

EUROPEAN
ECONOMIC
COMMUNITY

Medium-Term Economic Policy Committee

PRELIMINARY DRAFT
OF THE FIRST MEDIUM-TERM
ECONOMIC POLICY PROGRAMME

1966-1970

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MEDIUM-TERM ECONOMIC POLICY COMMITTEE

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BRUSSELS, 25 MARCH 1966

I N T R O D U C T I O N

On a recommendation of the Commission and after consulting the European Parliament and the Economic and Social Committee ⁽¹⁾, the Council of the European Community decided on 15 April 1964 to set up the Medium-Term Economic Policy Committee to promote the co-ordination of the general economic policies of the Member States. The legal basis for this decision was the Treaty of Rome, notably Articles 105 and 145. The main task of the Committee was to work out the preliminary draft of a medium-term economic policy programme, taking into account all available information, notably the forecasts of a Group of Experts attached to the Commission. This programme was to set out the main lines of the economic policies to be pursued by the Member States and the Community institutions for 1966 - 70, and to ensure co-ordination of these policies.

On the basis of the work carried out by the Committee, the Commission is to draw up a draft programme, indicating those points on which it departs from the Committee's preliminary draft. The Commission will submit this draft to the Council, which will refer it at once to the European Parliament and to the Economic and Social Committee for opinions. The programme will not be finally adopted till it has been approved by the Council and by the Governments of the Member States. Its adoption will mean that Council and Member States intend to act along the general lines set out in the programme.

Once the Governments of the Member States and the Commission had appointed its members, the Committee held its inaugural meeting on 11 December 1964. It elected as Chairman M. W. Langer, State Secretary in the Federal Ministry of Economic Affairs (Germany), and as Vice-Chairmen M. P. Massé, then Commissioner-general for the Equipment and Productivity Plan (France) and M. G. Brouwers, Secretary-general in the Netherlands Ministry of Economic Affairs ⁽²⁾. On the departure of M. P. Massé, the Committee appointed M. F. X. Ortoli, Commissioner-general for the Equipment and Productivity Plan (France), as Vice-Chairman.

(1) Commission Recommendation to the Council on the Community's medium-term economic policy, 25 July 1963; Opinions of the European Parliament (21 January 1964) and of the Economic and Social Committee (29 January 1964) on this recommendation.

(2) The Council's decision of 15 April 1964 and a full list of members of the Committee are given in an annex.

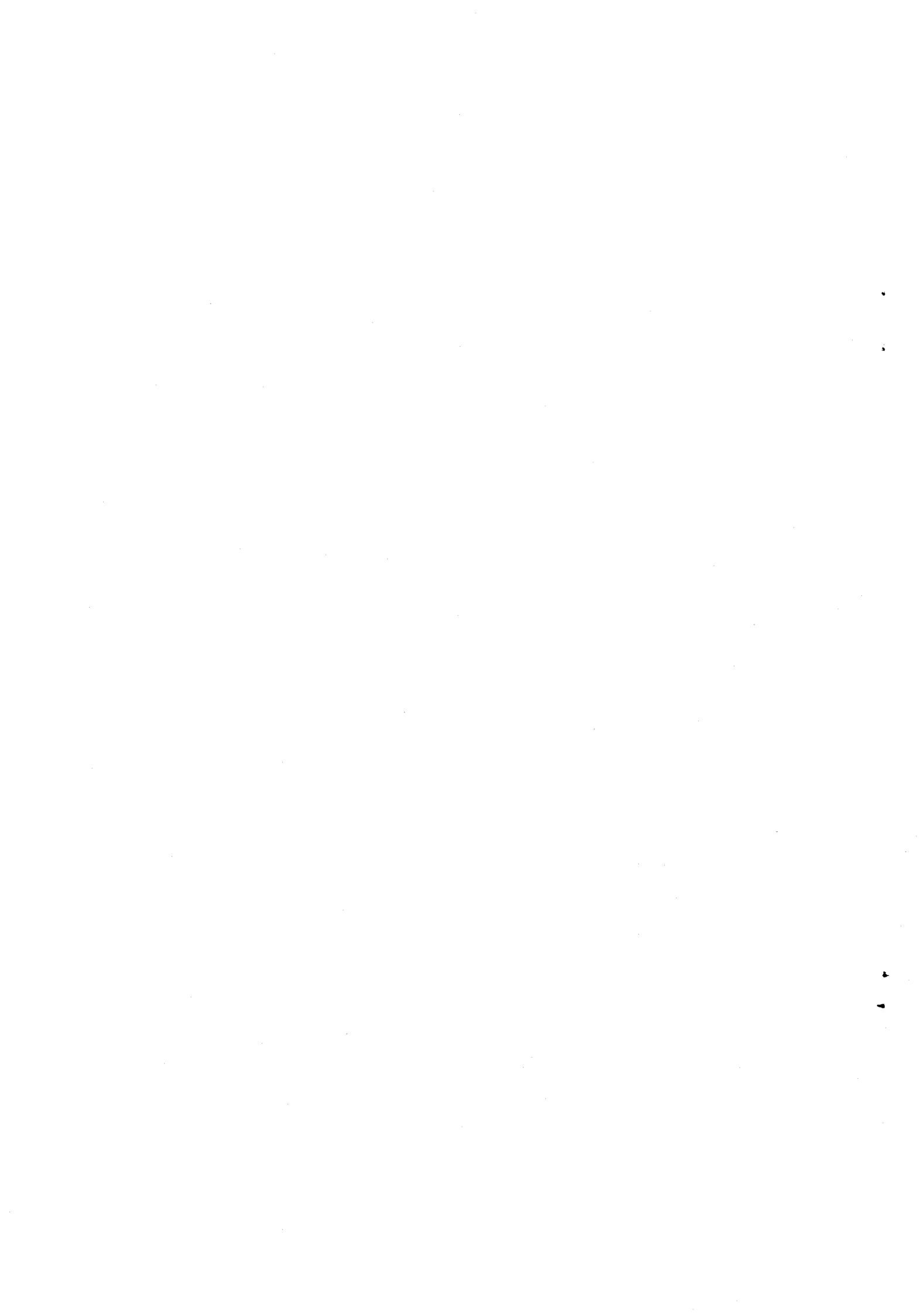
The Committee worked out the preliminary draft for the first programme at a total of 14 meetings, the preparatory work for which was carried out at meetings of the alternates. In addition, the Committee set up special working parties for certain specific fields, namely policy on the structure of industry, incomes policy, and policy in the field of scientific and technical research ⁽¹⁾. Again, problems connected with the public budgets and regional policy were studied in close co-operation with the Budgetary Policy Committee and the Working Party of senior officials responsible for regional policy in the Member States.

A major contribution was made to the first programme by the Group of Experts on medium-term forecasts. The Commission had appointed 18 highly qualified experts to constitute this group. M. Kervyn de Lettenhove, a former Secretary General in the Belgian Economic Programming Bureau, was appointed chairman. The Group met for the first time on 29 September 1964 and in the course of twelve meetings drafted a report on the prospects for economic developments in the EEC until 1970. The main points and conclusions in this report are part of the material used in Chapter II of the programme now put forward.

This first programme does not deal in detail with all the fields that will be relevant to medium-term economic policy in the coming five years; the problems of medium-term economic policy and the tasks which the Council assigned to the Medium-Term Economic Policy Committee and to the Commission in this field are too complex and far-reaching to lend themselves to detailed treatment in the relatively short time available for its preparation. As the Commission observed in its Eighth General Report on the activities of the Community, the attempt to co-ordinate medium-term economic policy is too important for those concerned to allow its prospects of success to be undermined by over-hasty and superficial work.

(1) The terms of reference of the Working Parties are given in an annex.

