an entity. The diagnosis is at national level; efforts are made at national level. The coordination of national policies is a pious wish which is hardly ever achieved in practice.

(1) Designated hereafter by the symbol E.M.U.

The result is that when one speaks of Europe one is talking basically about a geographical entity situated between the U.S.A. and the U.S.S.R., composed of States which trade intensively among themselves but which in most other respects behav in their national affairs and in world affairs according to the trends and the particular interests of each.

This situation is felt more or less clearly by the inhabitants of this area. The idea of a united Europe, while enjoying the passive sympathy of the majority of the population in most Community countries, is not one which carries force. The goodwill with which it is generally received is usually accompanied by scepticism, because of the lack of a clear political commitment by political leaders.

The European institutions carry out the rôle assigned to them by the treaties of Paris and Rome and watch over as efficiently as possible the execution of these treaties and the administrative decisions which have been taken since their entry into force. The lack of any discernible progress for several years towards the unification of Europe means however that their authority is weakened and that they have ceased to be considered as the precursors of institutions which will watch over the destiny of a united Europe.

The Heads of State or of Government have decided to meet regularly three times a year at the Council of the Communities. It is still too soon to form any judgement on the scope of such an innovation.

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The centrifugal movement which characterizes national policies has deeply affected Community achievements.

The Common Agricultural Policy is in a state of crisis. The monetary problems which have arisen since 1969, and the frequent refusal of governments to permit the price adjustments in national currencies, which would normally have resulted therefrom, have led to the creation of a system of compensatory payments of such complexity that it is incomprehensible to the uninitiated.

The unity of agricultural prices in the Community is damaged and the single market split into several fragments which, given the attitudes of certain of them, it is hard to see being "stuck together again" in the foreseeable future.

The extent of liberalisation of capital movements within the Community is less than it was at the beginning of the Sixties. Following the more or less unilateral decisions taken by a certain number of governments, the situation in different countries varies considerably; while certain countries have maintained the degree of liberalisation previously attained, others have reimposed restrictions. No common strategy with regard to external capital has in fact come about nor does one seem capable of realisation in the near future.

The customs union for industrial and allied products is the true living element in the Community. The considerable balance of payments deficits which several member countries have to face constitute meanwhile a menace for the free circulation of goods. If the situation is not dealt with adequately, as it can only be by a coherent body of appropriate national policies, Community actions and cooperative measures throughout the western world (including Japan), there is a serious danger of seeing one country or another restore import restrictions or have recourse to other measures borrowed from the protectionist armoury.

2. The reasons for the failure

The Group considers that the causes of this failure can be traced back to three principal ones: unfavourable events, a lack of political will, and insufficient understanding in the past of the meaning of an E.M.U. and the conditions which must be fulfilled if it is to see the light of day and become operational.

The unfavourable events are the international monetary crisis which has shaken the western world since the end of the Sixties, together with the financial crisis brought about by the sharp rise in oil prices in 1973. These profound disturbances had not been foreseen when the decision to create a European E.M.U. was taken. They were not foreseeable, at least as regards the form which they took and the moment at which they occurred.

Like all crises, they could have been the occasion of progress, by provoking a crystallization of latent wills. Great things are almost always done in crises. Those of recent years could have been the occasion for a leap forward.

Why did they on the contrary cause a step back ? The fact is that at no time did the governments really try to face together the difficult circumstances. Their will did not show itself as a European will, but a series of national wills more or less unaware of those of the others, each one doing its best to find its own way out of trouble. Attempts to face up to the different crises through communal action have been timid and short-lived.

The condequences of this state of affairs have been aggravated by the fact of the decision in 1969 to create an E.M.U. in the course of the next ten years, without any precise idea of what was being undertaken. At government level, there was no analysis, even approximative, of the conditions to be fulfilled. It was just as if the governments had undertaken the enterprise in the naive belief that it was sufficient to decree the formation of an E.M.U. for this to come about at the end of a few years, without great effort nor difficult and painful economic and political transformations.

There was insufficient appreciation of the essential difference between a customs union, as defined by the Treaty of Rome, and an Economic and Monetary Union.

The Customs Union merely supposes that governments give up, except in exceptional circumstances, the use, in the pursuit of their national interests, of the instruments of commercial policy, notably customs duties and quantitative restrictions; all the other instruments of economic and monetary policy remain at the disposition of each one of them.

In an Economic and Monetary Union, national governments put at the disposal of the common institutions the use of all the instruments of monetary policy and of economic policy whose action should be exercised for the Community as a whole. These institutions moreover must have a discretionary power similar to that which national governments possess now, in order to be able to meet unexpected events.

It is practically impossible to set out in detail what these institutions would have to be or their functioning. One can say however that they would have to include a European political power an important Community budget, and an integrated system of central banks. They would be called upon to function in the appropriate fields in a comparable way to those of a federal State.

What is now being questioned is the idea which has been the basis for the past 20 years of the views of many Europeans, namely that a European political unity, particularly in the economic and monetary field, will come about in an almost imperceptible way. This was the Europe of small steps. It is clear that experience up to now shows nothing that supports the validity of this idea. One may legitimately wonder today if what may be required in order to create the conditions for an economic and monetary union is not perhaps on the contrary a radical and almost instantaneous transformation, coming about certainly after long discussions, but giving rise at a precise point in time to European political institutions.

Therefore, in view of the above analysis and given the general political and economic circumstances which exist in Europe today, it did not seem useful to the Group to draw up a plan for E.M.U. which would have a sufficient degree of credibility.

3. The objective

The Group, without underestimating the results obtained from more than twenty years of effort to integrate Europe economically, is convinced that further progress requires the manifestation of a political will. This will is today uncertain and needs to show itself and to fortify itself by action. At a time when Europe finds itself confronted with redoutable dangers, under the names of "inflation", "massive balance of payments deficits", "unemployment", the only reasonable and possible way for the member countries is to face together, and in cooperation with North America and Japan, these perils, without asking too many questions about longer term problems.

If in the presence of these grave dangers a minimum of unity and cohesion cannot be created it does not seem very useful to pursue the discussion on

E.M.U. or European Union. But if on the other hand a common will emerges in the next year or two, concerning concrete, precise and urgent problems, Europe will find itself at the end of this short period in a situation such that the grand designs which have been discussed by the Summits of recent years might once again seem conceivable. New plans could then be drawn up with some chance of realisation.

It is for these reasons that the Group devoted a considerable part of the time available to it to the analysis of the dangers which threaten not only Europe but also each of the member countries taken on its own, and to drawing up a list of actions which should be undertaken to overcome the dangers and prevent the disappearance of what still remains of Community achievement.

Moreover it considers that the governments should without delay, during the course of the phase of one or two years mentioned above, take a certain number of decisions whose effect is in the longer term and which would increase the degree of interpenetration of the Community economies, re-inforce their unity in face of the dangers which surround them and bring nearer the time when the creation of an E.M.U. might be seriously envisaged. These decisions concern primarily the abolition of obstacles to the movement of goods, services and capital; the development of financial solidarity; and the establishment of a Community budget on such a scale that the important transfers which the maintenance of E.M.U. will require can take place and be financed out of Community taxation.

II. URGENT PROBLEMS

Three sources of difficulties menace the Community: inflation, unemployment and balance of payments deficits. These threats reveal themselves in a crisis atmosphere in wich everyone wonders about the structural changes required, the future level of growth and even its nature.

1. Inflation

The rise in prices has not ceased increasing during the last few years. Consumer price inflation was about 3 % a year from 1958 to 1968, on a weighted Community average; for the years 1969 to 1972 it reached 5.6 %; but was 8.2 % in 1973 and more than 13 % in 1974. This acceleration is partly to be explained by the expansionary measures taken in the industrialised countries, which were similarly excessive following the minor recession of 1970-1971. On the other hand governments and central banks let expansion take a grip in 1972 and 1973 without taking in time the restrictive measures required in the monetary, as well as in the fiscal and budgetary fields. In particular an increase in the volume of money in Member states of the order of 9 - 29 % a year between the end of 1970 and the end of 1974 was evidently incompatible with the objective of price stability.

The price of industrial raw materials during a period of high demand, even of speculation, increased very rapidly. The Community was partly spared the rise in the price of food thanks to the Common Agricultural Policy. From the summer of 1974 the effects of price ~~increases~~ in raw materials on the general price level have substantially weakened.

The rise in the price of oil, intruding at the end of 1973, was much more brutal and its consequences much deeper; as a result of its mechanical effect [1] alone, the direct increased price of energy accounts for a quarter or even a third of the increases observed in consumer price levels in 1974.

(1) in termes of input - output analysis.

At the start of 1975, there was every reason to believe that the majority of inflationary factors, as well as the pressures on demand and egogenous factors such as the increased cost of raw materials and energy, had disappeared but one should not overlook the need for sufficient time to elapse for these effects to have completely worked through. The pressure of wage costs however remained strong although the situation varies greatly from one country to another. In these circumstances one could expect a slowing of inflation in most of the countries without being able to hope that it would be very significant. The rate of inflation established is too strong for behaviour to change from one day to the next.

Continuing to finght inflation remains, however, essential in the Community. This fight is sometimes made difficult by the complexity of those situation in the Member states and their very different positions inclusding in industrial relations. In effect, some countries such as Germany which had applied the brakes sufficiently early during the expansionary phase possess an advantage with respect to the price stability objective. Nevertheless, it is presently a matter of simultaneously fighting inflationary pressures, through at different degrees, and against a too marked slowing down in the economic activity accompanied by growing unemployment.

