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TRIPARTITE CONFERENCE

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY  
AND OUTLOOK

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1. PURPOSE

The Member States of the Community are currently faced with major economic difficulties, and these have inevitable social implications. For months, their economies have been in the grip of the deepest recession since the end of the Second World War.

The most distressing consequence of the recession for people in the Community has been the growth of unemployment. The number of jobless in the Community passed the four-and-a-half million mark in September 1975, reaching a level almost twice as high as at the same period last year, and will go on rising this winter, were it only because of seasonal factors.

Short-time working has also spread further in most member countries and less overtime is being worked. The number of unfilled vacancies is falling and many young people who came on to the labour market this autumn are having difficulty in finding employment.

Although millions of individuals are directly concerned, it must be remembered that an even greater number of families are affected by the growing uncertainty besetting the labour market. This could well generate serious social strain and constitutes a threat to social and political equilibria.

Consequently, the Community itself is in danger, for the countries could well give in to the temptation to use beggar-my-neighbour policies to protect national interests, sacrificing the benefits accruing from Community solidarity. However, grave dangers may also arise in each Member State if, to meet the challenges of the day, the various social groups opt for confrontation rather than cooperation.

The objectives of this Tripartite Conference, bringing together ministers responsible for social and economic affairs, representatives of the unions and employers in the Member States, and the Commission, should be to draw attention to these dangers, to strive to identify the priority problems and to outline possible solutions.

## 2. THE ECONOMIC SITUATION IN THE AUTUMN OF 1975

By mid-1975, industrial output in most Member States had fallen back to its 1972 level. In the Community as a whole, it was 11.5% down on the corresponding figure for 1974.

The Community's gross domestic product, which, in 1974, was still rising on average by 2%, will probably contract by 2.5% in 1975, with the rates in the various Member States diverging quite markedly from the average. In 1976, however, gross domestic product can be expected to grow by more than 3%. But growth on this scale will be achieved only if a number of conditions are fulfilled, and at the present time it is far from certain that this will be the case.

Many firms are working well below capacity and there is little in the way of reliable evidence that future output will find a ready market. The result has been a substantial contraction in private investment, in spite of the very attractive incentives offered by the authorities in the Member States. In addition, the lack of confidence on the part of investors is doubtless also due, in a number of countries, to the recent sharp decline in profits.

The key to the recovery and satisfactory growth in the medium term is a revival of investment.

Slackening trade has considerably aggravated the recession.

For the first time since the war, the volume of world trade will have declined this year (by about 5%). In spite of buoyant demand from the OPEC countries and increased exports to state-trading countries, Community exports fell by nearly 20% in the first half of 1975, compared with the last half of 1974.

As a result of the general economic recession and an improvement in the terms of trade, a number of Member States will, in 1975, be able to eliminate almost entirely their heavy current payments deficits. The current account of the Community as a whole will show a surplus, but it is quite likely that the position on current account will deteriorate again next year as production picks up and as fresh increases in the prices of oil and raw materials take effect.

The anti-inflation programmes launched in the Member States have yielded fairly satisfactory results. It is true that the average rate of consumer price increases will remain virtually unchanged compared with 1974 (about 12.5%), but the actual month-to-month increments had fallen appreciably by the summer months (average for the Community as a whole). Rates of inflation still vary widely from country to country and this remains a source of concern.

These are the main features of the current economic situation and the short-term outlook. The Commission has presented a rather more detailed picture in its Annual Report on the Economic Situation in the Community.

3. COMMUNITY SOLIDARITY - THE ONLY WAY TO OVERCOME THE CRISIS

The Community's present difficulties have shown how closely the countries are dependent upon one another and how strong are the bonds between the various groups which go to make up our society. For this reason, if for no other, the crisis can be overcome only if solidarity is fostered and strengthened.

Solidarity and fair shares for all

The need for solidarity is all the greater because no satisfactory solutions have yet been found to problems connected with the proper allocation of shares in resources, an issue which lies at the root of present difficulties.

The problem of fair shares arises firstly within the individual countries. It covers not only the distribution of wages and profits within national income and wage differentials, but also the variations between areas and between industries, and even the differing patterns of property and wealth. In spite of the current difficulties, these questions, which have lain below the surface for some time, must now be tackled by the authorities and by the unions and the employers.

Another aspect of this issue is the share of resources allocated to the public sector.