The first chapter in the programme is devoted to the general concept of medium-term economic policy. This is followed by an analysis of the structural requirements and of the general conditions which will determine economic growth in the coming years; this part of the work brings out the main lines likely to be followed by economic developments in the medium term. The programme then sets out tentative overall guide lines for the various fields of medium-term economic policy in the years ahead. Specific fields, such as employment and training policy, public finance policy and regional policy are dealt with in more detail in subsequent chapters, (as the programme is to be adjusted each year) it is intended to go more deeply into those questions which have not already been fully examined. In the work now being carried out by the Committee and in the next programmes, problems connected with the need for mutual consistency between national policies and Community policy will be examined more thoroughly, and problems arising in connection with research, industrial and agricultural structures, the size of enterprises, public finances, incomes policy and the capital markets will be given priority treatment.



C H A P T E R I

THE BASES FOR A MEDIUM-TERM ECONOMIC
POLICY IN THE COMMUNITY

The aim of the Community's Medium-Term Economic Policy is to create optimum conditions for steady and balanced economic growth while a high level of employment and of internal and external stability are maintained; in this way it will enhance the prospects for a rapid improvement in the standard of living of citizens in all walks of life and help the less developed regions to catch up with the others.

For this purpose, managements and governments must work hand in hand, and it is particularly necessary that all official action affecting the growth, the structure and the stability of the economy, both in the Member States and at Community level, should be combined into a systematic and rational economic policy co-ordinated for the medium term. The progressive integration of the economies of the Member States requires ever closer co-ordination of their medium-term economic policies, so that the establishment of the Common Market and of the European Economic Union can be completed in the best possible conditions.

The main tasks and exigencies facing those responsible for medium-term economic policy are:

1. In most member countries the general conditions which determine growth have changed radically in the last few years. This is mainly due to the high level of employment reached and to the improved standard of living. Optimum economic growth is now dependent on fulfilment of conditions which require both trade and industry and the State to expand their longer-term planning and efforts, particularly in connection with the economic and social infrastructure, education and training.
2. As a result of growing European integration and the increased economic interpenetration throughout the world, and because of economic and technical progress and higher living standards, the pace at which the structure of the economy changes is rising markedly. This change requires not only that all those who play a role in economic life should adjust regularly and in good time to changes in the pattern of demand and supply, but that they should also make an effort to find newer methods of production. What is wanted, then are longer-range measures in the structural field which will facilitate this adaptation in the various industries and the various regions and which will make possible an

adequate degree of mobility for the factors of production; a further aim would be to help ensure a better balance in the economic structure. At the same time, however, economic and social damage must be prevented even when the change in structure occurs abruptly. Measures of structural adjustment along these lines should conform with overall economic rationale.

3. Of all the factors useful for the attainment of the economic and social objectives of the EEC Treaty, the free play of the market, is, in those sectors where satisfactory competition obtains, one of the most important instruments of medium-term economic policy, and the most effective way of ensuring optimum allocation of production factors. A full market is, in fact, vital to economic progress. For this reason it is very important that competition should be maintained by means of an active competition policy and should be developed in fields where it is inadequate. The rules of competition set out in the Treaty of Rome provide a suitable framework for such a policy.
4. However, effective competition does not at present obtain in every field, and the special circumstances of certain cases mean that even in future it will not be achieved everywhere. This applies in particular to those fields traditionally subject to influence by governments. One of the main tasks facing those implementing the medium-term economic policy will be to examine, from an overall economic and social standpoint, specific government support arrangements (sometimes made purely for short-term purpose) in the light of their longer-term effects. The purpose of this examination will be to clarify that such arrangements do not partly or wholly cancel each other out. At the same time, the expediency of the measures can be checked.
5. Experience has shown that despite all its successes, short-term economic policy action alone does not suffice to ensure at one and the same time monetary stability, balance-of-payment equilibrium and a high level of employment. This is largely due to the fact that it must bring rapid results and consequently aims first and foremost at influencing overall demand.

An economic policy with a medium-term bias, creating optimum conditions for the elastic development of supply, contributes from the supply side as well to a more balanced development of the economy. A successful medium-term economic policy also make it all the easier to resolve short-term economic problems; and since short-term policy must be based on some notion of medium-term growth prospects, medium-term policy will also facilitate the implementation of the short-term policy in so far as it enable short-term measures to be dovetailed into longer-term developments.

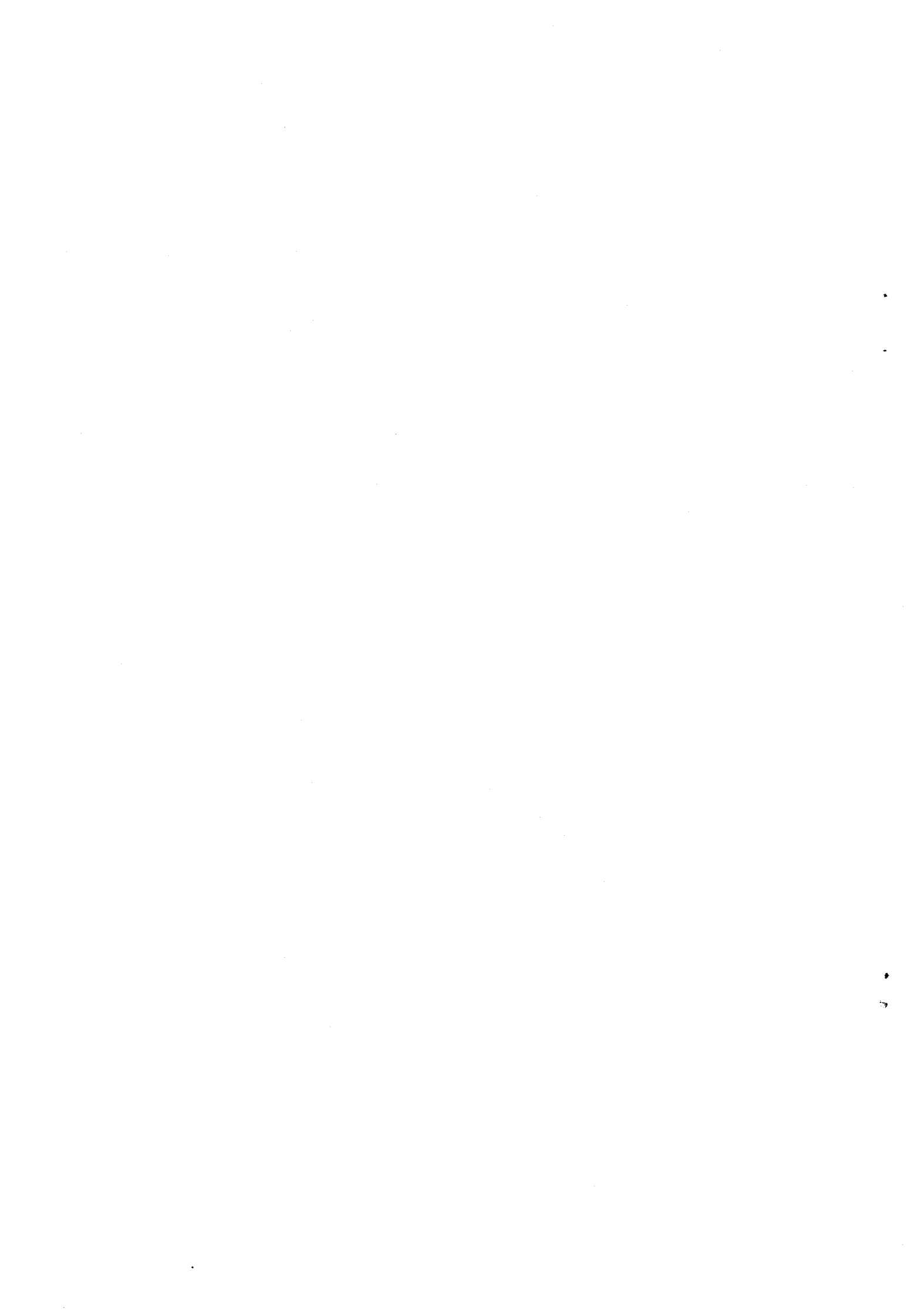
6. There is a growing need for public budgets to be established in the light of what can and what must be done in regard to medium-term economic growth. Their main objective should be the creation of optimum conditions for growth, structural development and stability. This can only be achieved if budgets are planned in advance, not just for a year at a time but for the medium term: once this is done, it will be easier to establish a correct scale of priorities in public spending and in particular to meet the growing need for investment in the field of economic and social infrastructure and of education. The change might also make it possible to improve the chances that the raising and spending of money by the public authorities will reflect a financial policy consonant with general economic developments.
7. Goods, services, capital and labour will probably enjoy complete freedom of movement within the Community by 1970. Extensive economic interpenetration between the Member States will be the result, and this means that favourable or unfavourable economic forces spreading from any one member country will have a rapid and increasingly sharp impact on economic trends in the other Member States. It is therefore necessary to redress existing disequilibria and to forestall the emergence of new disequilibria by the reciprocal supply of information on the development of the Member States' economies and the closer co-ordination of economic policies. For maximum efficiency, these information and co-ordination arrangements will have to cover all economic problems. It is particularly important that the Member States should co-ordinate their intentions with regard to medium-term economic policy, whether they have been cast in the shape of programmes covering several years or merely given the form of general guidelines: over the years such intentions influence economic policy and consequently exert an appreciable effect on economic developments as well.