2. Unemployment

At the end of 1974, the Community had about three and a half million unemployed; when related to the active population this represents a rate of 3.3 %, a figure never before attained since the creation of the Community. In some countries the proportion of unemployed in the working population has at that time exceeded 5 % (in Italy) and even reached 8 % (in Ireland) while other countries experience a problem on a smaller scale i.e. 3 to 4 % (in France, Germany and the United Kingdom).(1)

In normal times without doubt such a solution would call for restimulating the economies by aggregate demand measures. In the actual situation this evaluation must however be tempered. Stimulation must have more emphasize on investments and should be more pronounced in the countries with a balance of payments surplus. The deficit countries should take the necessary measures to adapt their production structure to the new demands of the oil producing countries.

(1) : According to the forecasts made by the services of the Commission for 1975 (annual average), there will be a slow decrease in the total unemployment rate in relation to the position in December 1974 (Ireland 7,5%, Italy 3,9 % and the other countries around 3%).

Otherwise, it should be emphasized that at the present stage, unemployment in part can be explained by structural phenomena. Changes in the production equipment have become inevitable principally in order to respond to the new structure of demand induced by the different hierarchy of prices (particularly by the increase in petroleum prices) and by changes in the world distribution of wealth. Taking into account the frictions, the probable result, during the next few years will be a slower growth and a higher and longer lasting structural unemployment. An active labour market policy will therefore become that much more significant, including occupational retraining assistance for workers together, eventually, with appropriate changes in the wage structure. Such actions would also tend to increase the flexibility of the economies with respect to restructuring requirements.

3. Balance of Payments Deficits

The return to satisfactory equilibrium in the current balance of payments and that in an orderly manner, is rightly the vital question for the preservation of the Community.

The massive transfer of liquidity to the oil producing countries has shaken the fragile structure of the international monetary system and changed the geographic distribution of financial resources.

The deterioration of the terms of trade to the benefit of the oil producing countries implies that the Community should progressively release the internal ressources required to compensate for this deterioration by additional exports.

In fact, the oil producing countries are not in a position to immediately transform all their additional gains into more imports. For several years they will have a non-absorbed surplus, part of which will find its equivalent in the present Community deficits.

In 1974, the external deficit of good and services of the Community reached about \$ 13,000 million to \$ 14,000 million. If one can hope for a progressive diminution it will not be before some years have passed that an equilibrium position will be found. From now until 1978 the accumulated debt of the Community could

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clearly exceed $ 50,000 million and even reach $ 100,000 million (1). This phenomenon is more worrying given the very different situations between one member country and another, from a considerable surplus for (about 14 million dollars) Germany to a very noticeable deficit for Italy (about 11 billion), the U.K. (about 13 billion) and France (about 5 billion). These countries alone have thus registered a deficit in the order of $ 29,000 million in 1974. (2)

In these circumstances, there is a danger that countries experiencing the greatest difficulty might be tempted to adopt restrictive commercial measures or be forced to competitive depreciations creating a chaotic situation in the exchange markets and causing a crisis of the customs union.

One of the problems which Europe must try to avoid is the creation of excessing tensions between countries with surpluses and those with deficits in their current balance of payments. In some cases setting up coherent and order by financing schemes would seem inevitable. These problems cannot be solved within the Community alone, but in the wider context including the strategy adopted by the three groups of countries concerned: the principal petroleum producers, industrialised countries and, developing countries.

(1) Source: Report to the Council and the Commission on the Community's economic situation and medium-term outlook, document by the European Communities (Economic Policy Committee) no II/562/74 of 18 December 1974, p. 36 and following pages, especially pp. 50-53. The figures calculated in that source refer to the year 1978.

(2) estimates of the services of the Commission.

III. A SHORT-TERM PROGRAMME

A number of the formulated recommendations are still directed to national governments. In effect, except for commercial matters, Europe has not achieved sufficient integration of economic policies to be able to talk of a common economic policy. Nevertheless, the rôle of the Community and its institutions could be decisive. First of all by assuring the necessary coherence of national policy, followed by the initiation of various actions, the effectiveness of which requires that they be conducted at a European level. To this effect the group proposes the creation or the development specifically of Community instruments.

This short term programme forms a complete whole: each part only has a real meaning in relation to the whole. It would therefore not be sensible to treat some elements separately. The application of the proposals can vary from one country to another.

A. The general lines

1. Investment support

It is important to encourage productive investment in such a way as to facilitate industrial restructuring, to develop new sources of energy, and to increase, in general, productive capacity to meet an increase in external demand.

Fiscal measures will be necessary in certain countries but, above all, it is important that the rate of profit in real terms ceases to decline and progressively re-establishes itself at a level adequate to cover the real rate of interest and the investment risk. This is the condition for enterprises to be able to finance and willing to undertake the investments which will be necessary in the next few years.

Too fast an increase in wages and salaries could compromise this objective and lead inevitably to an increase in unemployment. In these conditions, it is necessary that during 1975 real incomes per head (including social security benefits) increase more slowly than increases in productivity and even in certain cases that they should be kept at their present level, to take account of the losses in the terms of trade due in particular to the rise in oil prices.

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This result cannot be obtained unless the governments and the social partners attempt to conduct their discussions in real terms. One way to resolve this situation would be to index salaries, legally or in fact, to the cost of living. Nevertheless, indexation is not in itself a means of combatting inflation. It must be accompanied by restrictive economic and monetary policies. In any case the indexation scheme should exclude that part of the cost increase which is caused by the increase in indirect taxes and the rise in import prices. If the fight against inflation is successful, purchasing power having been maintained by the indexation clauses, the salary and wage earners could be content with lower real wage increases. It would no longer be justified to wish to anticipate the inflation rate in wage bargaining. On the other hand indexation could prove to be injurious if it leads to increases in real wages and salaries which exceed the productivity gains. It would result in unemployment, as in the case where, with collective agreements without indexation, the anticipated rate of inflation exceeds that of the realised rate.

To ensure an equitable division of sacrifices, a modification in the distribution of income must be sought through the use of fiscal measures, except in the countries where direct taxes are already high or even excessive. This division could be achieved for example by increasing the burdens on the incomes and capital gains of the well-off or by tackling the problem of tax evasion.

The counterpart to this social pact must be an increase in the allowances to wage-earners in the case of unemployment, wherever these allowances are fixed at too low a level, and increased efforts to improve occupational training and facilitate employment adaptation.

At a moment when inflation through demand and imported inflation are considerably weakened or have disappeared, such a policy should lead to a reduction in inflation rates. The restrictive actions of governments and central banks could be gradually abandoned, thus hastening the revival of economic activity. It would be necessary however to take account of the fact that in some member states, internal rigidities

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could endanger a deceleration of prices and an adjustment of behaviour to a situation of greater price stability.

2. Promoting Financial Savings

The acceleration of inflation has caused a continued decline in the capital markets which has, in particular, been reflected in a shortening of lending periods and, after, by negative real interest rates despite the sometimes considerable increase in nominal rates.

In almost all countries, this development has led to a flight into real assets, purchases of buildings, gold, etc.

In these conditions it seems appropriate to resort to the experiment of issuing indexed public loans and to encourage similar action by the private sector. Such action could raise problems in many areas including that of taxation but nevertheless it implies the following advantages:

- It would put an end to the uncertainty which at the moment plagues the national and international capital markets, notably through the lengthening of maturity dates.
- Provided that an effective stabilisation policy is conducted during the next few years, the public authorities could borrow on significantly more advantageous terms.
- The private sector would be protected against a crisis of overindebtedness. In the absence of indexation in as far as commitments could be undertaken in a period of inflation at relatively highg nominal rates of interest, the progressive realisation of greater stability of prices would mean an equivalent rise in real interest rates. On the contrary indexation clauses would stabilize real interest rates by adjusting nominal rates downwards.

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Certainly, indexation does not constitute the only way of stimulating long-term savings of private households. It could be useful to earmark a part of the profits for wage and salary earners in the form of distribution of shares reserved for employees. In certain countries such a policy would help union understanding of necessary salary adjustments and would constitute the beginning of wider capital ownership.in countries where it does not yet exist.

3. Regional policy

Actions calculated to reduce inflation and to increase employment cannot successfully be undertaken in the absence of adequate regional and structural measures.

Regional disparities in the Community, in effect, have remained significant even though they have been slightly reduced during recent years in some Member States. As an indication, the gaps between the richest and poorest regions in the Community have remained in the order of 1 to 5 in terms of per capital income or value added. In some regions it is the rate of unemployment and under-employment which constitute the main preoccupation, the Mezzogiorno and Ireland experiencing the most severe problems. These disparities constitute a permanent constraint on macro-economic regulation policy.

The reasons explaining the growth of industrial concentration are many. Thus, in the backward regions the factor incomes are too high in relations to the level of productivity. Consequently, the profitability of investment and therefore, the attractiveness of these regions for potential investors, suffer.

Other reasons lie in the disadvantages these regions suffer in the field of infrastructure of inherent agricultural conditions and where there is a need for substituting new industries for declining industries. Finally, the Member States where the regional problems are most serious find themselves handicapped when undertaking actions having regional effects which would contribute to th reestablishment of balanced structures. Such is the case for social security payments and facilities for occupational training.

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All these reasons, which are reflected in the actual regional structure, have led to a concentration of wealth to the detriment of certain peripheral regions.

