The Fifth Economic Policy Programme 1981-85

European File

Rising unemployment, permanently high inflation levels and slow economic growth: these are the main problems facing Europe's economies today. The Community's draft Fifth Medium-Term Economic Policy Programme has rung the alarm bells. The signal has been echoed by the European Commission in its foreword to the Programme: all those responsible for economic matters should unify their efforts to reverse the trend and bring about a return to satisfactory levels of employment. At the same time, the Commission defines the role which the Community can and should play to increase the chance of the strategy outlined by the programme succeeding.

At the root of our economic difficulties lies a number of interdependent factors:

- external pressures. The world economy is undergoing profound changes, including monetary disarray and uncertainty, the rising cost of oil and other raw materials, etc. As a consequence, international demand rose by only 1.5% in 1981 compared to 6% per annum during the 1970's and 8% during the 1960's. Whilst the oil-producing States and the newly-industrialized countries play an increasingly important role on the world stage, Europe's external deficits and those of the underdeveloped countries have deteriorated (in 1980, the Community's current account deficit amounted to 1.5% of its gross domestic product).
- internal pressures. The cost of energy has risen together with the cost of labour and the intervention of public authorities. Between 1970 and 1980 a gap of close on 7% emerged between the rise in real wage costs per head and apparent productivity; the proportion of gross domestic product accounted for by public expediture has risen from 37% to 47%. The average European consumer has been forced to accustom

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19/81
December 1981

himself over the past five years to annual price rises of about 10%, compared to 5% between 1960 and 1973.

- ☐ the decline of European competitiveness. Changes in wage and cost levels have reduced the profitability of European industry. Inflation has not only led to increased wage claims; by reducing profit margins, by increasing interest rates and uncertainties about the future costs of capital, it has discouraged investment which increased by only 0.7% per year between 1973 and 1980. The development of competitive production capacity has been restrained, growth has dwindled and Europe has lost face before its main industrial competitors.

- ☐ rising unemployment. In September 1981, unemployment affected 8.5% of the working population in the Community (or 9.4 million persons) compared to 2% in 1970 and 4.3% in 1975. Particularly affected were young people who represent only 14 % of the work force but 45% of the unemployed, and women who represent 36% of the working population but 45% of the unemployed. In certain sectors, the cutbacks in jobs have been massive, affecting almost half of the 6.2 million workers employed in the textile, leather and clothing industries in 1961.

- ☐ the disparities between European economies. The figures quoted above are average figures for the whole Community. But from one country to another there are considerable variations – between 5% and 21% for inflation, between 0.7% and 9.4% for unemployment in the Community in 1980. These disparities have had a tendency to widen since 1974 with Member States not demonstrating the same capacities to counter the economic crisis. As a consequence, the narrowing of the gap between living standards, which was evident in the early days of the Community, has ceased and regional inequalities have increased; the improvement of conditions in the various countries has also proved more difficult, inflation has increased, markets have shrunk, etc.

In total, for the majority of the economic indicators, the current outlook does not leave hope for more than a slight improvement between 1981 and 1985. As for unemployment, it seems likely to deteriorate further, particularly on account of certain special demographic factors: an increasing number of job-seekers (young people and women) will be faced with a practically stagnant number of job opportunities if nothing is done to reverse the trend. For the whole of the Community, certain forecasts – which are inevitably uncertain – reveal that the average annual growth rate (in %) could be as follows on the assumption of unchanged policies:

	1960-73	1973-80	1980-85	1981-85
Gross domestic product	4.6	2.2	1.9	2.5
Prices	4.9	10.4	8.1	7.7
Investment	5.4	0.7	1.1	2.1
Employment	0.2	0.0	- 0.2	0.0
Purchasing power of per capita wage	5.0	2.0	0.8	1.0

A European programme – to accomplish what?

In all Community countries, the medium-term aspect of our economic problems is regarded as crucial. It is estimated that in most cases it is necessary to define a medium-term economic strategy, or a plan, or a programme, or concerted action which would serve as a framework for short-term decision-making by providing guidance towards the structural changes upon which future prosperity depends. The same is true at the European level. An initial Community programme was launched as early as 1966. In February 1974, within the framework of a decision on the convergence of national economic policies, the Medium-Term Economic Policy Committee composed of senior national civil servants and representatives of the European Commission, was charged with preparing a draft programme every five years for the Commission to submit to the Community's Council of Ministers. The latter adopts the text once it has received the opinions of the European Parliament and the Economic and Social Committee.

The Community's Medium-Term Economic Policy Programmes are sufficiently flexible to take account of economic change as well as the particular characteristics of national situations which often need different types of measures. But they set common objectives both for national policies and for action by Community institutions. Given the degree of interdependence of European economies – more than half of their trade is with their Community partners – good coordination also increases the effectiveness of the efforts of each one.