8. In view of the close interdependence between economic policy and social policy, medium-term economic policy must also contribute to the simultaneous attainment of the Community's social objectives. Here the main objective is the progressive improvement in the living and working conditions of citizens in all walks of life within the bounds set by total economic resources. In addition to optimum growth and stability, a high level of employment and a fair distribution of income and property are necessary if this objective is to be achieved. A regular flow of information on social trends and the development of social policy in the several member countries and close co-operation on social questions between them at Community level are indispensable if the Common Market is to be built up into an economic union.
9. The development and implementation of mutually consistent common policies such as for agriculture, transport, fuel and power, commercial relations with non-member countries and vocational training which have already been partly worked out or are to be worked out in the next few years under the mandate given to the Communities, demand sufficient knowledge of the general long-term development trends and economic policy intentions in the Member States.
10. The Council has explicitly stated that it is not part of medium-term economic policy to spell out quantitative objectives for the Community or the Member States. None the less it is barely conceivable that the Committee could devise an economic policy for the medium term without quantitative information on the possible growth of the economy under various conditions and given differing economic hypothesis. The basis for such information is for the most part the work being carried out by the Group of Experts on medium-term forecasts and the expectations of Governments and Commission in this field.

The work leading up to the present programme has shown how important it is for the framing of economic policy in general and of the medium-term economic policy in particular that there should be adequate and comparable statistical documentation for the several Member States, notably in the field of national accounts. For this reason the Member States and the Community institutions should intensify the efforts they are already making to improve the statistical coverage of economic trends and should bear in mind that a common market and the creation of the economic union also require uniform statistical methods and definitions. The Statistical Office of the European Communities will have a special contribution to make to this work.

11. The implementation of the general medium-term economic policy programme will require special efforts and consequently the programme can be applied only step by step. Its success is therefore all the more vitally dependent on the adoption or improvement by the Member States of the requisite laws and regulations and, where necessary, the strengthening by the Community institutions of their administrative powers. Consequently, the Member States and the institutions of the Community should, at the earliest possible moment, take all the appropriate preliminary measures needed for the rapid and efficient implementation of the guidelines set out in this programme.

The success of the medium-term economic policy also depends on the readiness of all sections of the population participating in economic life, as well as of the public authorities, to support by their conduct the guidelines laid down in the programme. This means that Governments and Community Institutions must work in mutual co-operation with the various economic and social organizations.



C H A P T E R I I

THE YEARS AHEAD : GENERAL GROWTH PROSPECTS

1. The economic guidelines which this programme will lay down must be based on an overall view of development prospects for the years ahead. The projections indicate the order of magnitude of probable trends or changes, and so make it easier to obtain this overall view.

They thus supply those responsible for economic policy and other economic transactors with an overall framework in which their decisions and choices will be made. The projections will also enable them to discern more clearly the nature of the problems with which they will have to cope, to locate in advance the critical areas of the economy and to assess the room for manoeuvre that they have in any specific operation.

2. However, growth is a process the dynamic thrust of which rests on continual changes in the conduct of authorities, individuals, firms, etc, and in their relations with each other. It is true that these changes are subject to certain relatively stable laws on which prediction techniques are based, but the large number of uncertainties remaining rules out really firm forecasts.

It is important therefore to stress the essentially conditional nature of quantitative projections: they are based on a complex of more or less explicit assumptions and the trends predicted will actually occur only if the assumptions are correct. This must be borne in mind in the interpretation of the projections.

Among the assumptions adopted, those concerning the intentions of the public authorities play a particularly important role, precisely because of their impact on the development of the economy. There is therefore a reciprocal relationship between projections and programmes although the projections constitute the technical foundation on which the programmes are based, they themselves incorporate in more or less explicit terms a number of the decisions included in the programmes.

3. The projections established for the medium-term economic policy programme are at present confined to population and employment, and to the origin of domestic product by main industries and its utilization by main category. The projections are established at 1960 prices (1965 for Germany).

As overall volume projections concerning transactions in goods and services, they suffer from two major limitations. The first is that they are established at constant prices; elimination of price variations leaves a distorted picture of economic developments, notably with respect to changes in the pattern of the national product by sector, and there is no way of showing their implications with regard to price stability. The second limitation concerns the trend followed by incomes and by capital flows, an important problem which it has not yet been possible to tackle.

4. The projections have been established by the Group of Experts on medium-term forecasts on the basis of work carried out at national level⁽¹⁾. However, in the case of the Federal Republic of Germany, they were supplied directly by the German authorities and they diverge in certain respects from the projections made by the Group of Experts.

Moreover, the character of these projections varies considerably from country to country.

For Germany and Luxembourg, which do not establish national programmes, the projections plot an average development of the economy in the coming five years. The German Government has endeavoured to fix an average growth rate enabling the central objectives of economic policy to be attained in acceptable conditions: full employment, price stability, and external equilibrium. Its projection corresponds to a working hypothesis designed to throw light on economic policy decisions. It lies midway between two extreme projections previously established to fix the approximate area in which the medium-term overall growth rate should lie if all three central objectives were to be reasonably safeguarded.

(1) The report of the Group of Experts on medium-term forecasts, submitted by the Commission to the Committee, is reproduced in an annex. The Community has not stated its views on the points made in this report.

For the other countries, the projections are based directly on the work carried out by official departments in connection with national programmes or plans. For France, they are identical with the growth assumptions used for the Fifth Plan ⁽¹⁾. For Italy, the Netherlands and Belgium, the assumptions are those accepted at the stage reached on 1 January 1966 in preparatory work on medium-term national programmes.

The national programmes may include quantitative objectives: such objectives are, however, expressed not in absolute terms but in relation with the fulfilment of certain conditions - and the emphasis is generally on the flexible nature of the objectives and of the corresponding programmes. For example, in the case of the Fifth Plan in France, the authorities are committed to defending the objectives, but do not guarantee that they will be attained.

At Community level, the projections have been accepted by the Committee as a central assumption on growth in the countries concerned. This does not mean that they are objectives: the Council has expressly stated that they are to be treated only as quantitative guides ⁽²⁾.

POPULATION AND EMPLOYMENT

Total population

5. In 1970 the population of the Community will be 188 million ⁽³⁾. It was 172 million in 1960 and will thus have increased by 9.5% in ten years. In 1965 the figure was 181 million.

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- (1) The Community's assumptions sometimes appear to differ from those of the Fifth Plan because of differences in definitions (the figures are calculated on the basis of a narrow definition of production excluding, inter alia, the services provided by financial institutions and the public authorities). With this reservation, the projection for France corresponds to the projection attached to the Fifth Plan. The figures for 1965 and the corresponding growth rates are taken from the accounts established for the May 1965 economic budget.
- (2) In what follows the growth rates are normally expressed as annual rates of increase, unless otherwise stated. In the tables the column headed "1970/65" covers the changes taking place between 1965 and 1970, that is over a period of 5 years.
- (3) The figures for total population and for employment include net immigration between 1965 and 1970.