The need for a large scale regional policy at the Community level is, therefore, urgent. This policy must be conceived as more than a Regional Development Fund, as a package of incentives modulating market mechanisms, particularly, those in the capital-markets in order to permit desirable capital movements. For this purpose particular importance would have to be accorded to the activities of the European Investment Bank. Without going into detail, the group considers it important that this Bank's range of manoeuvre should be enlarged especially with respect to interest rates assistance.

The group takes note of the efforts made to achieve better coordination of Community instruments - (transfers of "orientations" funds from FEOGA to the European Regional Development Fund and the narrower liaison between this latter fund and the European Investment Bank) - and of the importance that the project to establish the Fund gives to the creation of regional development programmes. The establishment of these plans must be effected rapidly in order that a list of community priorities for planned action is guaranteed.

It is also clear that certain differences in relative factor incomes will remain as long as productivity in backward regions remains below that in the more favoured ones.

In general it should be indicated that the range of recommended instruments in Chapter IV is inspired, amongst other things, by the wish that regional aspects should be taken into consideration.

4. <u>Participation of the Social Partners in the design of Community Policy</u>

The proposed measures require the support of social partners. The essential part of the dialogue would have to take place within each of the member countries. Nevertheless, in order to promote convergence of political approaches and so that social partners better appreciate the partnership characteristic of the enterprise and learn from the experiences of other countries.

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This consultation should guarantee in a limited framework a regular exchange of views on Community economic policy.

Participants in this consultation could be :

- the Presidents or general secretaries of central trade union organisations. The secretary of the European Trade Union Confederation would be an ex officio member;

- the presidents of central Employers' Associations of Member States. The president of UNICE would be of right a member if he is not already qualified as a president of a national organisation.

Public authorities would be represented by the Commission which would keep national Governments regularly informed.

As regards procedural questions an important task devolves upon the Commission which could :

- provide for the organisation of regular meetings - if possible at least once each quarter of a year;
- provide the secretariat,
- guide discussions by means of its President or its Member in charge of economic affairs.

In order to create a climate of confidence all cumbersome formality should be avoided, for example, official minutes, press releases, etc....

It is essential, however, to assure rapid and flexible circulation of information between delegates and their respective organisations.

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B. Financial and monetary problems

Europe's financial and monetary problems, caused by the energy crisis, require to be considered in the wider context of the changes in the international financial system. The member states of the Community have identifiable interests in common which can only be affectively protected if there is close cooperation between them.

It is proposed that this cooperation should be based on (i) guide-lines for European internal and external monetary policies, supported by (ii) the creation of an Exchange Stabilisation Fund (ESF) and (iii) the introduction of a new European unit of account.

1. A community system for internal and external monetary policies

It is a well established tradition to treat exchange rates and money supply as separable policy instruments. It is a tradition that contributed to the creation of the intra-European exchange rate system known as the snake. The mechanism for narrower intra-Community margins of exchange-rate variations was launched without being supported by a minimum set of commitments for management of money supply and other domestic policies.

There has been a tendency to underestimate the effect of exchange rate policy on domestic monetary management. If the monetary authorities enter the bond market to support the price of government securities, additional money is created. The same happens if the central bank enters the foreign exchange market to buy foreign currency to maintain a predetermined level of exchange rate. Short of a fully flexible exchange rate system an underlying relationship between internal and external national monetary policies is thus established. This simple fact should not be overlooked in any proposal for more stable intra-European exchange rate relationships. An intra-Community exchange rate cooperation needs to be combined with a program for cooperation on domestic monetary policies. Although changes in the money supply are in principle subject to control of monetary authorities they are of course largely influenced by other economic and political decisions.

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A consistent national monetary policy is one in which the domestic monetary operations (open-market operations, rediscounting, or changing reserve requirements) and external monetary operations (buying or selling spot foreign exchange, or taking positions in forward currency markets to influence private capital flows) support rather than oppose each other in their effects on the national monetary base.

This would imply, firstly, that the interventions in exchange markets of any one country ought to have a significant impact on that country's monetary base. Secondly, symetrical operations by surplus and deficit countries would assure an appropriate movement in the monetary base for the Community as a whole (1).

The long run stability of exchange rates would depend mainly on the compatibility of the rates of expansion of the domestic monetary base and the inflation rates between the different countries.

In evaluating exchange rate policy there is a need for applying the concept of a medium-term norm for the effective exchange rate of member countries. This norm would, in analogy with the similar concept developed by the International Monetary Fund, be an estimate of the structure of effective exchange rates consistent with the collectively agreed current balances of payments. For this purpose it is necessary to have periodically a critical review at the Community level of the balance-of-payments prospects of the member countries over the medium term, e.g. 3 to 5 years, assuming no major changes in exchange rates and levels of demand corresponding approximately to what individual countries are aiming at over the medium term. It is important to underline that the approach should be disaggregated by countries rather than aim at some average for the Community.

(1) The medium term projections of real gross national product growth rates together with expected or projected inflation rates will approximate the long-run target rate of monetary expansion to be chosen.

2. External borrowing and an Exchange Stabilization Fund for the Community.

The financial counterpart to the very large current account imbalances in 1974-75 is rapid growth in the aggregate indebtedness of the Community and of some of its members in particular. The "recycling" of the surplus of the oil exporters has so far proceeded more smoothly than one could expect, though it has tended to take shorter-term form than desirable and to bypass some member countries entirely.

There was however a growing recognition in the Community that the situation had become too risky. This found expression in the decision of the Council of Ministers in October 1974 to authorize the raising of a Joint Loan of up to $ 3 billion (including interest charges); the beginnings of a machinery to mobilize the joint creditworthiness of the Community are now in place. The lending capacity of the IMF Oil Facility is being substantially enlarged in 1975; however, many of these loans will go to developing countries. Most recently, a Fund has been agreed upon in the framework of the OECD to serve as a safety net for industrialized countries.(1).

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(1) When the Group first considered the problem of recycling in the early 1974 it moved in the direction of proposing a large scale balance of payments support mechanism for the Community. Though the availability of loans through the three facilities mentioned in the previous para. and the criteria by which they will be given are not yet clear, there is now some hope that medium-term, i.e. 5 to 7 years, finance can be made available to member countries.

From a Community viewpoint it is doubtful, however, whether these initiatives go far enough. The stakes are particularly high for member countries; the achievements of the past 17 years in creating a Common Market in both industrial and agricultural goods are endangered as long as the present extreme vulnerability of several member economies persists. The Community has aims more far-reaching than have the industrial countries as a whole for coordinating economic policies; and it cannot allow present centrifugal tendencies in exchange rates to aggravate divergencies in inflation rates. The total available should be very large and the Group wishes to underline two courses of action to strengthen the Community element in international financial solidarity.

The first is an enlargement of the authority to raise Joint Loans. The present ceiling should be effectively doubled in 1975, so that the mechanism would become an effective second line of defence after a member has drawn on the Oil Facility, but before it has to address itself to the lender of last resort in the OECD Fund. It would also be useful to have authority to raise loans prior to the reception of a request from a member country. This could be achieved by giving the appropriate authority to the European Monetary Cooperation Fund (EMCF). It should be considered to issue loans in Europas as defined below.

The second course of action to which the Group attaches the greatest importance is to enlarge radically the short-term support facilities among members through an Exchange Stabilization Fund. One area in which the Community has aims more far-reaching and well defined than those of the whole group of industrialized countries is exchange rate policy. It would be intolerable if intra-Community exchange rate relationships were to be pushed around by massive flows of funds in and out of individual member countries. (1)

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(1) Such flows might arise from shifts in the preferences of the oil exporters between various Community currencies

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There are support mechanisms in place already between the Central Banks of the Community. The very short-term financing agreement continues to operate within the so-called "mini-snake". This arrangement is inadequate in present circumstances primarily because it leaves out four member currencies. The short-term monetary support agreement which is managed by the EMCF, has a wider range of application but its procedures have proved too cumbersome to ensure rapid and successful operation. The Group suggests that it is an urgent task for the Community to explore the conditions for removing these inadequacies and fit Community cooperation in the area of short-term capital flows and pressures on the exchanges into the emerging framework of closer medium-term financial solidarity inside the Community as well as in broader groupings. The proposed Fund is designed to tide members over the first shocks of financial crises; if the causes of crisis do not reverse themselves within a brief period, the country will have to address itself to the medium-term facilities.

The Group envisaged the Fund to operate in the following way: resources would be made available by member countries in their own currencies (1). The total available would be very large, say of the order of $ 10 billion to start with; it would need to be increased in the face of growing stocks of potentially volatile claims. Yet the volume of money committed over time by the Fund should not be large, because it would not operate against any longer-term trends in exchange markets and because it will be founded within a short period.

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Footnote cont. : or between one or more of these and the dollar; but they might also, in the present nervous state of exchange markets, arise from sudden - real or apparent - changes in the policies or political problems of a member country. The impact of such flows would be as damaging for the stronger Community currencies which might appreciate to levels out of touch with the medium-term outlook for their current (or basic) balance, as for the weaker ones which would depreciate to an extent that could effectively destroy their hopes of containing inflation.

(1) In proportion to an agreed pattern such as that used for dividing the guarantees for the Joint Loan, i.e. Germany, U.K. and France 22.02%, Italy 14.68%, BLEU and the Netherlands 7.34%, Denmark 3.30% and Ireland 1.28%

Experiences with interventions in the "snake" suggest that actual amounts can be small, even in periods of apparent crises (1). The contributions of members to the Fund and settlements would be denominated in the new E.E.C. unit of account recently proposed by the Commission as described in the following section.

