

**INFORMATION****ECONOMY and FINANCE****FOURTH MEDIUM-TERM ECONOMIC POLICY PROGRAMME 1976-80 (1)****136/76**

The adoption of the fourth medium-term economic policy programme, which is to cover the years 1976-80, indicates a determination to get the better of the economic, social and even political difficulties which marked the period of its compilation and still dominate the position in the Europe of today :

- economic difficulties first : The new programme was drafted when the Community was taking the brunt of the economic crisis of the last two years. By contrast the three earlier programmes were drawn up when the world economy was in a state of continued expansion and the european economy was growing vigorously;
- social difficulties next : Economic growth had brought continued social progress in an atmosphere of comparative stability, both internally and internationally. Since the social consensus had become more fragile, a first attempt was made to compare notes on the common objectives of recovery. This was done in tripartite conferences (especially the Luxembourg Conference of 24 June last) in which the european institutions conferred with national governments and both sides of industry. The fourth medium-term economic policy programme, which has been submitted for examination to the social partners, now becomes one of the main instruments of this social consensus;
- and then the political difficulties : Apart from the fact that the Community has fallen short of the "growth and stability" target laid down in the third programme, there has been no progress with the economic and monetary union. Whatever may have been the difficulties, structural and conjunctural, inhibiting the coordination of policies, there was a noticeable lack of the political will to coordinate. The fourth programme could be one instrument among others of this political will.

(1) see also information note No. 135/76 on the Commission's foreword to this programme.

2. This determination to overcome the difficulties is not an attempt to disguise their seriousness, especially when it comes to liquidating the errors of the past by putting a stop to any disintegration of the Community and facing a period, which will be a crucial one for the Community, in which the member countries will have to act together in rising superior to the risks and obstacles and securing an economic recovery.

3. The recession which has had to be faced has been the worst the world has known since 1929. The gross internal product of the OECD countries ceased to rise in 1974 and fell back by 2% in 1975. The total number of registered unemployed reached a record level of 15 million, of which a third were in the Community. The average rate of the annual price increase, which used to be around 3 to 4% has more than trebled. The importance of this inflation, which became apparent after the mid-1960's was too belatedly recognised. It was mainly due to an excessive expansion in internal and international liquidity, the unduly fast rise in incomes, the higher prices for raw materials and especially the sudden jump in the price of oil. It should, however, be noted that in some countries these factors of accelerated inflation came on top of a structural and permanent inflation arising through changes during the last 20 years due to the strife between social groups for their shares of the national product, from the lack of political and social consensus, from the increasing number of companies in dominant market positions and from the lack of flexibility in the labour market.

4. On the other hand the extent and gravity of the crisis does not explain and does not justify the feebleness of the Community reaction. Up to the present, indeed, it has been possible to avoid protectionism between the member countries and to exercise a dissuasive influence on other countries; but the Community, nevertheless, has not carried enough weight in the international environment nor been successful in the effective coordination of its internal policies. Attempts to coordinate economic and monetary policies proved incapable either of containing the Community's average rate of inflation or of avoiding the dispersion of the national rates. In 1975, the spread between the price rises of goods for private consumption ranged from 6% to 20%.

The timely application of decisive Community action would doubtless have made it possible to mitigate the economic and social cost of the crisis. The causes of this impotence are complex, originating essentially in the disparity of economic and social structures and the different priorities assigned to specific economic policy objectives, differences in adapting to changes in society and of course to the inadequacy of policy coordination within the Community.

5. A renewal of the vigour of the Community is the more necessary because during the next five years it will have to :

- get control of the inflation by reestablishing the main internal balances by appropriate action, including structural measures, and by conditions making for a better social consensus inside the Community ;

- once more take the road towards full employment, mainly through sustained and balanced growth, mitigation of the rise in costs and stimulation of investment so as to create new jobs. This will involve changes in the way the gross internal product is used, involving the indispensable adjustments in income distribution and the development of public finance, and innovations which will be extremely useful in a whole series of specific policies ;
- make progress towards a renewed balance in external payments.