Thirdly, the problem of fair shares has an international dimension. The disruption of the international monetary system, the oil crisis and the changes in the prices of other raw materials have merely served to bring out into the open problems that had been simmering below the surface for a long time, namely the general pattern of the terms of trade and the distribution of income and wealth between the major areas of the world.

#### Solidarity and the European Community

In the course of the present crisis, public opinion in the Community has become increasingly aware that apparently independent factors are in fact interrelated, that external problems and internal problems are not wholly dissimilar, and that the individual countries are not properly equipped to deal with the difficulties alone. The public would, therefore, find it difficult to understand if present needs failed to elicit a response from the Community institutions.

In the Community, the countries must show solidarity because if they failed to do so the reflationary programmes they are implementing could not possibly have full effect. Without thorough consultation on the analysis of the situation, the action to be undertaken and the instruments to be used, the individual governments would surely achieve less and could well run into specific difficulties - for example, payments balance difficulties - all the sooner. The temptation to revert to protectionism, in whatever form, would be that much more difficult to resist.

Another reason why the Community countries must stick together is that if they do not do so they may well forfeit many of the gains the Community has already made. Protectionist measures to safeguard jobs would not only be costly in terms of efficiency: they could also actually lead to further unemployment.

Certain key questions now arise for all countries engaged in trade on any scale, and the way in which they are dealt with will go far to determine the pace of economic growth in the Community and the future structure of production and employment. Basically, they concern the geographical distribution of production operations, the supply (prices, quantities, reliability of delivery) of raw materials and energy products, and the liberalization of world trade, particularly in favour of the developing countries. If the Community's legitimate interests are to be upheld and its approach to international economic relations properly defended, it is vital that it should speak with one voice on these problems. It should not be forgotten, however, that solidarity vis-à-vis the rest of the world must be matched by at least just as great a degree of solidarity within the Community.

Finding a solution to the present difficulties is a task which the governments alone could not accomplish without the support of the unions, employers' federations and other associations and groups. All those concerned will have to pursue a genuine policy of ensuring the fullest possible mutual information and consultation.

In this context, cooperation between unions, employers and the authorities - the need for which is in fact recognized by all, witness the decision to hold this Conference - takes on a particularly important function.

#### 4. SHORT-TERM MEASURES

##### Responding to the challenge

In response to the recession and resultant unemployment the Community and the Member States have introduced a large number of programmes and measures. Without wishing to list in detail all the measures taken, the Commission draws attention to its Recommendation of 23 July 1975

it which it called upon the Member States to take such action to spur on economic activity as progress made in stabilizing prices and the state of the payments balances permitted. The Member States acted on this Recommendation and introduced various combinations of measures during the summer.

These and earlier programmes have not yet, however, brought about any marked improvement in the economic situation and, hence, in employment. It should be remembered, however, that the authorities responsible for economic policy face many constraints, some of which they would neglect or ignore at their peril. Firstly, severe "hard core" inflation persists in most of the Member States, despite the recession. Secondly, where the authorities have already run up heavy budget deficits, further increases in expenditure are normally feasible only where matching revenue increments are accruing - at the present time this is, of course, seldom the case.

The Conference offers an opportunity for the Member States, the unions and employers, and the Commission to assess the margin of manoeuvre available to each of them in the field of economic policy. Reciprocal information and consultation within the Conference may well do much to dispel feelings of insecurity and strengthen confidence, thus making a major contribution to spurring on the recovery.

However, the Commission feels that the present is not the right time to launch new, large-scale reflationary programmes. It will nevertheless keep a close watch on developments and will put forward new proposals as and when appropriate.

None the less, there may be a case for action, in specific instances, to support or strengthen recovery, to provide additional protection for those sections of society hardest hit by the crisis and to modify the use of certain instruments.

The danger of a new surge of inflationary pressure will be a major source of concern in the Member States over the months ahead. The available room for manoeuvre is small, but could be widened a little if measures were implemented designed to enable supply to be more quickly adapted to changes in demand and certain bottlenecks to be eased or eliminated.

#### Public expenditure

Despite what has been said above on the problems posed by public finances, several Member States are still in a position to step up certain types of public investment. These types of investment must be chosen either with a view to providing infrastructure facilities now lacking in these member countries, especially in certain regions, or in the light of priorities already established. Examples include public transport and the protection of the environment.