The Fund would intervene in Community currencies and, presumably, in dollars to coordinate the roles of the eight Community central banks. It would arrange swap facilities with other financial centres, primarily New York; such arrangements would also be set up with other financial centres such as Zürich and Tokyo and possibly an emerging Middle East financial centre. In this way the Fund would supplement its stock of internationally useable assets. If member countries' contributions were limited, the Fund would need additional ways of supplementing its resources through short-term borrowing in markets inside or outside the Community; otherwise Deutschmarks and other useable international assets would become scarce. This situation could be relieved through authority to the Fund to issue short-term papers or by giving it access to draw temporarily on the proceeds of the Joint Loan.

The Fund would be guided in its interventions to stabilize intra-Community exchange rates by two criteria : (1) daily fluctuations would in general be limited to some low figure; the change in any cross rate would normally be constrained to, say, one half per cent from the closing rate on the previous business day. Such

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(1) The very existence of the ESF would be a considerable factor inspiring confidence and stability. It is therefore suggested that the amounts actually required for the Funds's operations would be in inverse proportion to what would be nominally available.

interventions, undertaken in Community currencies (or, if more practical, in dollars) would check short run pressures on a currency arising out of a shift in the reserve preferences of large holders, and (2) weekly and monthly changes would not be allowed to cumulate in such a way as to distort the pattern of intra-Community exchange rates.

The day-to-day criterion is the simplest to apply, indeed, EC central banks have been moving towards the adoption of a similar, though more flexible, system for dollar intervention. The usefulness of the second criterion is more open to question, since it hinges on the somewhat imprecise concept of a normal or desired intra-Community pattern of exchange rates. In practice some rules of thumb for evaluating maximum divergence need to be developed in analogy to those proposed in the IMF as the Guidelines for Floating which formed part of the agreement on international monetary reform in 1974. One such rule might be that the difference between inflation rates in two member economies over some past period would normally set an upper limit to the change in the cross rate of the two currencies (1).

The precise procedures by which the Fund would operate should not be made public; that would make easy gains for speculators. But to give more guidance to markets the analysis on which the medium-term norm is based and possibly the range for the norm should be made public.

(1) Such a rule would tend to underline the role of exchange rate changes as a second line of defense and limit recently observable tendencies for some rates to change by much more than differences in inflation would warrant.

The benefits of setting up the Exchange Stabilization Fund would be several in addition to greater stability in exchange markets. It would foster a more positive attitude to the liberalization of capital movements, for a long time considered an essential ingredient of European integration. It would also foster and reinforce closer coordination of monetary policy along the lines mentioned in the previous section. It is obvious, however, that the Fund is in no way intended to diminish the need for member countries to take measures of real adjustment in the medium term. The short-term nature of the Fund's operations must be underlined; the maturities involved in repayment of credit extended through the Fund's operations would have to be long enough to permit funding through the IMF Oil Facility, the EEF Joint Loan or, the OECD Fund, if the short-term pressures that made the Exchange Stabilization Fund intervene have not been reversed in the meantime.

From an institutional viewpoint the two steps proposed - the extension of the Joint Loan and the establishment of the Exchange Stabilization Fund - are not radical. In the first case a decision by the Council of Ministers, followed by what has proved to be rather quick ratification by members, would suffice. In the second case, operations may be carried out by the European Monetary Cooperation Fund which has existed for the past two years, though without any substantive operational fuctions. The rules of operations suggested for the present Fund are such that they could be carried out by an independent agency on the basis of clear guidance from a committee composed of national monetary authorities, ultimately the Council. This may imply that the present structure of the European Monetary Cooperation Fund may not be adequate to the task (1).

As to the conditions to be attached to the support given through the Fund the necessary discipline largely imposes itself with maturities as short as those here envisaged. Either the country whose currency has been supported by the Fund has to repay in a short time or it has to fund the debt on the conditions imposed by the medium-term facility to which it takes recourse. Discipline is reinforced by the commitment to common guidelines for exchange rates and for internal monetary policy.

(1) The Group did not have time to discuss this question in depth. One possibility appears in the contribution made by Prof. Foighel in annex II (UEM - 63?)

3. <u>A European unit of account and official means of settlement</u>

The development of a strategy for internal and external monetary policies and an Exchange Stabilization Fund would be greatly facilitated by the emergence of an authorized European unit of account.

A decisive factor is the choice among possible types of definitions for a European currency unit. Defining the new unit in terms of a basket of European currencies in some agreed ratio to one another offers the best prospects in this respect. At the initial stage the choice for a European currency unit defined in terms of a basket of national currencies may for technical reasons and simplicity be restricted to the so-called fixed basket formula in order to serve the purpose of an official means of settlement. The fixed basket has already been applied in the new definition of the SDR after lengthy international negociations. It is also the method chosen for a European Unit of account wh which the Commission has recently proposed for the operations of the European Development Fund and the European Investment Bank (1). In the opinion of the Group the creation of a Unit of account in this form is a considerable step forward from the old practices but the Group feels that its use should be extended for transactions of the EMCF also which is not foreseen in the Commission's current proposal.

Based on the sum of a fixed number of units of national currencies this formula is essentially an instrument for sp spreading exchange risks. In contrast to the present situation where the whole of the exchange risk is carried by the debtor country its use in the EMCF as a unit of account and means of official settlement would of course imply the sharing of exchange risks.

The confidence in this unit as compared to the constituent national currencies as well as vis-à-vis outside currencies will of course depend on the relative strength of the currencies in the basket. With a combination of weaker and stronger currencies, the fixed basket European currency unit would, however, depreciate over time against the strongest currencies, while appreciating against the ./.

(1) Cf. Doc. COM 75 (100) fin.

weaker ones. Interest rate differences on holdings in the European unit as against holdings of national currencies might help to compensate for the difference in currency value expectations.

For use in the operations of the Exchange Stabilization Fund for intra-Community exchange rate stabilization, each country would deliver a quantity of its own currency in exchange for the corresponding amount of the new European unit of account.

The introduction of this European unit initially as a reserve medium and official settlement currency implies of course that its international liquidity creating function should be kept under strict control. It should not become an instrument for uncontroled increases in reserves. Such a basket of European currencies does raise technical difficulties. These difficulties for the new European unit of account as a numeraire, however, do not differ from any other currency numeraire in a world of generalized floating. On the contrary, as an average of the basket it will have a more stable value in terms of most other currencies in the basket than the individual cross rates.

Over and above this the Group has concerned itself with the possibilities of developing this unit of accountin to a European parallel currency, the Europa, the use of which would extend progressively in the market, in particular via denominating loans on the European capital market. To this end it would be necessary to make it at least as strong as the strongest currency in the basket by means of periodic revisions, say onnoe a year, of the weights attached to each national currency in the basket.

IV - FIRST STEPS TOWARDS ECONOMIC AND MONETARY UNION

The short term programme is not without ambition, but it should not be the only one to require the attention of the governments. Without waiting for the complete fulfilment of this programme it is essential that its implementation be accompanied by some of the measures already being undertaken; furthermore it will be necessary to consider other measures in the long term. To this end, it would be useful to specify the conditions for an economic and monetary union.

1. The conditions for an economic and monetary union

Without being able to make a complete description, existing unions as mentioned below are characterized by most of the following features :

- large parts of the population having a feeling of belonging to a union;
- on the basis of this social consensus, these unions possess a decision making centre in which the three classic powers are represented : legislative, executive and judiciary. In addition this decision making centre is able to react rapidly to changing situations and distinguish between the interest of the union and the sum of the component interests;
- a single central bank or centralised federal bank system responsible for the management of the sole currency;
- free circulation of individuals, goods, services and capital;
- central authorities with a relatively important budget (Federal Germany : the proportion of "Bund" in the GNP, 13%; Canada : proportion of federal expenditures in the GNP 16-19% of GNP);
- the existence of centralised fiscal and social security systems ensuring a certain degree of redistribution, including a redistribution between the regions;
- a very high degree of openness between the regions, in other words, for each region, the share of external trade in its production is very high;
- the ownership of the capital of enterprises is widely distributed throughout the Union's territory.

.../...

These criteria have the common characteristic of implying a high degree of political and economic interdependence of the regions and, what is important with respect to the aim of economic and monetary union, is to establish automatic rebalancing mechanisms for cases of too great a differentiation in the economic development.

Nevertheless, it is clear that economic and monetary unions can exist with very different degrees of integration. The United States, Canada, Australia and the Federal German Republic are examples with respect to :

- taxation systems;
- the budgetary independence of the administrations of areas below the national level;
- the access of these authorities to capital markets and national finance; the numerous differences in the legal framework of society, cultural, standard norms, medicine, pharmaceutics, etc...

In these unions however there are important automatic mechanisms which offset fluctuations in economic activity. For example, a fall in economic activity in a region may be offset by :

- considerable reductions in the imports of the region concerned;
- reductions in the payment of dividends to outside regions;
- an increase in direct investments to the extent that a supply of excess labour proved attractive in this respect;
- an increase in transfers stemming directly from the central budget or other systems of centralised financing such as :
  - unemployment allowances
  - regional policy transfers
  - budgetary assistance compensating a reduction in regional fiscal revenues and vice versa a decrease in the contributions to the same systems.

It is obvious that such conditions cannot be established within a period of five years. In any case it seems clear that economic and monetary union would require :

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- concerning the distribution of authority
  - a common monetary policy;
  - a common economic polity;
  - a common social policy;

- concerning institutions
  - a central community bank or system of central banks responsible for the management of a monetary policy;
  - a decision making centre responsible for economic and social policies and able to act by means of a budget of significant size;
  - a democratic control by means of an European Parliament elected by universal suffrage and endowed with real legislative powers.

