SPEECH TO ECSC CONSULTATIVE COMMITTEE, JEAN MONNET BUILDING, LUXEMBOURG, 10 A.M., 12TH JULY 1977, BY PRESIDENT JENKINS

I would like to speak for a few minutes on the economic situation in the Community; how the economic performance and policies of Member States are developing; and how the Community should be expected to act in this situation, both through the co-ordination of economic policies, as well as through its direct operational responsibilities.

The central fact is that unemployment remains at the high and unacceptable level of about 5% in the Community as a whole. This level has been approximately static now for about one and a half years, after doubling in the course of 1975 and 1976 when we were in the depths of the recession.

This stabilisation of the employment situation has reflected a progressive but not yet strong re-expansion of industrial production over the past two years. The growth of GDP as a whole, in volume terms, looks like being little more than 3% for 1977, compared to the objective of 4% that the Community set itself in its Annual Report in November of last year, and the 4 to 5% growth rate aimed at for the period to 1980 by the last Tripartite Conference but one. And for 1978 on the basis of present policies we would put the likely growth rate at around 3 1/2 %.

As regards the balance of payments and inflation useful, hard-earned but precarious progress has been made. As regards the balance of payments it looks as if the Community as a whole will be approximately in current account balance in 1977. This is in part due to the stabilisation efforts

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of several Member States ; but it also reflects certain exceptional factors like the build-up of North Sea oil production and the increasing United States deficit. The latter in turn reflects the faster cyclical re-expansion of the American economy, than that of the Community.

As regards wages and prices greater progress has been made that is often acknowledged. In all our Member States the social partners have made important sacrifices in the interest of regaining economic stability both in terms of wage and profit incomes. I would quote a few examples from some of our more inflation-prone Member States. In Denmark wages were rising at a rate of 15% in 1975, for the present year we expect the rate to have been brought down to 7 1/2%; in France the rate was 18% in 1975, this year we expect 12%; in the United Kingdom the rate was 31% in 1975, this year we expect 11%. More progress has so far been made on wages than prices. This reflects the hard economic fact that in countries with weak currencies, there has first to be a convincing domestic wage stabilisation effort before this can be reflected in exchange rate performance which in turn is a major influence on price trends.

It has also been inevitable that we should pay through the slower or negative growth of real incomes for the terms of trade gain acquired by the oil producers since the end of 1973. The open question has been how much inflation would accompany this process. While the answer has been, clearly, quite a lot, the figures I have referred to also show that working people and companies have been prepared to come together to limit the inflation side-effects of this necessary economic adjustment.

Overall the economic situation in Europe has been recovering, albeit slowly and painfully. Not yet strongly enough to reduce unemployment, but just strongly enough to halt its rise and to lay some of the foundations for stronger growth.

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These are precarious and only half-exploited achievements. From here we could either progress or regress. We have paid the costs in terms of slower growth or real cuts in living standards, but we are only beginning to reap the benefits in terms of a sustained resumption of economic growth. I have little doubt that economic growth in the period ahead, taking the Community as a whole, is going to be a far more exacting task than before, notably because of the menace of severe and brutal sanctions from the world outside. Of course not all our Member States are in the same situation. Some - Germany in particular - have enviable reserves of economic strength on which to rely. Some have large windfall gains from the oil crisis to help them - and here we see the United Kingdom now beginning to benefit in a way that has been true of the Netherlands already for several years.

What the Community as a whole shares indivisibly, however, is the climate of political and economic circumstances that condition whether or not there is going now be a resumption of investment - which must be forthcoming if the business upswing is to be strengthened and unemployment reduced.

It is a grave mistake in my view for some commentators in Europe to suggest that there are divergent interests in the Community between strong and weak economies, or indeed that the floating exchange rate regime in particular can serve to liberate individual Member States from developments beyond their frontiers. High inflation is not only a social, political and economic ill in the countries that experience it; it also destroys the climate necessary to stimulate investment in the business community of Europe as a whole, including the countries that are themselves experiencing low inflation.

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I would now like to say what we can and should do at the Community level to create this climate.