These general guidelines must be adjusted so as to take account of certain overriding considerations. For one thing, they must not overburden the public purse. In some instances, there may well be arguments for charging users some of the operating costs of facilities being installed. Secondly, greater attention should be paid to the

job-creation effect of the various types of expenditure envisaged, particularly in respect of investment in certain regions.

Finally, everything should be done to ensure that this expenditure makes the maximum contribution to improving the business climate. This does not necessarily mean that the programmes should require large amounts of spending from the outset. The emphasis should rather be on precise medium-term plans for public infrastructure.

This last point is of special importance for private enterprises, since they would then be able to count on firm demand from the public authorities over the years ahead.

#### Specific sectors of the economy

The Member States could also usefully speed up the introduction of technical standards with regard, for example, to energy saving and the protection of the environment. Although obviously the main purpose of the measures is the objectives themselves, action here would also have the advantage of generating valuable additional investment. As regards the protection of the environment, standards governing industrial pollution of water and the atmosphere should be envisaged. Action along these lines would have the twofold advantage of requiring only a small financial contribution from the public purse and of providing industry with firmer guidance as to what is lawful and what is forbidden.

#### Unemployment and aids to employment

Measures taken by the authorities to increase employment should be strengthened in coming months, along lines ensuring that the risk of a revival of inflation is kept to a minimum.

In the first place, the authorities should take action in advance - for example, by organizing vocational training courses - to forestall the emergence of localized shortages of labour as the economy gets under way again. Secondly, the considerable amounts at present paid in

unemployment benefits reflect policies which have had to be defensive, at least to begin with. Some thought should now be given to the question as to whether and, if so, in what ways the emphasis should be shifted to more aggressive measures designed to encourage the creation of jobs, particularly by stimulating alternative industrial or commercial operations likely to ease the transition and pave the way for recovery.

The approach most widely favoured in the Member States consists in various kinds of investment aid. In practice, these aids have all too often promoted investment with a low labour content, because the aid has been allocated mainly on the basis of the capital invested and less on the basis of the actual number of new jobs. Given the employment prospects over the years ahead, there may well be a case for offering aids in ways involving less systematic incentives to capital-intensive investment. Obviously, care must be taken not to encourage the creation of unproductive or unstable jobs, but greater attention must also be paid to the real effect on employment of investments for which support is made available.

#### Working hours

Proposals are being made in various quarters for measures designed to shorten working hours, the aim being to temper the impact of the recession on the overall employment situation. It is not easy to make a useful assessment of these suggestions without a careful examination of their short- and medium-term implications from the angles of organization of work within the firm, the Community's ability to compete, and the more difficult problems of distribution which any slower growth in resources could well throw up.

Another relevant point is that the present situation with regard to working hours varies widely from member country to member country. This is an important consideration requiring study at Community level.

5. MEDIUM-TERM PROBLEMS

Pattern of overall demand

The Commission has on several occasions pointed to the need for a change in the medium term in the utilization of resources. Without going into detail once again, the main points should none the less be summarized.

Firstly, a sufficiently sustained rate of growth in exports should be achieved to offset the deterioration in the terms of trade brought about by the rise in oil prices.

Secondly, the necessary investments should be undertaken to make the Community less dependent on energy imports and to bring about the requisite changes in production structures, both in respect of individual industries and with regard to the regions.

This means that for any given rate of growth in overall demand, expenditure on consumption will have to be cut back to release the additional resources required by exports and investments. With public consumption expenditure extremely rigid, private consumers will have to take the brunt of the sacrifices entailed.

This conclusion calls, however, for some qualification. Firstly, these sacrifices do not mean that private consumption must actually decline: what will be needed is a slower rate of growth during the period required to carry out these changes than in the past. Secondly, this policy cannot be applied strictly in the immediate future, since it could well further aggravate the present recession. The authorities must work for a change in the pattern of overall demand in the medium term, with special attention being given to the lowest income groups.

The achievement of balance

This raises the crucial question as to how the sacrifices necessitated by structural adaptations should be shared out. The solution of this problem will be a true test of democracy, respect for freedom and the spirit of solidarity.

There is a danger that disagreements as to how the national product is shared out and used may in fact affect production itself. This must be avoided, for it could well bring the recovery to a halt and prevent further improvement of the employment situation while adding little or nothing to the workers' purchasing power. On the other hand, if firms seek excessive profits, refuse to take risks and restrain competition, this would be just as sure to weaken the economic system.