However, at this stage it appeared to the Group impossible and even useless to predict what should be the division of powers necessary for the satisfactory operation of an Economic and monetary union.

2. The first steps

In the course of coming years, the member States will have to face a number of problems which will require solutions in a wider context than that of each nation state. The industrial structure should, for example, be thoroughly adapted following the energy crisis. There is moreover the danger of a further increase in unemployment rates and a progressive segregation of capital markets.

a) Industrial policy

It is of paramount importance that the Community continues to develop the potential of the large scale market.

A priority must be given to measures for Community industries. To this end, it is first necessary to continue to build a single industrial market within the Community by :

- eliminating barriers, particularly legal, fiscal and of standards, to the free circulation of goods;
- progressive and effective derestriction of public contracts;
- bringing together and establishing co-operation between firms at the European level.

In any case, such an approach should be accompanied by initiatives of the same order of those which the Community would find advantageous to take at the international level, not only with respect to reductions in excise duty, but equally for other barriers which hinder the development of world trade.

In addition, in the immediate future, industrial policy should be devised as a package of measures which would facilitate the adjustment of important industrial sectors. In this respect, it is a question in particular of promoting investments with the aim of :

- the creation of new sources of energy and the development of more energy saving measures;
- the necessary restructuring of industries with respect to the new external demand stemming from petroleum producing countries;

The Group therefore suggests that a new programme of industrial policy bet set up which should embody :

- programmes of energy policy (cf. chap. 4 below)
- technological and scientific research measures, particularly with respect to adjustment problems.

The aims of such a programme must serve as a background for the guidance of the measures taken by way of the community budget; the activity of the Regional Fund should in particular be so influenced.

(b) Energy policy

Energy policy constitutes one of the main areas in which european unity will be tested in the next period and where common action is strongly needed. Most EEC countries, except France, adhere to the International Energy Agency constituted in Paris by the OECD. At any rate, it seems important that here European countries speak with one voice, so that it appears appropriate that activity by EEC members in it should be organized at the EEC level and linked with that of the EEC partners not belonging to the IEA. Similarly for other oil initiatives where EEC members should be involved, at the international level, whether for relations among consumers or consumers and producers. The EEC should evolve an European energy authority which should have the powers until now given to the European institutions of coal and of atomic energy as well as the additional powers to carry out its task as outlined below :

a) stockpiling of energy resources (crude oil, natural gas, coal, uranium)

b) recording and surveillance on energy prices (to preserve suitable relations among the different forms of energy and among the various products derived from oil and to foster a unified European pricing system)

c) collecting information on imports and exports of oil and oil products through compulsory registration of imports and exports as well as all oil procurement arrangements

d) savings of energy and on materials which embody much energy

e) development of new coal production, safety devices, improvements of working conditions in the EEC

f) supporting exploration of new fields of oil and gas also through appropriate arrangements of a European character

g) fostering investments in atomic energy plants, in the "uranium cycle" in the safety and security devices scientific and technical developments related to them and promoting European cooperation in these areas also through Community projects

h) developing common rules on pollution

i) developing research and exploitation, also through Community projects of new energy sources and especially of solar energy and geothermal energy

j) promoting common initiatives of the EEC members vis a vis the oil producing countries and forms of cooperation with coal and uranium producing countries.

These actions should be implemented by means of various instruments : such as credit facilities, subsidies through the EEC budget, Community regulations aiming at the harmonization of policies, recommendations to national governments, etc...

There is a powerful European interest here; vast investments will be undertaken in the energy sector and decisions in this field are bound to have important political implications which will influence the future shape of the Community. Common policies actively pursued with an eye to the distinctive European interests are required if the welfare of the individual European Communities" countries is not to be relegated to the status of a secondary issue in the international bargaining over energy both with the super-powers and with the oil producing nations which lies ahead.

c) Capital market policies

The group attaches the highest importance to a rapid liberalisation of capital movements so that the Community can profit from the advantages of being a large market. In any case this must not prevent an effort towards free movement of capital between residents of the Community. Recent events make one think that at present it is a strengthening of controls which presently occupy the thoughts of governments. Suggestions concerning the ESF and the "Europa" have the characteristic of facilitating new actions in this field in attempting to make regulations currently in force unnecessary. Direct investments of Community residents must be one of the first categories to experience greater liberty.

d) The Community's budgetary policy

It is clear that in the final stage of unity, the Community must in its budget fulfil the three traditional functions of every public authority, namely :

- provision of public godds (allocation function);
- stabilisation policy; and
- distribution policy.

In view of the minute size of the Community budget (around $\frac{1}{2}$ per cent of the Community's GNP in 1973), it is plain that these functions can only be taken on progressively over a relatively long time-scale. Hence for some time yet they will fall to the national budget.

As regards the stabilisation function in particular, experience shows the inadequacy of mere voluntary co-ordination of national budgetary policies. In order to take the first steps towards a common demand-management policy, a stricter discipline of governments in their budgetary decisions is thus indispensable. In the longer term, this approach must stress the development of the proper stabilisation function of the Community budget.

On the other hand the distribution function of the Community budget could easily be extended from now onwards. For the immediate future it would be a question therefore of this budget contributing to the diminution of the economic disparities within the Community, notably structural and regional imbalances; for it is these disparities which bring about migration from the less-developed regions to the highly concentrated regions; resulting in a less desirable distribution of the factors of production and a slowing down in the improvement of overall Community welfare.

As regards income, the system of own resources consists of indirect taxes (customs, duties, levies in the field of agriculture and a share of VAT). This current income is of a neutral of even regressive character, measured in relation to individual income. One should therefore envisage, for the next few years, the establishment of taxes of a progressive nature and ensure that expenditure is at least of a neutral character. The introduction of a Community land-tax on industrial sites in highly concentrated areas (congestion tax) might constitute an important step (1).

Furthermore, if the Community budget is to fulfil progressively the three functions of public authorities, it would seem particularly helpful to complete the Community's taxation powers forthwith by a borrowing power. In this respect the Community loan should be developed so as to become a normal procedure in budget management, following the example of the ECSC (2)

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(1) For longer-term measures the group draws attention to the ideas developed in the "Report on economic integration and monetary union", Brussels, 1973, p. 53 et seq.

(2) Treaty establishing the European Coal and Steel Community, art. 49 et seq.

Such a measure would, moreover, be calculated to ease the process of industrial restructuring and the promotion of new sources of energy. Over a longer span it would be unavoidable to bestow on the Community powers of short and long-term Community debt management.

Over and above these budgetary aspects, the group considers that the means of redressing imbalances between Community countries should be considerably reinforced. It is of the opinion that the introduction of a community system of unemployment benefit would constitute an effective approach.

e) A community unemployment benefit fund

A community initiative in the unemployment field is particularly opportune, for it will have beneficial effects on the economy and society as a whole. Without waiting for ambitious programmes of generalized harmonisation to become operative, one definite step in this direction might be to prove before public opinion that community solidarity is a reality. Moreover the size of the problems posed at present for the member States by unemployment justify the effort to find appropriate means at Community level to enable the Community to provide assistance in this way.

A Community system of unemployment benefits could be an effective instrument. At the present stage, the creation of such a fund seems particularly opportune for the following reasons :

- the opening of markets and the effects of specialisation and geographical relocation this brings, are often manifested by a frictional unemployment which ought to be the responsibility of the Community;
- the interdependence of the economies is accompanied by a rapid transmission of fluctuations in activity, these fluctuations would be cushioned for the benefit of all by the automatic compensatory movements of such a system.

Certainly it is not possible to rapidly create a completely integrated fund, this would require a harmonisation of national systems. In any case, taking into account the scale of the problems posed by unemployment, and which will continue to be posed for some years for member states, and with a view to progress towards economic and monetary union, the groupiis of the opinion that a temporary solution must be put into effect in the near future.

This temporary system (1) would operate in accordance with the following principles :

- The Community fund would be an independant administrative body directed with the participation of the social partners (for example within the framework of the permanent Committee on Employment); the administration, control and management of the Fund will have to be simple and efficient.

- Each unemployed person, registered at the national employment offices would receive as a first part of his payment a Community allowance which would be clearly visible as such. Within an initial period, this allocation could be fixed at a set amount, for example two units of account per day.

- On the basis of this first part, the national governments would be free to adjust at their discretion contributions and allowances paid under their national systems.

- The Fund would be fed by a contribution from income paid in part by employees and in part by employers. Those contributions would have to be clearly designated as being made to this fund.

In a second stage, one could conceive a system which would constitute a combination of fixed amount and a percentage of the last wage received in employement, with all its possible variants.

In a third stage, in the more distant future, it would be necessary to establish a standard Community system.

Action in the field of employment evidently cannot be limited to the unemployment allowances aspect alone. An indispensible concomitant consists in an active employement and occupational training policy. In effect it is necessary to avoid perpetual structural imbalances and facilitate both possibilities of adaptation and occupational retraining and also create employment in backward regions.

This principle would at the Community level guide the actions taken by the renewed social fund as well those of the regional policy.

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(1) Annex I

ANNEX

COMMUNITY UNEMPLOYMENT BENEFITS SCHEME

The problems

The scale of the unemployment problems currently facing the Member States warrants an attempt at Community level to find suitable ways of providing assistance in this field. For, by relieving the Member States most seriously affected by high unemployment of the budgetary burden such unemployment implies, further progress could be made towards placing more equal emphasis on the objectives of full employment and price stability.

