

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY 1982-83

Communication from the Commission to the European Council, for its
meeting on 28 and 29 June 1982

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- I. In line with the conclusions reached on 29 and 30 March, the Commission has sent to the European Council an initial report on investment which discusses key matters relating to economic growth.

- II. This document sums up the economic and social situation in the Community in 1982 and the developments expected in 1983.

The analysis has to be seen in the light of the main economic policy targets, which in the Commission's view do not need to be amended. The Commission has already made known its views and put forward proposals concerning the four priority areas for action by the Community, namely creation of a more stable economic environment, both within the Community and internationally, modernization of structures, achievement of closer economic convergence and improvement of the employment situation. Only a brief summary is therefore given here, but the Commission may elaborate on them during the discussions of the European Council.

1. A more stable economic and monetary environment is a prerequisite for a return to a healthier growth path and to an improved employment situation. The Community needs to take action on two main fronts:
 - within the Community, it needs to make the economies more competitive and, in order to boost employment, to pursue its attack on inflation; to do so, it needs to strengthen the essential framework provided by the EMS for ensuring the stability and protection of Community achievements to date: the Commission produced proposals on this matter in March;

 - internationally, it needs to play a full part in the new pattern of international monetary cooperation outlined at Versailles and to contribute to its development.

2. The modernization of economic structures within the Community is essential if the Community is not to be outdistanced by its main competitors. This objective can be attained only if, in tandem with the final consolidation of the single market, determined efforts are made to boost investment.

3. In heavily interdependent economies that are joined together in a zone of monetary stability, and at a time when Community achievements to date are being placed in jeopardy, a greater measure of convergence is needed. Convergence means that the objectives set by Member States should be mutually consistent and that the results achieved with regard to prices, the reorganization of public finances, the stabilization of costs, the external equilibrium and growth should be fully compatible, in the interests of greater stability and more robust growth, which in the final analysis means more favourable prospects for employment. Not enough has yet been done. The most recent currency realignment within the EMS demonstrated the resolve on the part of all Member States and the need for the Community to secure closer convergence. The measures decided within the Community framework on 12 June 1982 are confirmation of the useful role played by the EMS not only as a monetary mechanism but also as a forum for discussing and adumbrating economic policy guidelines designed to bring the Community economies more closely into line. Without such convergence, the general uncertainty of the economic climate and the resulting reluctance to invest cannot be dispelled (and parity adjustments would occur too frequently).

This matter is currently under discussion in the Council. The Commission requests the European Council to confirm that it expects the deliberations which the Council will devote to this key topic - and in particular, in July, to the budgetary guidelines for 1983 - to produce national budgetary guidelines compatible with the jointly agreed objectives.

4. Lastly, where employment policy is concerned, the Commission would draw attention to its previous communications and to the conclusions reached at previous European Council meetings, notably with regard to youth unemployment. On 27 May, the Council (Social Affairs) adopted a detailed Resolution on a Community action programme to combat unemployment. The text of the draft resolution is attached hereto. The Commission would like to see measures taken to follow up this Resolution and to prepare the ground for the joint Council meeting to be held before the end of 1981.

III. In the light of the first set of figures available since the beginning of the year, the Commission has slightly adjusted its overall forecasts for 1982, which it had sketched out in preparation for the European Council in March, and looks for a gradual recovery in economic activity for 1983. However, it has not as yet been possible to assess in sufficient detail the possible implications of the most recent realignment within the EMS.

1. Real GDP is expected to grow by 1.5% in 1982, a figure slightly below that envisaged by the Commission in its Communication to the previous European Council. This adjustment, though, does not affect the likelihood that economic activity will gradually pick up during the third quarter of 1982 and, judging by initial estimates, show a growth rate of around 2.6% for 1983. Whereas growth in 1982 will probably stem from some increase in public consumption and especially from restocking, the key growth factors in 1983 are likely to be a fairly sharp recovery in private consumption and a faster rate of investment.
2. This prospect, which is still by no means definite, is not of a sort to bring about a reversal in the trend towards higher unemployment: expressed as a percentage of the labour force, the unemployment rate is expected to climb to 9.2% in 1982 and 9.4% in 1983, compared with 6% in 1980. Even so, it will be seen that, after rising by over 50% in two years, unemployment is now expected to climb at a slower rate in 1983 than in 1982. As regards national levels, even though the gathering pace of the rise in unemployment since 1980 has been seen on a very broad front, some slowdown will probably be discernible during 1983 in most Member States.
3. The results of efforts in recent years to tackle inflation are materializing only very gradually: it will have taken over three years to bring the annual rate of inflation in the Community down to single figures.