Table 1
Trend of total population

Country	Numbers ('000) (1)		Annual growth rates (%)		
	1960	1970	1960/55	1965/60	1970/65
Germany	55 430	60 700	1.1	1.3	0.6
France	45 680	51 290	1.0	1.4	0.9
Italy	49 760	53 100	0.6	0.7	0.6
Netherlands	11 490	13 230	1.3	1.4	1.5
Belgium	9 180	9 780	0.6	0.7	0.6
Luxembourg	315	348	0.6	1.1	0.8
EEC	171 860	188 450	0.9	1.1	0.8

(1) Except for Luxembourg, the figures are rounded off to the nearest 10 000

It looks, however, as if the expansion of the population in the coming five years will slow down - to 4% between 1965 and 1970 compared with 5.6% between 1960 and 1965: in recent years certain exceptional migratory movements have taken place, notably in France and the Federal Republic of Germany. In addition, certain countries expect the natural demographic trend to level off because the section of the population with highest fertility is now relatively small compared with the others.

Nevertheless, the rate of increase in the total population will not vary very widely from country to country: apart from the high rate of 1.5% in the Netherlands, the range of annual growth rates will be between 0.6% and 0.9%.

Working population

6. Trends under this heading will vary more widely from country to country; the total effect for the Community as a whole is that growth will be more moderate than in the past.

Table 2

Trend of working population

Country	Numbers ('000) ⁽¹⁾		Annual growth rates (%)		
	1960	1970	1960/55	1965/60	1970/65
Germany	26 520	27 300	1.1	0.6	0
France	19 720	20 760	0.1	0.6	0.5
Italy	19 880	20 980	0.4	0.5	0.6
Netherlands	4 190	4 840	0.7	1.6	1.3
Belgium	3 530	3 760	-0.1	0.7	0.5
Luxembourg	131	137	0.1	0.7	0.2
EEC	73 970	77 780	0.5	0.7	0.4

(1) Except for Luxemburg the figures are rounded off to the nearest 10 000

Trends in the working population will be affected by the following factors :

- (i) The ratio of that proportion of the total population which is of working age to the total population in many cases substantially, and trends will continue to vary from country to country;
- (ii) Young people will be staying at school longer and this will, of course, appreciably affect numbers seeking employment in the corresponding age category;
- (iii) For immigration movements, the forecasting of which is much more difficult, it has generally been supposed that current trends will continue (1). However, the rapid development of demand for labour in Italy planned for in this country's

- (1) The estimates obtained generally refer to total migration (working and non-working persons) - only the Federal Republic of Germany submitted an estimate of immigration of foreign workers. These estimates do, however, give a very general picture of the trends in immigration and emigration of workers. The estimates are as follows, by five-year period;

	<u>1965/60</u>	<u>1970/65</u>	('000)
Germany	+ 835	+ 350	
France	+ 1546	+ 740	
Italy	- 500	- 300	
Netherlands	+ 44	+ 60	
Belgium	+ 132	+ 85	
Luxembourg	+ 12	+ 8	
+ =	net immigration		
- =	net emigration		

Five-year programme will result in a further pronounced decline in net intra-Community migration.

In view of these factors, two distinct trends may be discerned:

The working population will neither decline nor increase in Germany and Luxembourg. In these two countries, therefore, labour shortages are likely to remain severe.

In each of the four other countries the working population is expected to increase: this increase will still be very sharp in the Netherlands, despite a distinct loss of momentum (1.3% compared with 1.6% between 1960 and 1965) and will remain firm in the three other countries (France, Belgium and Italy - about 0.5%).

Thus the working population of the Community, which was 76.1 million in 1965, will probably increase by 1.7 million to reach 77.8 million in 1970 - whereas the increase recorded between 1960 and 1965 was about 2 million.

Employment

7. Provided final demand for goods and services actually expands at the rate foreseen in the projections, it seems unlikely that there will be any great difficulty - at least in overall terms - in absorbing the additional labour resources which will become available.

The projections presuppose the attainment of a high level of employment - one of the general objectives to which the Member States have subscribed in the Treaty of Rome and which they are pursuing in their short-term economic policies and their structural policies.

Table 3
Trends of numbers employed

Country	Numbers ('000) (1)		Percentage annual growth rates		
	1960	1970	1960/55	1965/60	1970/65
Germany	26 250	27 150	1.7	0.7	0
France	19 480	20 140	- 0.1	0.8	0.5
Italy	19 010	20 360	1.3	0.6	0.8
Netherlands	4 140	4 780	0.7	1.6	1.2
Belgium	3 350	3 660	- 0.1	1.1	0.6
Luxembourg	134	142	0.2	0.7	0.4
EEC	72 360	76 230	1.0	0.7	0.5

(1) Including national servicemen and the net contribution made by frontier workers to employment within the country.
Except for Luxembourg the figures are rounded off to the nearest 10 000

The low unemployment rates foreseen for five countries (between 0.5 and 1.7%) correspond to full employment, and in fact, for certain countries, to the persistence of labour shortages. The fall foreseen by the Italian programme for the unemployment rate (to 3%) would mean a substantial reduction in structural unemployment in this country.

With respect to the actual number of hours worked, the projections are based on the assumption that the tendency for this variable to decline will continue at rates differing appreciably from one country to another. The range of rates of reduction, which is fairly wide, is difficult to interpret because of the diversity of the situations at the beginning of the period, and because many of the assumptions are rather general approximations.

If it occurred in the proportions assumed in the national projections, the decline in the number of hours worked would go far to offset the increase in manpower; in most member countries, therefore, the rise in the total number of hours worked may well prove to be quite slow, and in Germany it even seems likely to fall.

One other problem is that a balanced labour situation is not only a general macro-economic problem. Within the national economies there ought to be a considerable shift of manpower into those industries where employment will be expanding sharply. Industry and services taken together are expected to absorb 3 600 000 additional workers (i.e. nearly 5% of the total working population), whereas the number of persons employed in agriculture will probably decline by about 1 700 000. These figures give a very general idea of the scale of the movement. The shifts will take place on a particularly large scale in Italy and in France, and will continue to cause major problems of adaptation, especially in connection with the training of young people from country areas and the balance between the various regions.

GROWTH AND INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT

Overall growth

8. The overall growth rate ⁽¹⁾ of the domestic product is a key economic policy indicator.

(1) The values expressed in national currency units in each projection have been converted into the "unit of account" to facilitate addition and comparison. Such addition or comparison will yield results that must, however, be treated with the greatest reserve. The unit of account corresponds to 0.888671 grams of fine gold, which is at present the value of the US dollar.

In predicting the domestic product, it is important to take into account future population trends, the objective of the maintenance of full employment, demand prospects and the requirements of balanced growth. The work carried out has led to the following assumption being adopted for each of the Community countries.

Table 4
Growth of overall product⁽¹⁾

Percentage annual growth rates at constant prices							
Country	Gross Product			Product per person employed		Product per inhabitant	
	1960/65	65/60	70/65	1965/60	70/65	1965/60	70/65
Germany	6.6	5.1	3.5	4.3	3.5	3.8	3.0
France	4.7	4.8	4.8	4.5	4.2	3.4	3.9
Italy	5.9	5.1	5.0	4.5	4.2	4.4	4.4
Netherlands	4.2	4.7	4.6	3.0	3.3	3.3	3.1
Belgium	2.7	4.5	4.1	3.4	3.4	3.8	3.5
Luxembourg	3.0	2.9	3.2	2.2	2.8	1.8	2.4

(1) Gross domestic product at 1960 prices - except for Germany (gross national product at 1965 prices).

These overall growth rates imply that in most of the countries trends noted in the recent past will be maintained; Germany is the only country in which the rate is expected to slow down to an appreciable extent: here labour resources will fail to expand and the improvement in product per person employed is expected to lose momentum.

The growth rate per person employed and the growth rate per inhabitant are two indicators often used in assessing the performance of a national economy. It would seem that both will tend to remain at their present levels, although they may gather a little momentum in Luxembourg and lose a little in Germany.