In the past, some unemployment could be attributed directly or indirectly to the abolition of tariff protection. Certain regions, in particular those with declining industries, have been subsequently affected by the need for economic integration. In addition, the gradual changeover to floating exchange rates, their implications for the calculation of costs and their effects on competitiveness have also been reflected in the employment structure. However, a Community responsibility as regards unemployment has been acknowledged only to a limited extent, mainly in the form of assistance granted by the Social Fund for vocational retraining and redeployment. The entire cost of unemployment benefits in the strict sense is borne by employers and employees in each Member State.

This situation led the Group [illegible] to examine possible ways of introducing a Community scheme for unemployment benefits which would be organized at Community level. The aim of such a scheme would be:

- to help to reduce structural and regional imbalances through transfers of income from areas with low structural unemployment to areas with high structural unemployment;

- to guarantee unemployed persons in the Community a common minimum level of benefits;
- to introduce immediate regional flexibility making it possible to cope with changes in regional developments and in the standard of living;
- to help to give a visible expression to Community solidarity;
- to allow Member States considerable freedom to retain their present national schemes, which differ sharply as regards the institutions managing them, the level of benefits paid and the way they are financed.

In principle, the system should take the form of a Community fund which would be an independent administrative unit with funds not channelled through the Community budget. Labour and management representatives(for example, within the Standing Committee on Employment) would assist in the administration of the scheme. Generally speaking, the administration, management and control of the fund would have to be simple and efficient.

Present situation

At present, the national unemployment benefits schemes are organised on different lines and, depending on the country, provide for government assistance, cooperation from labour and management or special unemployment funds.

All countries grant, in addition to benefits for the wholly unemployed, benefits in respect of short-time working resulting from a reduction in normal working hours, with the concept of short-time work varying in meaning from one country to another.

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Benefits are only paid when certain conditions are met as regards the length of employment or insurance during a reference period prior to unemployment. The strictness of these conditions varies from one country to another. Benefits are paid after a waiting time of between two and seven days except in Germany, Belgium, the Netherlands and Denmarktand for a limited period of between three and twelve months except in Belgium, France and Denmark). Benefits in France (assistance) and Italy are paid on a flat-rate basis. In the other countries, they are calculated as a percentage of a reference wage or salary, which is defined in various ways, with the earnings ceilings differing considerably. The percentage in question ranges from 35 % to 80 %.

In all the countries, unemployed persons remain entitled to family allowances and to sickness insurance benefits in kind (see the comparative tables concerning the social security schemes applicable in the Member States of the Community, at the end of this annex./

The choice of scheme

Given the situation described above it is obvious that there are considerable obstacles to the gradual achievement of a complete harmonization of both unemployment benefits and the way they are financed. The numerous differences between the financing arrangements and benefits in the various Member States may be summarized as follows:

- the considerable gap between the highest and lowest average benefit:
- the amounts spent by the Member States to help finance unemployment benefits;
- the sharing of the financial burden between workers, employers and the government.

As a first step, a comparison should be made of the ways in which unemployment benefits are financed in the various Member States and also of the condition governing the granting of such benefits, even though this will be a rather long and exacting task.

A transitional solution must, however, be found which could be implemented relatively quickly, which will not come up against any appreciable economic or policial opposition, which will not compromise the efforts made elsewhere or the potential for progress in the future and which will not result in

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an intolerable budgetary burden.

In an initial stage, it would seem more expedient to set up a Community fund for unemployment benefits financed by a Community contribution from new ressources than to pool, if only partially, the revenue and expenditure of the national schemes.

In a longer-term context, some harmonization of the social security schemes and benefits could be envisaged, at least as regards their main features.

Very briefly, two types of scheme could be distinguished:

(a) a proportional scheme guaranteeing unemployed persons a certain income, expressed as a percentage of their last earnings;

(b) a flat-rate scheme guaranteeing all unemployed persons a minimum level of benefit.

Benefits (for example, two units of account each day for 300 days = 600 u.a. a year)would be granted to all registered unemployed persons in the Community. This Community benefit would have to be seen as an absolute minimum guaranteeing to all unemployed persons the same level of assistance,such assistance constituting a first tranche of welfare benefits. Countries which presently grant more generous unemployment benefits would via the national budget, add to the Community benefit a supplementary amount bringing overall compensation to the desired level.

Under the proposed scheme benefits paid ought clearly not to exceed a person's last earnings.

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In a second stage, the scheme could be expanded by combining the flat-rate scheme with the proportional scheme: for example, 3 u.a. per day plus 10 % of last earnings.

In a more distant third stage, a uniform Community scheme will have to be established.

Financing

As regards the financing of benefits by a special Community fund, the Group considers that a levy on employees' wages and salaries is preferable, for example, to the allocation of receipts from VAT.

A direct tax on wages and salaries which is borne partly by employees and partly by employers and which appears on the wage or salary slip as a direct contribution to the Community unemployment benefits fund will be proof of Community solidarity and demonstrate that financial help is given to the unemployed.

The Working Group favours a flat-rate scheme on grounds of administrative convenience, and because, in the current situation and for an initial period, it appears to be the most realistic and progressive as well as the most operational solution (1).

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(1) On the basis of the various proposals concerning the mechanism and amount of Community benefits, a programme has been drawn up which gives the results contained in the tables I, II and III.

Differing methodological approaches - Statistical problems

(a) The unemployed

Although all the Community countries have statistics on employment and unemployment, it has rarely proved possible to compare national statistical series at Community level since they do not have any common methodological basis and are built up using principles, definitions and reference dates which vary from one country to another. Differing bodies of legislation prevent any comparison of unemployment levels. Furthermore, certain phenomena cannot be analysed because there are no data for some countries.

The figures given in Table I-unemployed A-are annual estimates prepared by the statistical authorities in the Member States. In most countries, these estimates are drawn up by the national statistics institutes; in Belgium they are the responsibility of the Ministry of Labour and in the United Kingdom of the Department of Employment.

The concept of unemployment has been defined as follows: a person who, during the reference period, was jobless or seeking employment is considered to be unemployed. This group includes not only persons who are unemployed following the loss of their previous job but also persons seeking a job for the first time.

A second source of unemployment data is the monthly statistics on the number of unemployed registered at the national employment exchanges. The usefulness of these statistics depends on the network of employment exchanges and the attitude of workers to registration and on whether it is in their interests to be registered. Since the activities of the employment exchanges are governed by administrative rules and statutory provisons which differ from one country to another, these statistics cannot be used for a comparison of unemployment levels between countries but solely as an indicator of changes within a country over a given period of time.

Any person without employment seeking employment and registered at an employment exchange is considered to be unemployed. The relevant figures are given in Table I-unemployed B.

A third source of information, which was created in order to fill the gaps mentioned above, is the Community, sample surveys on the work labour force (including the unemployed) carried out by the Statistical Office of the European Communities (since October 1960).

In short, the concept of "unemployed" is considered to include any person:

- who is without employment but has worked previously and who, at the time of the survey, is seeking paid employment;
- who has never been employed and is seeking a job for the first time;
- who is not employed at the time of the survey, but who has already made the necessary arrangements to take up employment at a later date;
- who has been dismissed temporarily or for an indefinite period, without remuneration;

The latest figures probably provide the best picture of the true unemployment situation; however, the results of the 1973 survey are not yet known.

Clearly, in any of the schemes proposed, there will always be, the problem of finding a consistent definition of an unemployed person which can be applied, without distinction, in all Member States.

(b) Benefits

As regards unemployment benefits, the Statistical Office of the European Communities has at its disposal the functional breakdown of welfare benefits as used in the social accounts. The data are drawn from the accounts of the national bodies authorized to pay benefits to beneficiaries. Where these bodies are also responsible for covering risks other than unemployment, the information is therefore on the financing of total expenditure. For, where contributions are designed to cover several risks without distinction and where public subsidies supplement these contributions up to the amount of benefits paid, each of the two main types of revenue is rarely allocated, in whole or in part, to a specific risk. This makes it impossible to determine which type of revenue and what proportion of it has gone into financing unemployment benefits.

Three points can be made:

- There is no problem in countries where the institutions concerned are in any way specialized. This is particularly the case in France.
- The same can be said to apply to Italy, Belgium and Luxembourg, given the relatively low volume of benefits which distort the picture.
- The situation is quite different in a few member states and especially in the three acceeding countries. In the case of the latter, in particular, social insurance covers, for example, not only unemployment affecting employees, but also part of the sickness and old-age risks of the entire population; it goes without saying, therefore, that it would be risky to put forward estimates and to allocate a priori to unemployment a proportion of the contributions from both employers and employees and of certain finance from the government.

It must also be pointed out that the heading "unemployment" in social accounts includes, in addition to unemployment benefits, other benefits such as compensatory allowances, supplementary benefits and even vocational training benefits for persons without work.