This target may be achieved in 1983, when the annual rate of price increases could fall back to 9.5% from 10.2% in 1982, 10.9% in 1981 and 11.1% in 1980. This recent and foreseeable trend of prices in the Community shows two striking features. First, inflation is proving difficult to eradicate at a time when the Community economy is very probably at the bottom of the cycle. This situation contrasts sharply with that obtaining in the period 1975-78. Second, the patterns in Member States differ appreciably. Germany and the Netherlands could make further substantial headway against inflation in 1982-83, and an improvement on this front is also under way in the United Kingdom. But by contrast, further steps are needed to rein back the continuing high levels of inflation in the rest of the Community in order to bring about the measure of convergence needed to secure the monetary cohesion of the Community.

4. In 1983, the Community could reduce its current account deficit to some US \$ 2 200 million, from US \$ 9 900 million in 1982. An important point is that, over the two years in question, the United States' current account balance is expected to move in exactly the opposite direction (a surplus of over US \$ 8 000 million shrinking to some US \$ 3 000 million). Japan, on the other hand, is likely to record a further substantial increase in its current account surplus, which could be in excess of US \$ 20 000 million in 1983.

While the expected trend suggests that the Community economy as a whole will have more or less completely absorbed the external consequences of the second oil shock, developments in individual Member States are likely to differ sharply: for example, Germany, the United Kingdom and the Netherlands are expected to run quite substantial surpluses in 1982 and 1983.

5. While there is the possibility of a gradual upturn in economic activity during the third quarter of 1982 and in 1983 and the prospect of a change in the unemployment trend, the factors of uncertainty in such a scenario should not be overlooked. These factors are essentially the price of oil, interest rates and the investment behaviour of firms.

The experience of recent months suggests a moderate trend in the price of oil for 1982-83. However, the contribution that this would make to an upturn in economic activity by alleviating one of the main pressures on the balance of payments would be significant only if it were combined with a reasonable trend in the dollar rate, which in turn depends on a gradual easing of interest rates.

The prospect of a moderate deficit on the United States' budget for the 1983 fiscal year has been strengthened by the recent progress of discussions between the White House and Congress: agreement on this point might do much to trigger the kind of interest rate trend likely to consolidate an incipient economic recovery. But it will have to be ensured that interest rates will also be directly influenced by further tangible progress, over a sufficiently long period, in bringing down inflation, particularly in the United States. Because of their impact on investment, interest rates have in any case a crucial bearing on whether the Community will in fact see an upswing in 1982-83.

It is nevertheless possible that even an easing of oil prices and a limited fall in interest rates will not be sufficient to automatically trigger a rapid upturn in investment activity. In a period of falling inflation, firms may prefer initially to improve their debt position rather than to undertake major investments immediately. However that may be, firms' attitude to investment - which, it must be emphasized, will be a particularly critical element in consolidating any upturn in 1983 - will depend greatly on economic and monetary events at international level.

6. Given this scenario and the uncertainty surrounding it, the economic policy guidelines which the Commission set out in March 1982 can broadly be maintained. These guidelines can be summarized as follows:

- the progress made in reducing inflation is still precarious and particular vigilance is required in this field; this will have to be reflected in both monetary policy and the management of public finances, which still allow virtually no room for manoeuvre in most Member States. In countries which have a clear problem of controlling public expenditure, the first priority must continue to be a gradual but lasting reduction in deficits;
- vigilance on the inflation front should not, however, rule out the possibility, once progress has been made in this field and the balance of payments situation has eased somewhat, that a policy aimed at steadily reducing interest rates might be recommended;
- any signs of the balance on current account moving off-course must be countered by the rapid implementation of measures aimed primarily at permanently restoring competitiveness;
- at Community level - and in addition to the joint moves to boost investment dealt with elsewhere - the EMS must be used as a means of achieving internal and external monetary cohesion and as a common framework for discipline and the coordination of economic policies.