However, the growth rate per person employed will remain higher than the growth rate per inhabitant in all the EEC countries except Belgium and Italy. This disparity is accounted for by the fact that the ratio of working population to total population is falling.

9. The outlook by main sector, (agriculture, industry, services) assessed on the basis of the central assumptions and developments in the major categories of demand, points to sustained expansion of industrial production, a more moderate expansion of the production of services, and maintenance of the slower rates of expansion that have characterized agricultural production.⁽¹⁾

Agriculture

10. For the agricultural sector, the progress of added value would be about 2% (it will lie between 2.9% for Italy and 1.0% for Luxembourg). The share of this sector in gross domestic product would fall, for the EEC as a whole, from 7.8% in 1965 to some 6.7% in 1970⁽²⁾.

Table 5
Trends in agriculture

Country	Percentage annual growth rates					
	Value added		Employment		Value added per person employed	
	1965/60	1970/65	1965/60	1970/65	1965/60	1970/65
Germany	1.1	-	-3.9	-	5.2	-
France	0.9	1.7	-3.3	-3.7	4.5	5.6
Italy	2.6	2.9	-3.3	-3.0	6.1	6.0
Netherlands	-0.4	2.2	-3.7	-2.7	3.3	5.0
Belgium	0.1	2.2	-4.1	-3.1	4.4	5.7
Luxembourg	0.9	1.0	-3.1	-3.1	4.0	4.1
EEC	1.3	-	-3.4	-	5.1	-

(1) In the case of the German projections it has not been possible to break down overall growth between the three main sectors.

(2) The figures relating to agriculture must be interpreted with caution. Rates of change in agricultural added value can vary very widely according to the base year chosen, as agricultural production itself fluctuates widely from year to year.

There are good prospects of improvement in the yields of the various agricultural products, but these improvements will depend to a large extent on the changes made in agricultural structures.

The tendency for the agricultural population to shrink, which is bound up with these changes, is likely to continue in the future at the rate of about 3% per year in all the member countries. If this prediction proves correct, the share of the working population employed in agriculture will fall from 15.9% in 1965 to 13.2% in 1970 for the EEC as a whole (the national percentages now lie between 6% in Belgium and 25% in Italy).

Influenced both by improved farm yields and the decline of the agricultural population, the product per person employed in agriculture should continue to advance at an appreciably higher rate than in the other sectors of the economy (between 4 and 6% according to country).

Modernization measures, which accompany this trend tend to prepare living conditions on the land for full integration in the economy as a whole. At the same time these measures make it easier to rise the personal incomes of those engaged in farming, and this should mean a rapid increase in their purchases of manufactures and services.

The trend towards an improved equilibrium in agriculture thus depends to a large extent on growth prospects in the other sectors of the economy and especially on the scope for creating new jobs there for the workers who hold low productivity jobs in certain branches of agriculture.

Industry

11. For industry, growth would continue at an overall rate of about 5.5% per year; the rates assumed for the various countries lie in the main between 4.5 and 6%, but Italy expects a higher rate of growth (7%) whereas Luxembourg, faced with diversification problems, expects a lower rate (3.6%).

Table 6Trends in industry

Country	Percentage annual growth rates					
	Value added		Employment		Value added per person employed	
	1965/60	1970/65	1965/60	1970/65	1965/60	1970/65
Germany	5.5	-	1.0	-	4.5(1)	- (1)
France	5.1	5.2	1.6	0.9	3.5(1)	4.3(1)
Italy	6.5	7.0	1.7	2.2	4.7	4.7
Netherlands	6.1	6.0	2.0	1.3	4.1	4.6
Belgium	5.1	4.4	1.2	0.3	3.9	4.1
Luxembourg	3.2	3.6	1.5	1.0	1.7	2.7
EEC	5.5	-	1.4	-	4.1	-

(1) For France, the disparity that appears between the two five-year periods in the development of added value per person employed is largely due to variations in the length of the working week; the growth rates of value added per hour worked are roughly the same for the two five-year periods.

Growth on this scale presupposes an additional demand for labour of about 1 550 000 persons in five years and an annual growth of output per person employed of about 4.5%, which is also close to the growth rates recorded since 1955.

Services

12. Services form a very heterogeneous sector for which it is particularly difficult - mainly for technical reasons - to interpret the combined projections nevertheless the information that can be given in this connection, however vague, is important because of the place the services sector holds in the economies of the Community - 39% to 52% of the gross domestic product in 1960 according to country - and of the growing role of this sector in their expansion.

Table 7
Trends in services

A. Including services supplied by public authorities

Country	Percentage annual growth rates			
	Value added		Employment	
	1965/60	1970/65	1965/60	1970/65
Germany	4.5	-	1.7	-
France(1)	4.5	4.4	1.0	1.7
Italy	4.7	3.8	2.7	1.6
Netherlands	4.2	3.4	2.4	1.7
Belgium	4.6	3.9	1.8	1.4
Luxembourg	2.9	3.0	1.4	1.0
EEC	4.5	-	1.8	-

B. Excluding services supplied by public authorities

Germany	4.4	-	1.2	-
France	5.0	4.8	1.6	1.9
Italy	5.3	3.9	3.2	1.5
Netherlands	4.8	3.8	2.8	1.9
Belgium	4.1	3.5	1.8	1.3
Luxembourg	3.2	3.4	1.4	1.0
EEC	4.8	-	1.9	-

(1) The French figures include national servicemen. If this item is excluded, the rate of growth of employment is the same for 1965/60 and 1970/65 (1.8%).

The progress made by this sector (value added) would be between 3 and 4.5% (3.4-4.8% excluding services supplied by the public authorities). In most of the countries the sector would, according to the projections given, show a slight loss of momentum and would be losing ground to industry. This change of trend is to be accounted for by the slowdown in progress expected for expenditure by private consumers, the main customer for services. On the other hand, employment will continue to expand more rapidly in services than in industry; the additional demand for about 2 million persons expected between now and 1970 would correspond to an annual growth rate of the order of 1.3% for the EEC as a whole.

DEVELOPMENT OF DEMAND

13. Whether the prospects for the three main economic sectors set out here will be translated into reality depends mainly on the conditions in which demand expands. All member countries expect it to grow steadily, with substantial changes in its general make-up. Before examining the prospects in this respect, it would however be useful to state clearly the nature of the choices they entail.

Overall demand must be divided among the various utilisations of overall product in such a way that each of them plays its specific role in a balanced growth. The choices determining this breakdown depend both on the behaviour of individuals and on the policies followed. The projections must, then, endeavour to anticipate both these factors on the basis of information available.

A first fundamental choice concerns the relation to be established between consumption and investment in the allocation of resources. The level of investment, by determining the rate at which the economy will develop, is decisive for the future trend of consumption. Thus the breakdown between consumption and investment affects to a great extent the ratio between consumption today and possible consumption tomorrow.

The dependence of economic growth on investment varies, however, with the type of investment. The relatively diffuse impact of public investment is not always felt directly or rapidly: it is difficult to express in quantitative terms the value of services rendered by the construction of schools or roads, although their usefulness is undeniable. But industrial investment affects production - and this is why it is said to be "directly productive". Accordingly, over a period of five years, the level of such investment must be fixed in close relation with the growth rate contemplated. Although less close, the relationship between this public infrastructure and growth is no less important, and it raises the problem of balanced development between public investment and industrial investment, balancing its expansion against that of "productive" investment.

The choice between private consumption and collective utilization of the national product is another important option: the development of living standards depends not only on the purchases made by individuals for their individual needs but also on the disbursements of the public authorities to cover collective needs, such as education, health or roads.

The studies of future demand in the member countries involve more or less explicitly some indication of how these main choices may be decided in the next few years - the value of the guidance depending on whether the studies include economic policy objectives or not.

These choices are to a certain extent interdependent; but two closer relationships, playing a vital role in the projections by restricting the area of choice, require special emphasis. The first, already mentioned, concerns directly productive investment, the rate of expansion of which is closely tied to the rate of overall growth chosen. The second concerns external trade: since the progress of imports is also fairly closely linked with that of the national

product, external equilibrium will be possible only if exports develop by and large on the same lines as imports.