The first priority must be to maintain the progress already made in reducing inflation and to further improve on this. We need to establish a common and enlightened philosophy as to the relationship between inflation and unemployment, and this is where the Tripartite Conference and the Economic and Social Commitee as well as this Consultative Committee must make a vital contribution. In my view this philosophy has to be something like this: unemployment is <u>not</u> an instrument of controlling inflation - that thesis I believe to be politically objectionable and economically obsolete. Rather, a durable mastery of inflation is the economic precondition of getting increasing investment and thence employment back under way. And to achieve that mastery of inflation we need both political organization and consensus, as well as the intelligent use of the technical instruments of monetary and budgetary policy.

As to the use of monetary and budgetary policies, we have our part to play in the Community's economic policy co-ordination procedures. We are shortly going to discuss in the Council the Commission's orientations for the remainder of 1977 and 1978. The main themes here should I believe be: some slow-down in the target reduction of public sector deficits in response to the slower than expected growth, so as not to hinder the business recovery; a preparedness for the strong countries to take more stimulatory measures if it looks as if their growth performance for 1977 is going to be substantially under target; maintenance of quite strict control over monetary aggregates to provide a safeguard against the reacceleration of inflation.

We have a further very direct part to play in the fight against inflation, and that is through our fixing of farm prices. This year we have made in this area a reasonable contribution here towards the deceleration of inflation, and I hope we can continue on this path - indeed we look to support in public opinion to keep the Council more closely to the level of our proposals.

We have also important indirect responsibilities for employment through our external trade policies. Here the Commission intends to bear every bit of its responsibilities, We are the biggest trade unit on the world scene and so we have the biggest interests at stake, and we also have a large power to determine how world trade policy develops. There are, as you all know, powerful but conflicting pressures bearing on the trade negotiations that are now under way and I have in mind not only the Tokyo Round but also important sectoral negotiations in the textile area, not to mention steel. We are experiencing unprece-dented unemployment from a longer and larger scale than at any time since the war, although the Community is moving into approximate balance on its current account with the world as a whole. In the United States we are dealing with an open trading new administration, which is for its part dealing with increasingly protectionist domestic interests.

An acrimonious and disorderly slide to protectionism in world trading policies at this time would be the worst possible recipe for the increasing investment and employment that we are seeking to achieve. At the same time we have to manage our commercial affairs in such a way as to avoid the ravages of the continuing world recession doing irrecoverable damage to industries that we need to maintain and prosper in Europe.

The Commission also feels strongly that the Community's own finances should be directed towards the priority objectives of employment and structural improvement in the Community economy. We have already in our first six months acted firmly in this sense. We started by taking internal steps to improve the co-ordination of Community funds. We have followed by making prompt proposals for the reform, and extension of the fields of operation, of the Regional and Social Funds. We then decided to give priority in the draft budget for 1978 to regional and social policy and energy projects.

We have supported the plans for expansion of the European Investment Bank's operations adopted by the European Council a few days ago. We are implementing our new power for Euratom loan financing, and have made an important new proposal for the further E.E.C. multi-purpose loan power - to finance investments in the areas of energy, industrial reconversion and regional infrastructure. Last and not least we have as you know been taking steps to develop the E.C.S.C's own financial intervention through the combination of loan finance and interest-rate subsidies - on this you will be hearing more from my colleagues later.

This package of initiatives should in our view be seen as a whole as evidence that the Community is capable of contributing to the revolution to our common economic problems. It is now for the Council and Parliament to show how far they are ready to move with us. It is also, if I may say so, for your Consultative Committee to help us - if you feel our policies are sensible. You are, in a sense, our strongest constituency. You know what we are trying to do in the steel sector with the aid of powers that go considerably beyond what we so far have for the E.E.C. as a whole. We hope that you will debate with us our own ideas that go beyond your sectoral interests, and in the debate that is going on in each of our countries that you will

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be supporting the proposition that the Community needs - in the interest of all its members - the means of action at the Community level to help better manage our economic affairs.

Mr, Chairman I have deliberately confined my remarks to the immediate economic issues facing the Community, without going into the detail of coal and steel policy, or into longer run issues for the development of Community policies or institutions. I now look forward to hearing your own views.