6. In the fourth medium-term programme, therefore, the Community has defined objectives which are both well balanced and ambitious. Their achievement depends on the operation of an adequate economic policy, and assumes the goodwill alike of governments and the other factors in the economic system. The quantitative guidelines laid down below constitute medium-term macro-economic points of reference, which will have to be made part of an overall strategy and backed by general and specific policies. They will have to be reexamined and adjusted annually, as part of the examination of the economic position provided in the Council decision of 18 February 1974 :

- a) For the period 1976-80 the mean annual growth-rate of the GDP should be between 4 1/2 % and 5%. For the individual countries, the French average would be 5 1/2%, the Italian, Belgian, Irish and Danish between 4 1/2 and 5%, the German and Dutch between 4 and 5%, the U.K. between 4 and 4 1/2% and Luxembourg between 3 and 3 1/2 %.
- b) The return to full employment should be between now and 1980. This is primarily a matter of absorbing the conjunctural unemployment and reducing the structural by encouraging new investment and pursuing a definite employment policy.
- c) By 1980 at the latest, the rate of inflation should be gradually reduced to 4 or 5%.
- d) By 1980, the external trade balance should be positive and of the order of 0.5 to 1% of the GDP.

These quantitative guidelines must be part of a strategy organising the order of priority of the objectives and explicitly stating the general economic policy conditions necessary for their achievement.

7. In the present situation :

- a) Top priority must be given to securing a lasting return to full employment.
- b) Growth and price stability are essential if needs are to be better satisfied and resources allocated to the best advantage; but for securing a satisfactory employment level they are a condition precedent;
- c) The guidelines relating to the external balance are general conditions for securing equilibrium. They should be qualified in the light of the international position and the short-term path.

These guidelines clearly cannot cover the whole range of social and economic objectives. Other objectives of a more qualitative kind will come into account, such as regional equilibrium, the environment, social progress, energy and aid to developing countries. The contradiction is only apparent between the pursuit of macro-economic objectives and equilibria and the achievement of other objectives of a more qualitative kind. Full employment based on sustained and steady growth, in conditions of stability and respect for macro-economic equilibria, is a condition of social progress and the better achievement of other qualitative objectives, so that it ranks as a prerequisite for social stability. Moreover, it is essential for the achievement of these objectives that there should be a de facto consensus between both sides of industry and between them and government, both at the national and at the European level. It is not realistic to seek qualitative objectives by slackening the process of growth. It is a contradiction in terms to impel social progress without taking account of its economic limits, or to seek full employment by wild-cat growth in such a way as to run foul of the conditions for external and other economic balance. The medium-term outcome of all these solutions can only be faster inflation, persistent unemployment and economic decline.

8. The short-term growth path policy of the next two or three years will be a decisive factor in the achievement of the general guidelines contained in the fourth programme. The growth path must be as flexible as possible in taking account of the different phases of the trade cycle reached by each individual country, so as to reestablish within the Community the macro-economic balances needed for continued growth and better price stability. It is predominantly important that the general economic management and the behaviour of both sides of industry in regard to incomes should be motivated by considerations going beyond the short-term, and taking into account from the start the requirements for a more balanced growth on the medium-term.

The return to full employment and the achievement of sustained and regular growth will be determined by ;

- Control of the inflation, and hence a more strict conformity of money and credit management with the limits set for monetary expansion;
- public finance policy which should not only reduce or eliminate the deficits, but apportion the expenditure better and see that finance surpluses are better incorporated in the general balance;
- a policy of investment, employment and the labour market angled on encouraging investment and therefore helping to curb internal consumption; and on voluntary action to create jobs and improve working conditions with a view to a better social consensus;
- strengthening the Community itself by better organisation and coordination of internal policies and the more dynamic use of its weight and dimension in the world at large.