Table 1 - Main Economic Aggeqates, 1980-83

	1980	1981	1982 (1)	1983 (1)	1980	1981	1982 (1)	1983 (1)
	GDP volume, % change				Private consumption, % change			
B	2,5	-1,1	0,5	1,3	6,5	7,6	10,2	8,6
DK	-0,2	-0,2	2,9	3,8	11,5	10,7	10,1	9,0
D	2,0	0,0	1,0	3,5	5,3	5,9	4,7	3,7
GR	1,6	-0,7	0,8	2,3	23,7	24,4	24,0	21,5
F	1,3	0,2	2,2	2,5	13,2	12,5	13,3	13,0
IRL	1,9	1,8	[2,2]	[2,7]	18,3	20,5	[18,5]	[13,0]
I	3,9	-0,2	1,8	2,8	20,4	19,0	15,0	13,5
L	0,7	-2,4	0,6	2,2	7,7	8,1	12,0	9,0
NL	0,6	-1,4	0,5	1,3	6,6	6,7	5,8	5,5
UK	-1,4	-1,2	1,3	1,9	15,5	10,7	9,5	8,4
CE	1,4	-0,3	1,5	2,6	11,1	10,9	10,2	9,5
USA	-0,2	2,0	-1,7	2,2	10,2	8,3	6,4	5,8
JAP	4,4	2,9	2,3	4,2	7,1	4,5	4,3	3,7
	Unemployment rate, % of civilian labour force				Current account of balance of payments, % GDP			
B	9,4	11,5	13,4	14,1	-5,2	-8,0	-4,8	-3,8
DK	6,2	8,5	8,9	8,7	-3,8	-3,1	-3,5	-3,6
D	3,4	4,8	6,7	6,7	-1,8	-1,0	0,6	0,9
GR	2,8	3,1	3,6	3,8	-2,4	-2,2	-2,1	-2,1
F	6,4	7,6	[8,7]	[8,9]	-1,3	-1,5	[-2,0]	[-1,2]
IRL	8,3	8,7	10,8	12,4	-8,4	-12,8	-10,2	-9,0
I	8,0	8,8	9,6	10,0	-2,5	-2,3	-1,6	-1,1
L	0,7	1,0	1,3	1,4	22,7	20,3	18,4	16,3
NL	4,8	7,5	9,9	10,7	-1,4	2,5	4,4	5,0
UK	6,9	10,6	11,7	11,8	-0,0	2,9	1,0	0,5
CE	6,0	7,9	9,2	9,4	-1,4	-0,6	-0,5	-0,2
USA	5,8	7,6	9,3	9,8	0,1	0,2	0,3	0,1
JAP	2,1	2,2	2,2	2,1	-0,1	0,4	1,0	2,0
	General government net lending (+) or borrowing (-), % GDP (2)				Money supply M2/M3, % change end of year (2) (3)			
B	-9,4	-13,1	-12,4	-11,0	(M2H) 2,7	6,5	7,6	8,5
DK	-5,9	-7,2	-8,8	-10,0	(M2) 10,9	10,4	12,6	13,0
D	-3,5	-4,5	-3,9	-3,4	(M3) 6,2	5,0	5,5	6,5
GR	-5,4	-10,1	-9,2	-8,7	(M3) 24,7	34,3	29,1	20,0
F	0,5	-1,9	[-2,9]	[-3,3]	(M2) 9,7	11,4	[13,8]	[14,0]
IRL	-12,8	-15,1(3)	-14,4	-13,6	(M3) 16,9	18,4	15,6	15,4
I	-7,8	-11,9	-11,1	-10,8	(M3) 17,3	16,1	15,0	15,0
L	-1,8	-1,8	-1,9	-2,2	:	:	:	:
NL	-3,4	-4,6	-4,2	-3,8	(M2) 3,6	5,2	5,4	6,1
UK	-3,5	-2,4	-1,9	-1,5	(EM3) 18,6	13,6	10,0	9,0
CE	-3,5	-5,1	-5,0	-4,8	11,4	10,5	10,7	10,9
USA	-1,2	-0,9	-3,3	:	10,1	9,5	:	:
JAP	-4,2	-4,0	-3,2	:	7,2	8,7	:	:

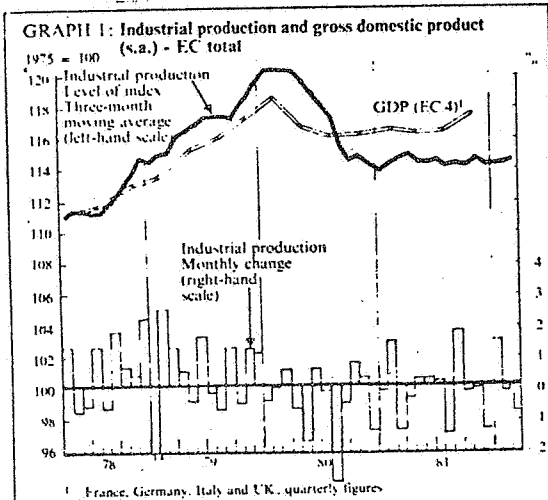
(1) These forecasts were initially prepared in May 1982 and account must be taken of the fact that it was not possible, particularly in the case of France, to evaluate all the consequences of the monetary re-adjustment of 12 June 1982.