Thus it is very unlikely that more normal growth can be restored and that the changes needed can be carried through smoothly without some moderation in the rate of increase of wages.

But working people will be reluctant to accept this condition as it stands and in isolation. In the Commission's opinion, they will do so only if they can be convinced that the authorities are making the necessary effort to tackle certain key problems, which vary in importance from one country to another.

The first of these problems is the distribution of the tax burden, income and wealth redistribution and the treatment of the underprivileged members of society.

The second concerns public-sector services, such as health, transport and education.

The third concerns employment policy.

In each of these areas, resources, obviously, are limited, and it will be difficult to determine priorities. There will be a great temptation to use inflationary expansion to conceal or by-pass the real difficulties. This temptation will be even greater if the unions and managements are not closely involved in policy-making on central problems. Inevitable clashes between objectives must be discussed fully and frankly by the "social partners", in the Parliaments, and in the various associations and federations concerned with economic life. Action must be taken to meet workers' claims for fuller participation in official and corporate decisions and for more extensive information on the real performance of the firms in which they are employed. This condition is of prime importance for the effectiveness of the policies.

#### Public finance

The role of public finance and the changes that may be made in the scope and manner of official intervention raise difficult problems.

First, there is the question as to whether the tendency for public expenditure to increase sharply, which has become apparent over recent years, should be allowed to continue.

The levels of taxation and of other charges of a fiscal nature and their allocation among various groups in the population must be reviewed, and the functions assigned to public expenditure must also be re-examined.

The Commission is of the opinion that only by comparing points of view and by cooperation can solutions be found to avoid conflicts which themselves cause disruption and force economic relations out of equilibrium.

## External relations

### External factors

Any analysis of the Community's current economic situation must be seen against the background of the general international adjustments necessitated by the changes which have taken place during the last two years in the field of energy and raw materials: this has brought out clearly the interdependence and mutual responsibility of all trading countries.

First, the increases in the price of energy and the fluctuations of certain commodity prices have affected costs to degrees which are by no means the same from country to country and industry to industry. Second, export restrictions, the fear of other "OPEC-type" cartels and the realization that even the richest mineral deposits are not inexhaustible have dramatically highlighted the problem of ensuring reliable supplies. These two aspects - price and reliable supplies - form together the key to the survival and competitiveness of the Community's industries: together with Japan, the Community is the industrialized region of the world which is most nearly dependent on energy and raw materials imported from outside. This is a structural weakness which the Community must endeavour to make good, internally, by improving productivity and developing technology and, externally, by pursuing cooperative policies towards both the industrialized countries and the developing countries designed to ensure harmonious transition between the different phases of the adjustments now taking place.

### The Community's external obligations

- (a) In 1973 total exports of goods and services from Community countries accounted for more than 23% of the sum of their gross domestic products, and more than one-third of total world exports. In view of these figures, there is no doubt as to the Community's overwhelming interest in preserving an efficient trading system or as to the influence of the

measures which it can use to encourage the climate of international cooperation without which harmonious trading relations cannot be maintained.

A complex of rights and obligations, resulting from the network of international commitments which it has entered into, links the Community with most nations of the world. The principal expression of this network of relationships, with regard to trade, is without doubt the General Agreement on Tariffs and Trade. At a time when some non-member countries are sorely tempted - and in the present economic and social climate, this is very understandable - to introduce controls to protect home industry and jobs, the Community clearly has the greatest interest in the preservation of and compliance with GATT rules and constraints.

It also seems in the Community's interest to ensure that in the new GATT round started since the Tokyo Ministerial Conference in September 1973, every effort is made to achieve fair and worthwhile results making possible a fresh expansion in world trade, and that, in the meantime, nothing is done by any of the Parties which might jeopardize the outcome of these negotiations.

(b) The Community also has special obligations and responsibilities towards the developing countries, some of which derive from the links established with most of these countries in the past. They are the result of the determination, solemnly affirmed by the Community and all the governments of the Member States many times in the last two years, to help to establish more just and more balanced international economic relations, offering the developing countries a genuine partnership with the developed world. This policy-aim finds its main expression in the conference on international economic cooperation which will be held at the end of the year, but also in international forums where the developing countries are assuming a role of growing importance (special and ordinary sessions of the United Nations General Assembly, the UNIDO Conference in Lima, the annual meeting of IMF and World Bank governors, multilateral negotiations under the GATT).