## 9. Gradual control of the inflation

The quest for better mastery over the inflation involves resolving the problems of demand regulation, quantity determination in monetary policy, balancing the public accounts and progressively tackling the more structural causes of the inflation. In regard to liquidity and the public finances, the objectives are :

- better control over the expansion in internal liquidity ;
- gradual reduction of public deficits by strict expenditure control, so as to avoid any further inflationary thrust resulting from undue increases in taxation and kindred charges;
- maintenance of free trade and consultation with the rest of the world, aimed to contain the price rises;
- limiting fluctuations in rates of exchange to those economically justified.

For demand regulation and the structural causes of inflation, the action required is on the growth in incomes and the pursuit of adequate policies regarding competition and consumer protection.

### The struggle against inflation calls for better control of incomes.

The general growth and distribution of incomes must be compatible with the results of the economic growth and the requirement that it continue. It follows that profits should be brought back to a normal level, corresponding to the necessary level of productive investment; and that both sides of industry should moderate their respective claims on extra shares of the national income. The first requirement, therefore, is knowledge as to what the effective incomes are, so as to have a clear perspective as to how the product of the collective effort should be divided between social categories and between individuals. Because of its large proportion of the incomes total, the growth in the share of wages (adjusted by reference to the GDP) is the determining factor here. Any increases in real wages must be smaller than the real growth in GDP per head. Wage-earners should also bear a fair share in any price rises or shrinkage of incomes due either to changes in the terms of trade or to possible tax or similar measures. This self-discipline could only be secured by eliminating many of the unjustified profits, renegotiating some of the collective agreements based on erroneous forecasts and various additional measures, such as the encouragement of personal capital formation (i.e. profit-sharing, investment wages, savings plans etc.).

### An active competition policy could make the instruments of regulation more effective and help in the fight against inflation.

Such a policy helps to rationalise the allocation of the factors of production at the macro-economic level by exerting continuous pressure on costs and prices; it helps to promote continuous adaptation of the productive machine to the growth industries; it prevents firms from using

restrictive or abusive practices for market-sharing or market domination or for the manipulation of demand. For this purpose three-fold action is needed :

- securing better information and stricter control over dominant positions;
- encouraging the formation and survival of profitable small businesses (technical assistance, availability of technical progress, easier access to capital and credit);
- fighting all artificial obstacles which distort competition (reexamination of subsidies; removal of abusive limitations on access to markets).

A policy for protecting consumers by better information and guidance is another useful item in the strife against inflation.

A special effort is needed to promote the genuine opening and transparency of markets, calling for special attention to marketing practices, advertising and commercial information generally. A first step in this direction would be to apply the Council resolution of 14 April 1975 on a consumer protection and information policy.(1).

#### 10. Public finance policy

Quite apart from the scale of the public sector deficits, there is also the question of the scale of public expenditure itself as a part of the national income. There is a strong propensity towards increasing public expenditure, partly through the wish to reduce inequalities of opportunity and structural unemployment and partly because of the increasing demand for public services. The latter applies both to traditional services (e.g. public health and social security) and also to new social demands, such as environmental protection, quality of life, cultural and vocational training. In some of the member countries this pressure is resisted :

- first because it is likely to entail a parallel increase in the tax and parafiscal burden;
- secondly, because it would result in an unduly large volume of resources being withdrawn from normal market influences;
- and because it would make for further cost-inflation, since the economically active would endeavour to maintain their disposable incomes.

There is thus a conflict of views which must be recognised by strict standards of selection and a gradual adaptation of budgetary strategy. This should be aimed to :

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(1) Official Journal of the European Communities, No. C 92 of 25 April 1975

- reduce the borrowing requirements of public authorities ;
- increase the impact of public finance in income redistribution;
- contribute to the creation of jobs;
- limit the increase in the share of the national income taken for public expenditure and increase the effectiveness of the latter.

11. Investment, employment and labour market policies.

The promotion of employment over the next few years will require measures to stimulate investment, limit the unit labour costs and lay down a specific employment and labour policy to serve as basis for a better social consensus.