The Fifth Programme, covering the period 1981-85, aims above all to reverse the inevitability of unemployment and to ensure a progressive but lasting return to satisfactory levels of employment. The strategy set out insists on a certain number of structural changes which should re-establish the competitive position of our economies, reduce their energy dependence and revive economic growth. The success of this strategy requires an active consensus amongst public opinion and amongst both sides of industry, great perseverence in action as well as better exploitation of the possibilities which derive from the basic existence of the Community.

Economic and monetary strategy

To revive economic growth and correct the unemployment situation, there are two requirements according to the Fifth Programme: control of inflation and change in the structure of the European economy.

☐ Control of inflation. An increase in investment follows on from the successful control of inflation and the removal of the uncertainties surrounding current economic activity. The realization of this objective requires a collection of interdependent policies which, to be effective, must be pursued jointly:

- stringent monetary policy. Whilst contributing to the battle against inflation, monetary discipline encourages the inflow of capital which permits the financing of

- external deficits and structural economic change. Through monetary discipline, the permanence and thereby predictability of these objectives, economic and monetary policy should encourage a change in the behaviour of those responsible in the private and public sectors. By strengthening the desire to see a reduction in inflation, it should encourage companies, households and trade unions to accept a reduction in wage and price increases. In such a context, the restriction on the expansion of money supply would be compatible with higher levels of growth and employment.

- a reduction in public deficits. In numerous Community countries, these deficits provoke the expansion of public borrowing requirements and a rise in interest rates which generate inflation and take away jobs. The total amount of public expenditure should be limited in line with the growth of national income. Within such a set 'envelope', expenditure must be redirected towards actions which encourage economic change.

- greater discipline in income and price changes. Monetary and budgetary discipline will not bring about a reduction in inflation unless it is accompanied by strict income and price discipline. Such a cost-reducing effort would have the effect of strengthening investment and the competitive position of the Community and even total private consumption in as much as a slower rise in wages would be compensated for by an increase in employment. The basic conditions required are: cooperation between the social partners; a revision of wage-bargaining and indexation systems; the extension of price and wage moderation to all sectors including those which are scarcely exposed to competition; a relaxation of price controls so that market forces can encourage structural changes in favour of the most competitive sectors through changes in the relative costs of goods and services.

☐ Economic structural change. Support must be provided continuously to increase our capability to change the structure of our economies. It is necessary to assure:

- a revival in investment and innovation. To help the European economies adapt to energy constraints and to changes in the international division of labour, innovation and industrial competitiveness must be encouraged, especially in the small and medium-sized companies, in the growth sectors and also in the traditional branches of industry which could find new growth elements. The principal axes of this policy are the promotion of longterm fundamental research and its more rapid exploitation by industry; the stimulation of shareholders by increasing the interest and confidence of savers who are currently too inclined to put their money into safe low-productivity stocks; the rationalization of public interventions and financial aid to companies so as to make them more transparent, simpler, more stable and better directed towards the priorities of fair competition, regional development and the promotion of innovation.

- the adaptation of energy supplies. The restriction which our dependence on expensive imports places on economic activity must be removed. Prices, taxation of

- energy and, in certain cases, regulatory measures should encourage industry, public services and households to substitute other sources of energy in place of oil and to design and use technologies and products which save energy. The revival of energy investments - which, on average, do not always exceed the level of the 1960s - is all the more necessary given that it is a factor creating growth and employment.

- improvement in the operation of the public sector. The reduction in the growth of public expenditure, the stimulation of private investment and the development of certain innovatory public investments in energy, research, telecommunications, transport, etc. necessitate a revision of the budgetary priorities. The increase in operating expenditure (number of jobs, wages) must be limited. The same is true for social security expenditure whose efficiency and social selectivity must, by contrast, be increased.

The preceding measures should ultimately help recreate the necessary conditions for the creation of new and secure jobs founded on the profitability of investment and the development of sectors and companies with strong growth potential. Specific measures should, however, be taken to alleviate underemployment, particularly by reinforcing the balance of labour supply and demand. Vocational training must be extended and improved to correspond to what is required, which implies, in particular, that companies establish long-term labour forecasts. Moreover, the debate on the reduction of working hours and the sharing of available work should take into account the imperatives of international competition.

According to the European Commission, the guidelines set out by the Medium-Term Economic Policy Committee should not exclude, as a matter of principle, selective actions aimed at stimulating demand. But this possibility - limited by the need to avoid harming the balance of payments as well as to avoid causing inflationary wage increases through generalized follow-through effects (e.g. indexation) - does not exist in those Member States where the budget situation does not leave the public authorities any margin of manoeuvre. In such a case it is sufficient to reconstitute this margin by reducing the deficits and by encouraging economic change. This is the approach of the fifth Programme which also contains a third section concerned with the development of growth opportunities which would permit the optimal exploitation of the Community dimension.