Directly productive investment and exports are thus the two types of utilization most closely dependent on production growth rates. It will therefore be appropriate to approach the examination of demand prospects from this angle.

Directly productive investment

14. To ensure the modernization and to maintain the competitiveness of the EEC economies, directly productive investment should in the coming years increase at a rate higher than that at which gross domestic product increases. The annual growth rates contemplated for the period ending in 1970 generally lie somewhere between 3.8 and 5.8%⁽¹⁾, and this will mean an increase in the share of domestic product devoted to investment.

Table 8
Trend of directly productive investment

Country	Percentage of total fixed investment			Percentage of annual growth rates	
	1960	1965	1970	1965/60	1970/65
Germany	62.1	62.5	63.3	7.4	3.8
France	63.5	58.6	60.0	6.7	5.8
Italy	65.1	58.6	64.6	-0.6	12.2
Netherlands	64.6	63.3	60.7	6.5	5.7
Belgium	60.9	61.1	61.3	4.4	4.0
Luxembourg	59.6	-	-	-	-
EEC	58.2	56.3	58.5	5.8	6.1

(1) Italy's rate is appreciably higher because of the very low starting point in 1965, itself due to the economic situation in that year. The average annual growth rate for the whole of the period 1960-70 would be 5.6%.

Exports

15. Available figures on exports of goods and services are still far from adequate; there is every reason to expect that imports will continue to grow appreciably more rapidly than domestic product; this will probably apply not only to intra-Community trade - under the impact of integration - but also to trade with non-member countries. Consequently, the establishment of equilibrium in the balance of payments and the attempt to build up a surplus from which to finance development aid will mean that exports must be expanded at least as rapidly as imports. It is, however, clear that the actual export trend depends on a complex of external and internal factors to which special attention must be given. In particular the outlook for the development of external demand - which has been taken into account in the cases of only two countries (France and the Netherlands) - calls for more detailed examination.

Public consumption and public investment

16. Expenditure on the provision of what is required by the community is a variable wholly and directly determined by the public authorities. The scale of collective requirements to be met - the roads, education, health care and much else - requires a major effort from the member countries. The total of public investment ought to expand at a rate twice as high as that at which gross domestic product expands some (7 to 10% per year for most Community countries, a little less for Germany, appreciably more for Italy⁽¹⁾). Estimates concerning public consumption - which include defence expenditure - point (at constant prices) to more moderate rates, in respect of which it should however be noted that, for technical reasons⁽²⁾, they underestimate the actual trends at variable prices.

(1) The particularly high rate of expansion chosen for Italy is due to the low level of public investment in the base year 1965. The average annual rate for the period 1960-70 as a whole - about 10% - is much nearer that of other countries.

(2) More than half of public consumption is accounted for by government employees' salaries: in the series at constant prices, these are generally calculated net of variations in rates of individual remuneration, save for Belgium, where the evaluation takes account of increases other than those resulting from the upward movement in the cost-of-living index.

Table 9
Public consumption and investment

Country	Public consumption			Public investment		
	As percentage of GDP	Percentage annual growth rates		Percentage of GDP	Percentage annual growth rates	
	1960	65/60	70/65	1960	65/60	70/65
Germany	14.3	6.6	3.1	3.4	10.3	5.5
France	12.8	3.8	4.5	2.1	11.0	8.2
Italy	14.6	5.0	5.2	2.3	1.8	18.4
Netherlands	13.7	3.4	3.1	4.1	7.8	9.8
Belgium	12.6	6.1	5.6	2.2	8.3	7.5
Luxembourg	10.2	2.2	2.7	4.9	-	-
EEC	13.5	5.2	4.0	2.5	8.9	8.5

Public consumption and investment, which at 1960 prices accounted for some 16% of the gross domestic product of the Community in 1960, and some 17% in 1965, would account for about 17.5% in 1970. This trend would be even more pronounced if price variations were taken into account.

The national projections thus demonstrate the need to devote a growing share of real resources to collective requirements, while the share devoted to directly productive investment is maintained or even increased.

Residential construction

17. The share of residential construction in the domestic product lies between 4 and 6%. The growth of this item is expected to slow down appreciably in most member countries.

Table 10
Residential construction

Country	Number ⁽¹⁾ ('000) 1960	In millions of units of ⁽²⁾ account 1960	Percentage annual growth rates		As percentage			
			65/60	70/65	of GDP		of total fixed investment	
	1960	1960	65/60	70/65	1965	1970	1965	1970
Germany	551	3 744	4.9	1.0	5.8	5.1	21.6	19.1
France	317	2 832	10.8	2.7	6.2	5.7	28.6	25.2
Italy	313	1 773	6.2	1.4	5.9	4.9	31.2	20.7
Netherlands	85	480	7.7	6.2	4.9	5.3	18.6	18.2
Belgium	52	587	2.3	1.6	4.7	4.1	25.0	22.3
Luxembourg	1	20	-	-	-	-	-	-
EEC	1 319	9 466	7.0	2.1	5.6	5.1	24.2	20.8

(1) Number of dwellings completed. Source: General Statistical Bulletin, 1964, No.1, Table 37. However, the Belgian and Italian figures given in this table have been corrected.

(2) See footnote (1) on page 8.

This table shows considerable differences from country to country, largely accounted for by the wide differences in available housing. The situation is relatively favourable in Germany and in Belgium; in both these countries successful housing drives in the past mean that between now and 1970 a slow rate of increase in residential construction will be acceptable.

The housing position is less favourable in France and in Italy. In the Netherlands there is a shortage which will persist, at least for a few more years. There are several reasons for the slowdown in residential construction (it is likely to vary in intensity among the three countries) which these countries expect to occur between the 1960/65 period and 1965/70. In the first place the volume trends do not always take into account improvements planned by these countries for the average quality and the size of dwellings built⁽¹⁾. Moreover, the present levels of building activity are already costing a substantial effort in terms of labour and financing, after the rapid rate of progress recorded since 1960. The housing effort is seen to be all the more important if the resources devoted to collective requirements are also borne in mind: the two types of demand compete directly on the construction market, both for labour and for finance.

(1) These factors also hamper country-to-country comparison.

Private consumption

18. In the last resort private consumption is the field where, in most member countries, the greater part of the adjustments necessary for the attainment of balanced economic growth will have to be made. In the last five years private consumption has risen much faster than gross domestic product, its relative share having advanced in all member countries save Belgium by 1 to 3%; last year it stood at 56 to 67% in the various countries. The national projections foresee a reduction of these percentages to levels generally lying somewhere between those of 1965 and those of 1960. Belgium is a special case, because of the relatively high level of private consumption in the base year (nearly 70% of the GDP in 1960 - far and away the highest percentage in the Six); the relatively low rate of overall growth recorded in this country up to 1960 was accompanied by moderate investment, and this left a larger share of the GDP available for private consumption. The economy has tended to recover since 1961 and there has been a corresponding decline in the share of private consumption - a trend which is expected to continue until 1970.

Table 11
Private consumption

Country	Percentage annual growth rates				As percentage of GDP		
	Overall		Per inhabitant		1960	1965	1970
	1965/60	1970/65	1965/60	1970/65			
Germany	5.4	3.5	4.1	2.9	55.9	56.6	56.4
France	5.2	4.5	3.8	3.5	63.5	65.1	63.9
Italy	5.7	4.7	5.0	4.0	61.6	63.4	62.5
Netherlands	6.2	4.0	4.7	2.5	57.2	61.3	59.4
Belgium	3.8	3.7	3.0	3.1	69.3	66.7	65.6
Luxembourg	3.5	3.2	2.4	2.4	57.7	59.5	59.3
EEC	5.3	4.1	4.2	3.3	60.8	61.9	61.2

Despite the slowdown expected, the advance of private consumption is likely to remain very substantial: overall private consumption will increase at annual rates of 3.2 to 4.7% a year (compared with 3.5 to 6.2% between 1960 and 1965) and consumption per inhabitant at rates of 2.4 to 4.0% per year (compared with 2.4 to 5% between 1960 and 1965). If these rates were maintained after 1970, they would enable the level of consumption per inhabitant to be doubled in 20 years. The coming generation would thus enjoy a level of consumption double that enjoyed at present.