The encouragement of new investment is the only way of securing a rapid and lasting return to full employment, but investment must expand faster than the GDP. A climate of confidence must be created to encourage the mobilisation of long-term savings at rates of interest which will ensure the best joint effort by capital and labour. In many Community countries programmes to stimulate demand have already helped to improve market prospects and expectations of profit; but further action is needed in regard to keeping down the production costs. As recovery gets under way, the growth in wage costs per unit produced should slow down spontaneously as a result of the productivity gains resulting from better rates of capacity utilisation. If, however, the propensity to invest is to be restored and maintained, the restraint of wage claims will be a determining factor.

Moreover, in the present international position, there must needs be permanent pressure for novelties and improved technologies if investments are to be successfully encouraged in new lines of production which will create new jobs.

In the employment policy, the initial effort will have to be concentrated on strengthening and broadening of policies designed to equate the demand for labour with the supply. Expenditure will be involved in the work of stimulating public authorities to implement these policies and those designed to create jobs; and this might necessitate choosing between different expenditure headings in the budget. In this respect the cost of these measures must be set against the cost to the community of supporting a larger number of unemployed.

From this standpoint it is advisable to proceed with caution in handling schemes for reducing the supply of manpower by a generalised lowering of the pensionable age, or reducing the hours of work. For the problem of the younger age-groups the solution does not lie in raising the school leaving age. Measures need to be taken to deal with specific problems, such as the granting of allowances for on-the-job training, or for helping young people to acquire a qualification.

It is self-evident that a vigorous labour and employment policy will make it the easier to lay the basis for a better social consensus. This calls for improved information to workers on matters such as employment and working conditions on both the national and the international level, especially when the delicate problem of multinational companies comes to the surface. It also calls for strengthening the arrangements for co-ordination with both sides of industry and to encourage proposals for the workers to participate in the decision making processes in their firms. Finally, over and above the objective of securing greater social justice, vigorous action against the very marked inequalities in a number of countries is also a necessary pre-condition in the fight against inflation. The Community has already taken a number of steps in this direction (e.g. directives on the employment and remuneration of women and an action programme for migrant workers).

## 12. Strengthening the Community

The strengthening process needed to facilitate the pursuit of a policy of full employment and economic and social stability and progress would have to operate in quite a number of different fields. The chief ones are :

- a) economic and monetary organisation with priority for the application of Council decisions of 18 February 1974 (convergence of economic policies) and 22 March 1971 (cooperation between central banks) to fix guidelines at the Community level with regard to monetary and budget policy with any necessary elasticities to take account of special situations ;
- b) Europe's external economic policy using its considerable action capacity in the commercial field to work gradually towards less erratic exchange rate relations and the maintenance of free trade, and seeking to increase its cohesion in its relations with developed countries, State-trading countries and developing countries;
- c) reducing regional disequilibria; seeking to restore balanced economic activity over the whole territory of the Community; seeing that regional standpoints are not left out of sight in the application of specific policies (agriculture, transport, energy); and laying down regional development and reconversion targets which would give a more marked regional impact to the various Community interventions through the European Investment Bank and the European Regional Development Fund.
- d) finally, the achievement of the targets laid down in the fourth programme would be facilitated by greater effectiveness in the industrial, agricultural, energy and environment policies. A useful step towards a better appreciation of these policies would be, to supplement the traditional economic accounts by a more penetrating system of structural, social and welfare indicators.



13. By way of conclusion, it should be emphasised that the collection of guidelines sketched in the fourth programme will have to be put into definite form through the application of the economic policies prepared by the member governments and adjusted through the standing arrangements for Community dialogue. In view of the uncertainty which continues to cloud the economic outlook, the fourth programme is a continuing instrument, the first document of which is no more than a beginning. There must be a continuous and detailed follow-up through the 1976-80 period.

This continuous process should involve regular examination and, if necessary, the adaptation of the macro-economic guidelines laid down here, and should thus make it possible to secure greater convergence of economic trends within the Community.