Tableau II
Table II

Compte global des organismes octroyant à titre principal ou secondaire, des prestations en matière de chômage

Overall figures for payments made directly or indirectly by public authorities with respect to unemployment benefits

millions d'unités monétaires nationales
millions of national monetary units

	Dépenses Expenditure	Allemagne Germany	France France	Italie Italy	Pays-Bas Netherl.	Belgique Belgium	Luxemb. Luxemb.	Royaume Uni U.Kingd.	Irlande Ireland	Danemark Denmark		
1970	Prestations sociales	4814	1369	235,8	1769,8	11637,5	5,2	3269,8	90,8	17879,5		1970 Social benefits
	dont rattachées à la fonction chômage proprement dite	1723	1369	113,3	743,3	10792,4	1,2	343,3	11,8	568,8		directly linked to unemployment as such :
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	114	124	1559	17	78	0	305	.	24		number of individuals who received unemployment benefits (x 1000)
1971	Prestations sociales	12199	1667	270,1	1977,1	10229,3	7,4	3893,9	106,9	18223,2		1971 Social benefits
	dont rattachées à la fonction chômage proprement dite	1727	1667	233,0	826,8	9447,6	2,6	511,1	13,2	1099,9		directly linked to unemployment as such :
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	136	141	1702	23	78	0	412	58	30		number of individuals who received unemployment benefits (x 1000)
1972	Prestations sociales	13617	1970	293,4	2880	16541,0	2,6	4478,3	125,8	20426,7		1972 Social benefits
	dont rattachées à la fonction chômage proprement dite	2010	1970	229,0	1306,0	15545,8	2,4	528,0	16,3	1075,0		directly linked to unemployment as such
	en millions U.C.	575	355	363	371	320	0	1267	39	14	Total 3304	in millions of U.A.
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	175	144	1767	.	94	0	431	68	30		number of individuals who received unemployment benefits (x 1000)

Source : Office Statistique des Communautés Européennes
Statistical Office of the European Communities

Tableau I
Table I

NOMBRE DE CHOMEURS (hommes et femmes) - UNEMPLOYED PERSONS (men and women)

en milliers
in thousands

		Allemagne Germany	France France	Italie Italy	Pays-Bas Netherl.	Belgique Belgium	Luxemb. Luxemb.	Royaume Uni U.Kingd.	Irlande Ireland	Danemark Denmark	EUR-9 EUR-9
1967	Chômeurs A. 1) Unemployed	459	365	679	90	92	0	503	56	28	2272
	Chômeurs B. 2) Unemployed	459	196	1024	90	101	0	.	.	.	.
1968	Chômeurs A Unemployed	323	428	684	84	110	0	542	60	26	2257
	B	323	254	961	84	119	0	586	58	39	2424
1969	A	179	337	655	66	88	0	513	56	26	1920
	B	179	223	887	66	98	0	581	57	31	2122
1970	A	149	363	609	56	76	0	556	65	17	1891
	B	149	262	888	56	83	0	618	65	24	2145
1971	A	185	456	609	69	75	0	724	65	27	2210
	B	185	338	1038	68	83	0	799	62	30	2603
1972	A	246	509	697	115	92	0	806	71	23	2559
	B	246	383	1048	115	101	0	886	72	30	2881
1973	A	273	450	668	117	96	0	576	66	21	2267
	B	273	394	1005	117	106	0	630	67	20	2612

Note : 1) nombre de chômeurs selon les séries nationales, moyennes de l'année
Number of unemployed according to national series, yearly average
2) personnes sans emploi inscrites auprès des bureaux de placement, moyenne mensuelle
Unemployed registered at employment agencies, monthly average

Source : OSCE : Statistiques sociales 2/1973 - Population et emploi.
SOEC : Social Statistics 2/1973 - Population and Employment

DEPENSES - EXPENDITURE

Tableau III

II/675/3/74-F-E

MONTANT TOTAL DE L ALLOCATION DE CHOMAGE PAR PAYS EN MILLIONS DE UC (1972) - Total amount for unemployment benefits by country, in millions UA (1972)

OCTROI D UNE ALLOCATION COMMUNAUTAIRE FORFAITAIRE (MONTANT FIXE PAR JOUR POUR 300 JOURS)

COMMUNITY FLAT-RATE ALLOWANCES (fixed amount per day for 300 days)

		CHOMEURS(A) - UNEMPLOYED A				CHOMEURS(B) - UNEMPLOYED B			
	PAYS	450 UC	600 UC	1200 UC	1800 UC	450 UC	600 UC	1200 UC	1800 UC
G	D	110.700	147.600	295.200	442.800	110.700	147.600	295.200	442.800
F	F	229.050	305.400	610.800	916.200	172.350	229.800	459.600	689.400
I	I	313.650	418.200	836.400	1254.600	471.600	628.800	1257.600	1886.400
N	N	51.750	69.000	138.000	207.000	51.750	69.000	138.000	207.000
B	B	41.400	55.200	110.400	165.600	45.450	60.600	121.200	181.800
L	L	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	UK	362.700	483.600	967.200	1450.800	398.700	531.600	1063.200	1594.800
Irl	IRL	31.950	42.600	85.200	127.800	32.400	43.200	86.400	129.600
Dk.	DK	10.350	13.800	27.600	41.400	13.500	18.000	36.000	54.000
TOT	TOT	1151.550	1535.400	3070.800	4606.199	1296.450	1728.600	3457.200	5185.797

UNEMPLOYED (A) : Number of unemployed according to national series

CHOMEURS(A): NOMBRE DE CHOMEURS SELON LES SERIES NATIONALES

CHOMEURS(B): PERSONNES SANS EMPLOI INSCRITS AUPRES DES BUREAUX DE PLACEMENT

UNEMPLOYED (B): Unemployed registered at employment agencies.

TABLE IV.1

UNEMPLOYMENT INSURANCE

in the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
a) Unemployment insurance b) Unemployment assistance	Unemployment insurance	a) Unemployment assistance b) Supplementary unemployment insurance (1)	a) Unemployment insurance b) Exceptional unemployment allowances	Unemployment assistance
a) and b) 16 July 1927	28 December 1944		Decree law of 19 October 1919	Law of 6 August 1921
Law of 25 June 1969	Decree of 20 December 1963 (amended)	a) Law of 11 October 1940 and Decree of 12 March 1951 b) Agreement of 31 December 1958 Ordinance of 7 January 1959 Ordinance of 13 July 1967	a) and b) Decree-law of 4 October 1935 (several amendments)	Decree of 24 May 1945 and 17 December 1952
a) All employees (industrial and non-industrial staff and workers undergoing vocational training) b) All employees	All employees covered by social security	a) All employees b) All employees bound by a contract of service to employers within the scheme's field of application (1)	a) All employees b) Workers in certain categories and areas who do not fulfil the conditions required for a)	Employed persons except for certain categories, for example, employees in agriculture
a) and b): To have registered at the employment exchange as unemployed and to have applied for benefit	To be fit for work and registered for employment	a) and b): To have registered at the employment exchange	a) and b): To have registered at the employment exchange	To have registered at the employment exchange

(1) France: Originally based upon contracts, this scheme has in practice been extended to cover all employees except for certain special categories, such as persons employed as domestic servants.

UNEMPLOYMENT INSURANCE

TABLE IV - 1

in the Community Member States (at 1 July 1974) *

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
EXISTING SCHEMES	Unemployment insurance (optional)	a) Unemployment insurance b) Unemployment assistance	Unemployment insurance	a) Interim allowance b) Unemployment insurance c) Unemployment assistance
LEGISLATION 1. First law	Law of 4 April 1907	Law of 1911	Act of 1911	a) and b) Law of 9 September 1949 (amended) c) Law of 10 December 1964 on unemployment assistance
2. Basic legislation	Law of 1970	Social Welfare Laws 1952 - 1974	Act of 1965 (flat rate benefits) and Acts of 1966 (earnings related benefits), 1971 and 1973 and regulations thereunder	
FIELD OF APPLICATION	Employed workers of 18 - 65 years of age may be admitted as members to an unemployment fund	With few exceptions, all persons aged 16 years and over employed under a contract of service or apprenticeship.	Flat rate benefits: all employed persons. Optional cover for married women Earnings-related supplement: all employees aged 18 years or over and under minimum pension âge (65 for men, 60 for women) who are receiving flat rate unemployment benefit and who had reckonable earnings of at least £ 500 in the relevant tax year	a) and b) All employees c) Employees who do not or no longer fulfil the conditions required in order to receive unemployment insurance allowances
TOTAL UNEMPLOYMENT Conditions - Main conditions	- be capable of work - be available for work - have signed on at the employment office	a) - be capable of work - be available for work - have signed on at the employment office b) - be capable of work, available for and seeking work - have lived in Ireland for at least 6 months - have no right to insurance benefit	- be capable of work - be available for work with an employer - have signed on at the employment office - be free from disqualification	To have registered at the employment exchange

~~* For each of the Member States~~

UNEMPLOYMENT INSURANCE

in the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
a) At least 6 months' employment under insurance cover during the last 3 years b) During the last year at least 10 weeks' employment under insurance cover or to have received unemployment allowance (for at least one day)	Period varies according to the age of the insured person: 75 working days during the last 10 months and 600 working days during the last 36 months	a) To have been in paid employment for at least 150 days during the last year b) At least 91 days' membership or 520 working hours over 12 months	a) At least 2 years of insurance and 52 weeks' contributions during the last 2 years b) At least 5 weeks' contributions before 1949 or during the last 2 years	At least 200 days of employment during the last year
a) 65 b) 65	65 for men 60 for women	a) and b) 65	-	65
a) - b) State of need	-	Maximum resources + allowances = FF 1 200 per month. No maximum during first 3 months	-	-
None	None	a) 3 days b) None	a) 7 days b) 1 day	2 days if period of unemployment is less than one week
a) and b): 6 days a week	Working days and unpaid public holidays	a) and b): Every day	a) and b): Every day	Every day
a) Proportionate to periods of employment during last 3 years Employment — Allowance 6 months — 78 days 9 months — 120 days 12 months — 156 days 18 months — 234 days 24 months — 312 days b) No limit	No limit (except for certain cases where unemployment is protracted or recurs with unusual frequency, handicapped workers in a protected workshop and workers with reduced hours	a) No limit but allowance reduced by 10% after 1 year and by 10% for each further year (maximum reduction of 30% for workers over 55: no reduction when job lost over 55) b) 365 days - with extensions varying according to worker's age	a) 180 days a year (extended to 360 days in the building sector under transitional arrangements) b) 90 days, with possibility of extension	26 weeks in 12 months