Thus the slowdown expected in no way implies that private consumption is to be sacrificed. In so far as the loss of momentum benefits investment, which enables subsequent growth rates to be sustained, it reflects the search for a better balance in the allocation of resources between immediate consumption and the prospects of future consumption.

In so far as the loss of momentum in private consumption benefits collective utilization of resources, it is a response to the search for a better balance between the various factors which go to make up the standard of living of the individual citizen: this standard of living is determined not only by private consumption of goods and services but also by the benefits derived from the various collective services to which public investment and a part of public consumption contribute. The shift shown by the projections in the relative weight attaching to private consumption and collective utilization is accounted for by the growing role of collective services in the development of industrial nations. This shift therefore in no way implies a slowdown in the improvement of the standard of living in the Community.

GROWTH AND THE DANGER OF STRAIN

19. If the prospects for growth outlined above are to be realized, a number of conditions must be fulfilled, and this must be remembered in any interpretation of the projections.

On the production side, the trend of labour resources cannot be substantially changed. Consequently, problems arise chiefly in connection with the means of putting through the planned improvements in overall productivity, which depends on a complex of factors ranging from investment, technical progress and training, to the mobility of the factors of production. The main problem here is how to establish the combination between market forces and action by the public authorities which will serve best to raise the yield of the various supply factors and to adapt them to the demand pattern.

The development of demand in terms of volume as given in the projections is related, by definition, to that of supply. But the real problem is how this relation will in fact be established, what result will emerge from the play of the various transactors: the developments that will occur might involve the threat of certain strains which could mean that the projection did not work out in practice. The scale and nature of these hazards depends, among other things, on the way the overall level and the structure of demand in monetary terms develops.

As far as developments in investment by enterprises are concerned two problems are to be faced: that of investment incentives and, even more important, of financing. It will be necessary to determine what overall volume of saving is required and, in addition, to ensure the balanced development of the various sources of financing (self-financing, capital markets, public funds), to reach a satisfactory distribution of resources between the various requirements and to ensure the machinery for providing finance keeps abreast of developments.

The projections show that the growth of the share of personal consumption in gross domestic product cannot continue indefinitely without jeopardizing the very foundations of future growth and equilibrium; the curbing of personal consumption contemplated in most member countries will entail either a sharp increase in the propensity to save of households or measures to control the progress of personal incomes, or a combination of the two.

The trend of demand from the public authorities also raises an important problem. The authorities will tend to take a growing share of national resources to ensure an appropriate expansion of collective services. If the likelihood of heavier transfer expenditure is also taken into account, there is the danger that the expansion of public expenditure as a whole may be steeper than the normal growth of revenue, and so prove very difficult to finance.

Firms, households and the public authorities may thus, by their behaviour, weaken or strengthen the chances of developments conforming with the projections. Their behaviour can engender threats of more or less severe pressures, which must be viewed against the background of the balances that dominate economic life: the balance of the markets for goods and services, balance in saving and investment and the external balance.

20. On the goods and services markets, the main threat of strain could stem from undue expansion in certain components of domestic demand, especially private consumption. Undue expansion here would very probably be accompanied by a rise in costs; given the high levels of employment and the insufficient flexibility of the supply of manpower, the sharpest rise would be in wage costs.

The country projections therefore entail - in varying degrees according to country - the threat of higher prices. The assumption on volume growth for the coming years are often, with only slight variations, the extension of trends observed since 1960. A feature of these trends has been the fact that demand has expanded appreciably more rapidly than real resources, bringing with it price increases, many of them sharp. The past trend of the index of prices for gross domestic product and of that for added value by industry bear witness to this fact. The GDP price index, however, which includes a wide range of items some of which are of an arbitrary character (e.g. the "prices" of services provided by public authorities), is not a fully satisfactory criterion by which to assess whether the stability of prices has been ensured on the markets. The index of industrial producer prices (value added) is more appropriate from this point of view. With variations less pronounced than in the GDP price index, it suggests comparable conclusions.

Table 12Price trends in the EEC countries, the USA and the UK

	Annual growth rates							
	Germany	France	Italy	Neths.	Belgium	Luxembourg	US	UK
<u>A. GDP price index</u>								
1955-1960	2.6	-	1.5	2.8	2.1	-	2.8	3.7
1958-1962	3.4	4.1	2.5	2.4	1.6	-	1.4	2.1
1960-1964	3.7	4.4	5.8	4.5	2.1	-	1.3	-
<u>B. Industrial price index</u>								
1958-1962	2.7	3.4	0.6	0.8	-0.1	-	1.2	2.2
1960-1964	2.9	3.3	4.6	2.2	2.4	-	0.1	2.3

Sources:

- A : EEC : SOEC General Statistical Bulletin, 1965, No. 11 (GDP at market prices)
 USA : Survey of Current Business, August 1965, pp.52-53 (GDP at market prices)
 UK : OECD, General statistics (Rational accounts)
 (implicit index of the GDP at factor cost).
- B : Quarterly Surveys of the Economic Situation in the Community
 (implicit index of value added).

These figures show a more pronounced upward price movement over the long term in the Community countries than in the United States. The breakdown of the overall trend into sub-periods also shows that from about 1960 onwards the upward movement gathered momentum in the Community whereas it slowed down in the United States.

The way demand and prices are developing is also liable to place a strain on the balance between savings and investment. This balance would be threatened if the advance of private spending - perhaps also stimulated by the upward price movement - tended to depress savings by households to unduly low levels, or if savings by enterprises were to suffer from the narrowing of profit margins.

Lastly, external equilibrium is closely linked with factors such as equilibrium on the internal markets for goods and services: not only do cost and price variations affect the competitive position of enterprises, but even where no such variations take place, excessive domestic demand could swell imports and divert merchandise intended for export on to the domestic market, thus causing an external deficit. This is in fact what happened in most EEC countries between 1960 and 1965, despite an improvement in 1965 due to the stabilization drive.

Table 13Visible trade balance

(in '000 m. u.a. at current exchange rates (1))

Country	1960	1961	1962	1963	1964	1965
Germany	+ 1.31	+ 1.74	+ 0.98	+ 1.60	+ 1.60	+ 0.30
France	+ 0.59	+ 0.55	- 0.16	- 0.64	- 1.08	- 0.29
Italy	- 1.08	- 1.03	- 1.40	- 2.53	- 1.28	- 0.16 ⁽²⁾
Netherlands	- 0.50	- 0.80	- 0.77	- 1.01	- 1.25	- 1.07
BLEU	- 0.18	- 0.30	- 0.24	- 0.28	- 0.32	+ 0.08
EEC	+ 0.14	+ 0.16	- 1.59	- 2.86	- 2.33	- 1.14

Source: SOEC: General Statistical Bulletin 1966, No. 1, Table 78

Imports, cif; exports, fob.

(1) See footnote to page 8.

(2) Estimate.