The Community dimension

According to the Medium-Term Economic Policy Committee, Community policies can and should contribute to the success of this economic strategy. New harmonization measures should help achieve a common market founded on the free movement of goods, services and capital; national economic and monetary policies must be coordinated more effectively; action taken at the Community level – and in particular agricultural, energy and regional policies – should aim to reduce disparities and reinforce cohesion. Finally, the Community must reinforce its presence on the international scene so as to counter any protectionist tendencies and to limit monetary fluctuations.

This Community dimension has been developed by the European Commission in its foreword to the Fifth Programme. The Commission stresses that Community solidarity could bring a real boost to growth: the coordination of national policies assures an increase in the effectiveness of the efforts of all concerned; European aids and loans can contribute additional support for investment and alleviate the difficulties which beset Member States' balances of payments; Europe could take initiatives to revive international demand by helping the oil-producing companies to find the best investment opportunities, particularly in the Third World, for their surplus capital. The Commission favours, in particular, four priorities for specific Community action.

☐ Currency. The creation of the European Monetary System (EMS) has helped limit fluctuations between European currencies and reinforced the stability of the economic environment.[1] The Commission has proposed developing this system:

- in the short term, coordination of national monetary policies must be increased through the setting of more detailed common objectives and common rules on certain national measures, for interest-rate policies and external debt. The use of the ECU (European currency unit, based on a basket of national currencies) must be encouraged for Community loans and, generally, in the financial markets. Greece and the United Kingdom must be encouraged to fully participate in the EMS. Finally, monetary cooperation with the rest of the world must be strengthened both regarding interest rates and exchange rates; in this way, fluctuations in the dollar and yen rates could be contained in a concerted fashion within flexible limits, 'zones of profitability', corresponding to jointly agreed trade, economic and monetary data;

- 1982 should be marked by a decision opening up a second development phase for the EMS. A choice must thereby be made concerning the creation and institutional operation of a European Monetary Fund which would help consolidate the different Community credit systems. New stages must be reached on the road to a true European currency: the development of the use of the ECU in relations between other central banks and the possible creation of ECUs in the absence of corresponding gold or currency deposits.

☐ Investment. The Community can support investment more widely and therefore encourage growth:

- by developing the use of its own financial instruments: the European Investment Bank, the European Coal and Steel Community, Euratom, the New Community Instrument. The Community's high credit rating enables it to mobilize additional resources for the benefit of all and especially the national or regional economies which are most in need. These operations bring into being the solidarity between the partners and commit them to jointly establish priorities and programmes, to catalyse financial resources and decision-making capacities both at the national and Community levels;

[1] See *European File* No 7/79: 'The European Monetary System'.

- by providing a framework for the assessment of national measures aimed at encouraging savings and investment. It should thereby be possible to identify the most effective techniques and to commence a process of dynamic harmonization;

- the implementation of an energy strategy which assures the coherence of national policies as well as the mobilization of all Community regulatory and financial means. Common rules should thus be adopted to better assure the single market, fair pricing, and the optimal use of energy resources. European participation in research and investment efforts, as well as Community crisis measures, should be extended. The Community should be able to play a greater role in the examination and in the realization of equipment programmes based on a realistic assessment of administrative and financial possibilities and comprising clear guidelines on the contribution of nuclear energy.

☐ Achievement of the common market. The Community does not sufficiently exploit economies of scale, the opportunities afforded by sharper competition and the growth potential, which should derive from the existence of a single market of 270 million consumers. The Commission aims therefore at:

- the removal of technical barriers caused by various norms and regulations which stand in the way of domestic trade in goods and services, as well as the harmonization of legislation which affects production;

- the establishment of a common technology and innovation policy without which the Community is in danger of finding itself one day managing an economy in decline. Such a policy should concern itself, in particular, with progress in changing regulations, in the standardization of certain industrial products, with public supply contracts, with training and information methods and with the direction and financing of research;

- greater harmonization of the fiscal aspects of production. Thus flexible and progressive guidelines should be set with regard to the balance between direct taxation, indirect tax and social security payments. A Community framework should be defined for value-added tax; it would comprise ranges of tax rates within which all products subject to VAT would be progressively grouped according to the same common system.

☐ Employment policy. Social and economic reasons call for harmonization of working conditions at the European level. The Commission is proposing greater Community participation in employment policy and, to this end, supports the following four priorities:

- more consultation between the Community institutions and both sides of industry;

- greater, more concentrated and more flexible use of the Community's facilities for action such as the European Social Fund and the European Regional Development Fund. The Commission has presented a certain number of specific proposals in this regard;

- the introduction of national and Community mechanisms and financial means to enable by 1985 all young people finishing compulsory schooling to obtain either a paid job or access to a vocational training course;

- drawing practical conclusions from the discussions already begun at the Community level on certain aspects of the organization of working hours. Thus work on part-time working, overtime, flexible hours, early retirement, etc., should be completed and, where appropriate, a Community framework should be elaborated. Studies on the reduction of working hours should be pursued to be able to assess the effectiveness and conditions of an action which is compatible with an improvement in production costs ■

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Office for Official Publications
of the European Communities
L - 2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-81-019-EN-C