TABLE IV - 2

UNEMPLOYMENT INSURANCE

In the Community Member States

II/675/3/74-F

(at 1 July 1974) *

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
- Qualifying period	- have completed a minimum period of employment of 26 weeks during the 3 preceding years - 12 months of insurance with fund	a) Flat rate benefit - 26 contributions paid - 48 contributions paid or credited during the contribution year (1) preceding the benefit year (1) If less than 48 but not less than 26 contributions paid or credited, a reduced benefit is payable Pay-related benefit payable under the same conditions as for sickness benefit b) —	Flat rate benefits - 26 employed rate contributions paid since entry into insurance - 50 employed rate contributions paid or credited in the relevant contribution year. Reduced benefits if 26 - 49 contributions paid or credited Earnings-related supplement Title to flat rate benefit and had reckonable earnings of at least £ 500 in the relevant tax year	a) At least 130 days of paid employment in the same occupational sector during the last 12 months (1) b) and c): 65 days of paid employment during the last 12 months or for the last 36 days (1)
- Maximum age		a) and b): 68 years of age		65
Resources		b) Inadequate resources		a) and b) None c) Reduction of allowances in the event of supplementary income
Waiting period	None	Flat rate benefit: 3 days Pay-related benefit: 12 days	Flat rate benefit: 3 days Earnings-related supplement: 12 days	None
BENEFITS Days for which allowance is granted	6 days a week	6 days a week	6 days a week	5 days a week
Duration of payment	Not more than 2½ years For the insured entitled to an old-age or invalidity pension, or aged 67+ limited to 78 days in any period of 12 months	a) Insurance Flat rate benefit - Unlimited if the claimant aged 65-68 has paid at least 156 contributions - Limited to 156 days if aged under 18 or a married woman dependent on her husband - Limited to 312 days in other cases Pay-related benefit Limited to 147 days b) Assistance Unlimited	Flat rate benefits Limited to 312 days excluding Sundays in any period of interruption of employment. A claimant requalifies for a further period of 312 days when he has paid a further 13 contributions while working for an employer Earnings-related supplement Limit to 156 days (excluding Sundays)	a) Interim allowance: 40 days a year, thereafter unemployment allowance (2) b) 130 days a year c) 2 years

* For most of the Member States

(1) 5-day week.

(2) Netherlands: Workers receiving the interim allowance are considered to be still linked to the occupational sector. The trade cooperative associations are authorized to grant this allowance for a longer period. Thereafter workers may receive unemployment benefit for 78 days in the same year.

TABLE IV - 3

UNEMPLOYMENT INSURANCE

in the Community Member States

	GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
	a) and b) Net earnings for the last 20 days	Average gross earnings	a) - b) Earnings on which contributions have been paid for last 3 months	-	Earnings on which sickness insurance contributions are paid
	a) and b) DM 2 500 per month	-	c) FF 9 280 per month	-	Lfr 42 267.- per month
	a) According to family situation: 80 to 62.5% of net earnings b) From 80% to 52.5% Maximum for single persons: a) DM 228.60 per week b) DM 192.00 per week	60% of earnings for one year, then reduced to 40% unless household head: maximum Bfr 452 per day Minimum Head of household Bfr 345 Single person Bfr 276 (6-day week)	a) Standard rate FF 9.10 (1) per day b) 35% of reference earnings (2) Minimum: FF 13.92 per day (3) From December 1974: total indemnity is increased to 90% of the gross salary for a maximum period of one year	a) and b) Standard rate: Lit 800 per day	60% of reference earnings
*)	a) and b) DM 12 per week for each dependent person (can be combined with family allowances up to a maximum of DM 348 per week)		a) For spouse and each dependent person: FF 4.- per day	-	-

*) In addition to family allowances.
(1) For the first three months: FF 10.-.
(2) 15% supplement during the first three months.
(3) For the first three months: FF 16.-.

UNEMPLOYMENT INSURANCE

TABLE IV - 3

in the Community Member States (at 1 July 1974) *

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Earnings taken as reference	Calculation usually based on average earnings of preceding 5 weeks	Pay-related benefit Gross taxable earnings in a previous income tax year	Earnings-related supplement Average weekly earnings (obtained by dividing annual earnings by 50) in the relevant tax year	Daily earnings lost
Ceiling	90% of average earnings	Pay-related benefit £ 50 per week	Earnings-related supplement £ 42 per week	a) and b) Fl 155.70 per day (5-day week)
Rate	Maximum rates are fixed for a year at a time by the separate funds (at not more than Dkr 132 per day)	a) Flat rate benefit Married woman dependent on her husband: £ 6.55 per week Man or woman other than above: £ 7.75 per week Pay-related benefit 40% if reckonable weekly earnings between £ 14 and £ 50 b) Urban areas: £ 6.35 maximum Other : £ 6.05 maximum per week The combined flat rate and pay-related benefits may not exceed the person's reckonable weekly earnings	Flat rate benefit £ 8.60 per week (1) Insured persons under 18: £ 4.75 Married women : £ 6.05 (1) Earnings-related supplement 33 1/3% of average weekly earnings between £ 10 and £ 30 plus 15% of average weekly earnings between £ 30 and £ 42 Limited to the amount needed to bring total weekly benefit (including flat rate benefit, increases for dependants and earnings-related supplement) up to 85% of average weekly earnings	a) and b) 80% of reference earnings c) 75% of reference earnings Minimum for heads of household and single persons of 40 years and over: a) and b) 80% of Fl 72.38 c) 75% of Fl 76.15
Family supplements **)	None	a) 1 dependent adult £ 5.05 1 or each first two dependent children £ 2.20 each further child £ 1.80 per week b) 1 dependent adult urban areas £ 4.60 max. other £ 4.50 max. 1 adult + 1 child urban areas £ 6.55 max. other £ 6.45 max. per week	1 dependent adult £ 5.30 1st dependent child £ 2.70 2nd dependent child £ 1.80 further children, each £ 1.70 per week (1)	

* For most of the Member States
(1) As from 25 July 1974.
** In addition to family allowances

TABLE IV - 4

UNEMPLOYMENT INSURANCE

in the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
Insurance only: unavoidable short-time working initially affecting at least 1/3 and thereafter at least 10% of staff (1)	Days or half days during which the execution of the work contract is suspended	a) Assistance: temporary closure or short-time working (under 40 hours per week) affecting at least 20% of the staff b) Insurance: payment of supplementary hours allowance	Wage supplements: temporary closure or short-time working (under 40 hours per week); for industrial workers whose enterprises have been admitted to the wage supplements scheme; and in certain cases also for employees	Short-time working or two or more days of unemployment in a normal working week
See Total Unemployment and over 10% reduction of normal working time	See Total Unemployment	See Total Unemployment	None	See Total Unemployment
Per hour of unemployment, proportional rate as for total unemployment (official scale)	See Total Unemployment	a) Hourly allowance: 1/80 of the allowance granted to a totally unemployed person for a fortnight b) Hourly allowance: FF 2.80	2/3 of the total pay up to 16 hours per week, with unlimited duration in the case of short-time working and up to 4 weeks (extension possible) in the case of temporary closure	See Total Unemployment
Pensions: as a general rule, no accumulation Sickness allowance: no accumulation Income: a) Income from self-employed activity taken into account in part so far as the activity does not exclude unemployment under the terms of the law b) Entitlement to assistance presupposes state of need	Pensions (below 60 or 65): unemployment allowance discontinued or reduced according to rate of pension Income: no clause relating to resources	a) Assistance: with allowances to old workers and invalidity pensions: no accumulation of earnings daily resource ceiling: for single person FF 17.74 for families FF 33.40 b) Supplementary insurance: with allowance provided as unemployment assistance: accumulation possible up to 90% (95% if there are dependants) of earnings	a) No accumulation of unemployment allowances with exceptional allowances No accumulation with sickness allowance b) No accumulation with pensions	Income: deducted in part from allowance

(1) In the building sector, in the event of unemployment due to weather conditions (1 November - 31 March), for each full day lost compensation as for partial unemployment and in addition for each hour of unemployment a supplement equal to 5% of a mason's hourly wage.

TABLE IV - 4

UNEMPLOYMENT INSURANCE

In the Community Member States

(at 1 July 1974) *

PARTIAL UNEMPLOYMENT	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Definition of partial unemployment	No special definition	-	Any day of unemployment on which a person would normally work	Short-time working (under 48 hrs per week) or alternating periods of employment with the approval of the authorities
Conditions	See Total Unemployment	-	See Total Unemployment	See Total Unemployment (interim allowance)
Compensation	Proportional rate as for total unemployment	-	See Total Unemployment	See Total Unemployment
ACCUMULATION	Pensions: accumulation permitted but duration of benefits is limited Sickness cash benefits: no accumulation Income from other gainful activity (self-employed activity excepted): the general rule excludes accumulation. In a number of special cases, however, accumulation is possible	Normally not payable with other social insurance benefits	See Tables "Sickness-Cash Benefits"	a) and b) Any compensation paid by the employers is deducted c) - Part of supplementary income is deducted from the allowance

* For most of the Member States