Aid to developing countries must therefore be extended beyond mere financial assistance, however useful this may be - especially food aid - if it is to cope with situations as tragic as those of the countries hardest hit by the recent increase in the price of oil and oil products and of foodstuffs.

The funds committed to these programmes, despite the severity of the problem, are still modest: official development aid from the Community and its member countries accounts for 0.41% of the European Community's total GNP, while Community aid proper (associated countries, food aid, etc.) accounts for less than 0.1% of the same aggregate.

Development policy must gradually be strengthened by a range of measures which permit the encouragement of investment in these countries, access to the European market for their products, and the stabilization of their export earnings and of the prices of certain products which are of particular importance to them.

The Community for its part has already made a start on this policy - an example is the Lomé Convention - and it proposes to pursue this approach with other countries as part of an overall development policy.

The policy is now based on the fundamental principle that the economies of the countries concerned and of Europe should be gradually integrated into a comprehensive grouping providing each country with better development opportunities, and it has thus ceased to be the "poor relation" of the other policies of the Community and the Member States and has become a leading member of the family. In future, every sector of the economy will have to be managed in a way taking account not only of the constraints but also of the new opportunities arising from our special relationships with developing countries. This will mean further structural changes in the economy of Europe in addition to those necessitated by internal factors, and thus a delicate balance will have to be struck between various requirements some of which may conflict in the short term.

It is therefore now vital that all associations and groupings having representative functions, in particular the unions and managements, should be involved in planning and implementing this policy.

### Employment

The successful application of the ideas outlined above would go a long way towards establishing more balanced international economic relations. Account must be taken, however, in implementing such policies, of their impact within the Community, particularly on employment.

In this context the most dangerous course would be to attempt to maintain the status quo on the pretext of safeguarding jobs. What is really needed is a forward-looking and active policy aimed at providing the right context and proper support for the changes while ensuring that the burden is not borne solely by the workers or particular groups of workers.

There must be a realistic assessment of the tasks which will face those responsible for employment, in the period beyond the present difficulties.

The changes necessary for a return to more balanced growth and those needed to attain the objectives set by the Community will require major adjustments of the employment market.

Certain deep-rooted trends - e.g. the increasing numbers of women going out to work or the slowdown in immigration flows - could well, if they continue beyond the present recession, alter appreciably the structure of the labour force. It is also feared in the Member States that it will be difficult, once the present recession is over, to achieve levels of employment corresponding to those which were common before 1974.

These are matters which call for joint study. Experience has shown the inadequacy of employment measures based mainly on the expansion of overall demand, which fuel inflation but fail to get to the root of the essential problem. That part of labour-market policy concerned with correcting and adjustment - although of great importance - is also subject to narrow constraints.

Thought will have to be given to ways of coping with the phenomenon of areas and types of "hard core" unemployment of a peculiarly obstinate kind. The answer here might well be to encourage structures of production which will promote less capital-intensive industries while also reconciling productivity gains with an improvement in working conditions.

In this context, the Community is at the point of intersection between the international dimension, which largely determines what and how much is produced, and the national dimension, which governs the behaviour patterns of labour. If the labour market is not to remain the area in which the many forces which shape the development of the economy and society are allowed to meet and interact without control of any kind, a properly balanced debate on the conditions governing social change must be conducted, at Community level.

6. COOPERATION, THE PREREQUISITE FOR SUCCESS

Given the standing and calibre of its participants and the pattern of its composition, the Conference is essentially concerned with the search for concerted responses to present difficulties. So far each Member State has examined and investigated a wide variety of possible solutions.

Policy choices to be made are delicate and difficult, so that close contact with the unions and employers, in each Member State, is more important than ever if the right decisions are to be taken in the new circumstances. However, such contacts will not yield much in the way of results if they take place only at national level. This would preclude influence over the international factors which limit governments' real powers, and lead to isolated, uncoordinated and sometimes even harmful action by the governments.

The Commission believes that if further thought is given as to how the objectives of the workers can be satisfied and managements' misgivings as to the future dispelled, it should be possible to stimulate economic activity once again, on sound bases, and lay the foundations for balanced and lasting growth.

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