(2) Financial years for the UK.

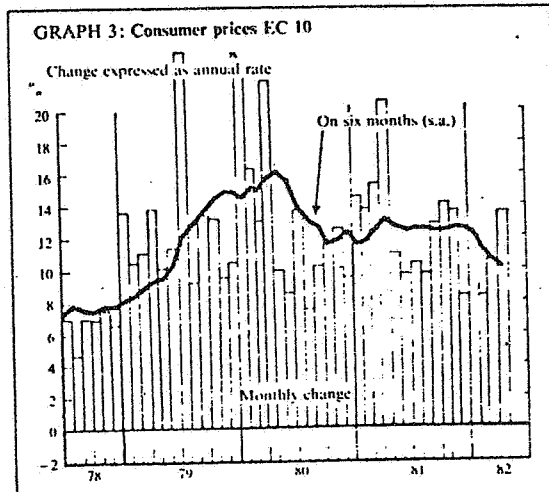
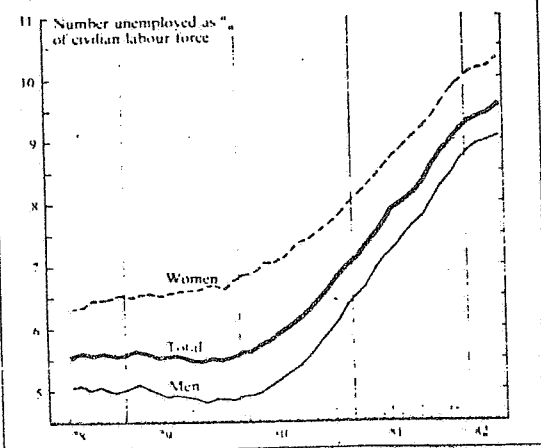
(3) End-year on end-year.

(4) Excluding private sector participation in investments amounting to 112 mill. IRL.

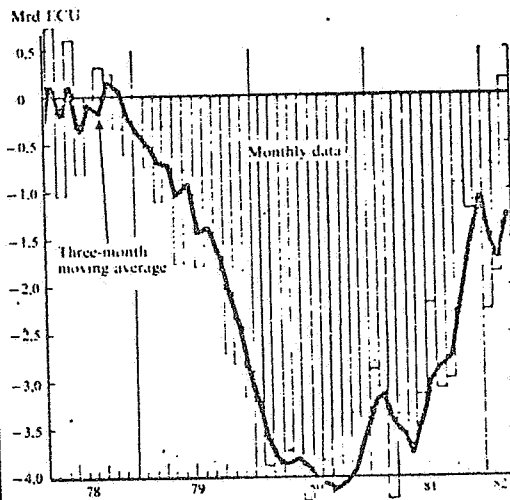
Source: Commission services, Economic Forecasts 1982-1983, May-June 1982.



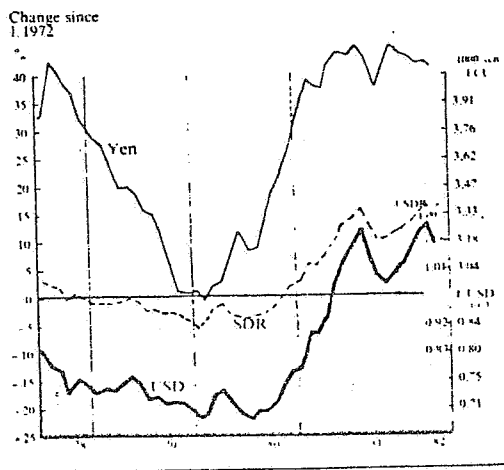
GRAPH 2: Unemployment (s.a.), EC 9



GRAPH 4: Trade balance (s.a.), EC 9



GRAPH 5: Value of USD, yen and SDR in ECU



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COUNCIL RESOLUTION ON COMMUNITY ACTION TO COMBAT UNEMPLOYMENT

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the conclusions of the various meetings of the European Council, and in particular of the meeting on 29 and 30 March 1982, concerning employment,

Having regard to the conclusions of the Council meeting of 11 June 1981 composed of the Ministers for Economic Affairs and Finance and the Ministers for Labour and Social Affairs,

