TALSMANDENS GRUPPE - SPRECHERGRUPPE - SPOKESMAN'S GROUP - GROUPE DU PORTE-PAROLE
ΟΜΑΔΑ ΕΚΠΡΟΣΩΠΟΥ ΤΥΠΟΥ - GRUPPO DEL PORTAVOCE - BUREAU VAN DE WOORDVOERDER

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EUROPEAN ECONOMY NO. 16 - JULY 1983

Issue No 16 of "European Economy" brings together various studies made during the first half of 1983 by the Directorate-General for Economic and Financial Affairs and presents a novel analysis of available statiscal and economic data on energy and foreign trade.

The studies deal with three topical themes: investment, energy and foreign trade.

INVESTMENT

This first section reproduces Commission communication COM(83)218 on tax and financial measures in favour of investment, but starts with an introduction providing additional information which, because of its more technical nature, could not be included in the communication.

The introduction looks into the indicators of the tax burden on firms, shown in a table in the communication; it gives a definition of tax incentives from the viewpoint of economic theory, contrasting with the definitions generally used; it provides a more detailed technical description of certain measures referred to in the communication; and it discusses the advantages of various incentive measures by reference to the type of firm (small businesses, large firms, quoted or non-quoted companies)and by reference to the various phases of a firm's development.

ENERGY

Energy and the economy: a study of the main relationships in the countries of the European Community.

Chapter I surveys the trend in the main energy aggregates and gives a brief outline of their relationships with the economic variables. Energy demand is analysed in greater detail on the basis of a highly illustrative breakdown of the main effects that made themselves felt in the period 1973-82.

The study highlights not only the substantial improvement over this period in energy efficiency (energy consumption per unit of GDP) in industry and the household/tertiary sector but also the still high responsiveness of consumption to economic activity, necessitating a continued and determined drive to break the link between growth and consumption. While the Community's dependence on imported energy has diminished markedly, it is still high and thus imposes a heavy burden on the balance of payments of most Member States.

Chapters II and III were drafted with the help of an expert from the Directorate-General for Science, Research and Development. Chapter II reviews recent economic literature on the methodology and calculation of energy demand elasticities. Chapter III gives the result obtained for five Community member countries using an energy demand model constructed by the author for the Directorate-General for Economic and Financial Affairs. The estimated elasticities, for the industrial and the residential/commercial sectors respectively, are generally fairly robust and show a number of interesting features.

For example, the elasticities of energy demand with resepect to output are particularly low in industry (of the order of 0.6) because the model makes allowance for structural changes (reduction in the share of industries which are heavy consumers of energy). This means - if it is assumed that these structural changes are irreversible - that an upturn in economic growth would have only a limited impact on energy demand in the industrial sector.

THE FOREIGN TRADE OF THE COMMUNITY, THE UNITED STATES AND JAPAN

This study follows on from previous work on the competitiveness of the European economies. It is based on up-to-date foreign trade statistics which for the first time include constant-price series for exports and imports.

The first chapter analyses the trade of the Community, the Member States, the United States and Japan in real terms and comes to a straightforward conclusion:
while the Community, the world's leading exporter of manufactured goods, has maintained the share of world trade which its industrial strength and its expertise in trade-linked services have enabled it to win, its insufficient techological progress has weakened its export position for equipment goods and has made it more vulnerable to foreign import penetration.

The second chapter, which was also drafted jointly with an outside expert, is devoted to an examination of the price and income elasticity series for the foreign trade of the same countries, derived from systematic estimates of export and import demand functions for the period 1964-81. It demonstrates the sensitivity of trade balances, and particularly exports, to movements in relative prices, which compels those countries with the highest inflation rates to try to align their rates on those of their trading partners in order to reduce their trade imbalances and/or the tendency for their currencies to depreciate. Since the first oil shock, the Community market has lost buoyancy and no longer provides the same stimulus to Member States' trade as in the past.