Having regard to the Commission's contribution concerning a "Community action programme to combat unemployment",

Considering the conclusions drawn by the Presidency following the meeting of the Standing Committee on Employment on 27 April 1982 devoted to examination of the problems of unemployment in the Community on the basis of the aforementioned Commission document, the importance of which was emphasized,

Convinced of the need to take concerted action, both at Community level and nationally, to combat unemployment and to restore economic growth

in a situation of monetary stability, while continuing the fight against inflation and ensuring the competitiveness of Community undertakings, and in the hope that such an approach may also contribute to the achievement of improved convergence of the Member States' economic policies,

Convinced of the need to pursue or to undertake within this framework specific action at Community level on employment,

Recalling its Resolution of 27 May 1982 concerning the promotion of equal opportunity for women,

Convinced that it is essential for both sides of industry, within the framework of their autonomy and of their responsibilities, to contribute to the achievement of the objective of the fight against unemployment and that efforts should be continued to improve the dialogue between and with both sides of industry at Community level,

HEREBY ADOPTS THIS RESOLUTION:

1. The Council reiterates its grave concern at the persistently high level of unemployment, particularly among young people, which is creating an intolerable situation.
2. It considers that private and public productive investment should be promoted so as to strengthen the competitive capacity of undertakings, encourage economic growth and raise employment. Measures by Member States with regard to private and public investments, to be carried out in accordance with the situation prevailing in each country, should take account of the repercussions on employment, particularly in the private sector, and ensure that such measures do not lead to an unacceptable increase in budget deficits.

3. The Council notes the suggestions regarding certain investment priorities put forward by the Commission in its aforementioned contribution.
4. Without prejudice to the importance which the Community attaches to the measures taken to help the least-favoured regions, particular attention should also be given to those regions most affected by unemployment, by effective and consistent use of the appropriate Community instruments.
5. The Council considers that it is important that labour market policies be oriented in such a way as to ensure the availability of an adequate and appropriately qualified labour force.
6. The Council considers, in addition to the problems of rationalization investment, the industrial restructuring programmes must simultaneously give particular attention to the employment problems. National and Community authorities and both sides of industry should encourage geographical and vocational mobility. The latter could include the redeployment of workers affected by the restructuring measures, so that such workers are able to take up jobs made available in sectors which are creating employment.
7. It considers that the possibilities should be examined for promoting the development potential of small and medium-sized undertakings, which are a source of innovation and hence a factor for creating employment, by providing them in particular with appropriate assistance in areas such as training, know-how, information and access to credit, with a view to making them more competitive on the market.
8. It stresses its interest in the job creation process, which is also apparent in local initiatives and cooperatives and requests the Commission to submit to it the results of its research and its thoughts on the matter so that it can assess the contribution of such initiatives to creating employment.

9. The council stresses the priority which the Community must give to vocational training for young people. It has noted that the Commission intends to submit proposals to it shortly for measures aiming to ensure that all young people coming on to the labour market, and particularly school leavers, receive vocational training combined, if necessary, with initial work experience, where appropriate under special programmes or contracts of employment.

Such measures should be compatible with the measures to integrate young people into the labour market and with other special measures, particularly those to help the long-term unemployed, and should fit into the general framework of the strategy to be implemented to combat unemployment as a whole.

10. Given the potential value of experiments into and measures on the adaptation and sharing of working time with a view to more flexible use of production resources and improving the employment situation, the Council also considers that, following the initial proposals made by the Commission for implementing the Council Resolution of 18 December 1979 on the adaptation of working time, the dialogue with and between both sides of industry regarding the number of working hours must be continued within the framework outlined in the Resolution. It notes that the Commission is to submit a memorandum on the matter to it before the end of 1982.
11. The Council notes that the Commission intends to promote better functioning and transparency of the labour market and to discourage obstacles to its effective operation with the participation of the public

authorities, employers and labour, in order to ensure that the proposed job-creation measures are successful and to facilitate implementation of the necessary training measures, in particular by developing forward-looking management of the labour market, local labour market intelligence and by improving employment services.

12. It requests the Commission to submit to the Council, taking account of this Resolution, appropriate proposals or communications as part of a coordinated Community approach to combating unemployment, which could be submitted in the second half of this year to a special Council meeting, as suggested by the European Council at its last meeting, and which could be the subject of prior consultation with both sides of industry in the Standing Committee on Employment, taking into account the latter's areas of competence.