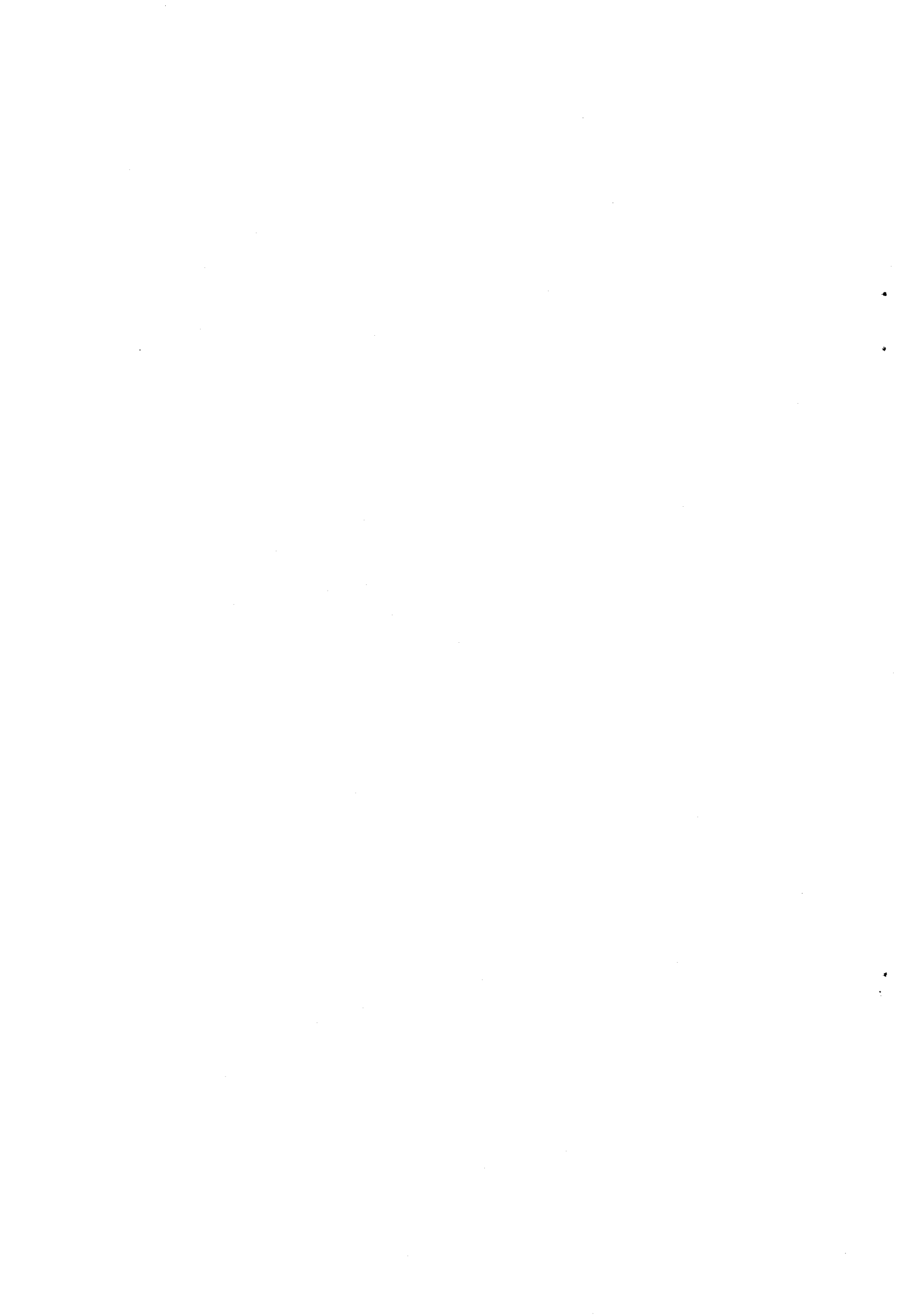
The problem of a lasting reconciliation of growth with external equilibrium will remain persistent it cannot be solved unless the price trend is brought under control in the Community countries.

21. It is thus clear that monetary demand must be kept down to levels compatible with price stability if the projections are in fact to work out: the stability of the general price level is a basic condition not only for the competitiveness of EEC firms on external markets but also for the development of private saving. The importance of price stability will be seen to be even greater if it is remembered that abnormal price increases also distort the distribution of incomes and of production factors among the economic sectors, and create disequilibria in the process of integrating the economies of the member countries.

22. Should the assumptions on growth prove incompatible with overall price stability and external payments equilibrium, those in charge of policy would be faced with difficult choices. It would be better by far to safeguard the continuity of growth by precautionary - but progressive - measures affecting demand and supply, than to gain a few additional points in growth rates during a year and then to have to bring expansion practically to a standstill by measures liable to hamper the economy for a long time.

However, although there is no guarantee that the assumptions on growth will prove to be compatible with the equilibrium aimed at, it is quite possible that they may, for the rates are generally reasonable. It will, however, be possible to achieve them without undue strain only if the policies described below are implemented in good time.

Nor will it be enough for these policies, which should create the conditions for the most rapid growth compatible with monetary stability and external equilibrium, to aim at overall objectives alone, for economic growth can be regarded as optimum growth only if, at the same time, some degree of harmony is achieved in the relative development of the different social groups, if the gap between the level of development in the various areas making up the territory of each Member State is narrowed and if the gap between average standards of living throughout the Community is thus reduced.



C H A P T E R I I I

GUIDE LINES OF MEDIUM-TERM ECONOMIC
POLICY FOR THE NEXT FEW YEARS

1. The preceding chapter reviewed the conditions which must exist if balanced growth is to be possible in the next few years. This first programme does not claim to answer all the concrete questions of economic policy involved; but it does attempt to determine the main lines which must be followed in the various sectors of economic policy.

Whereas short-term economic policy is mainly concerned with the trend of demand, medium-term economic policy must take supply in account as well, and this chapter therefore deals with the problems of supply before turning to consider the trend of overall demand. The projections suggest that medium-term economic growth is unlikely to be held back by the slack development of overall demand, whereas it could well suffer from the limited possibilities for increasing supply. Steps to increase supply are consequently of particular importance, all the more since its expansion will be a decisive factor in the improvement of general living standards. Those in charge of economic policy must, then, endeavour in the coming five years to see that the conditions for the quantitative and qualitative improvement of production factors and for an improvement in their mobility are fulfilled. It will also be important - and in line with the requirements of international trade - to promote the necessary structural changes. Particular attention must be given in this context to regional policy and to incomes policy so that the less developed regions of the Community share fully in the expansion of production, that the gap between average incomes in the various regions may be narrowed and that the pattern of incomes may develop in such a way as not to hamper the expansion of supply.

The most difficult problems for economic policy in the next few years, will spring from the risk of strain between demand and supply and from the consequent threat to stable prices. Here again a rapid, steady and balanced expansion of supply is of importance. But the extent to which strain can be reduced in this way should not be overestimated. An additional acceleration of the growth of production is difficult to achieve. Moreover, efforts to step up supply by more intensive use of the factors of production by additional investment or an increase in the total number of hours worked necessarily involve the distribution of additional incomes, and in so far as these incomes are used for the acquisition of goods and services there is of course a corresponding increase in demand. Even if production is improved

through rationalization without the commitment of additional production factors, the danger remains that in present conditions they may be offset, and often more than offset, by the increase in money incomes and demand.

Accordingly, the problem of strain must be tackled by dealing with demand as well. The fact that the risk of strain will persist throughout the period covered by the programme indicates the nature of the instruments to be used. The main fields concerned are public finance policy, including tax policy, monetary and credit policy and incomes policy. But it must be remembered that a permanently restrictive approach to public expenditure would hamper the effort being made to satisfy growing needs of the Community. For example, insufficient public expenditure on education, transport etc., would undoubtedly hamper general economic growth; where necessary, therefore, the authorities must consider the possibility of easing the strains that occur by raising additional taxation. In longer-term policy on money and credit, too, with its special importance for investment, a one-sidedly restrictive bias should be avoided, as for this would lead to a serious danger of recession.

The pursuit of stability requires that an incomes policy should be applied in support of a judicious selection of measures in the financial, monetary and credit fields. An incomes policy is needed not only to ensure a satisfactory distribution of the fruits of economic expansion but also to enable the increase in private expenditure and the development of wages and prices to be left within reasonable bounds. It should help to prevent strain leading to cost and price increases which could damage the international competitiveness and the economic growth of the Community.

The financial, monetary, credit and incomes policies of the public authorities, should accordingly be used in combination to keep the medium-term growth of the various expenditure and income categories in line with real economic resources. At the same time, it remains a matter of great importance that extreme fluctuations in the level of business activity should be prevented, were it only because in the long run they would harm the growth process.

The complex of policies designed to ensure balanced growth of the economy should gain in effectiveness if based on an internally consistent overall approach to medium-term development prospects. But a correct overall picture of the situation will not in itself suffice to ensure success for the medium-term economic policy: past experience has made it increasingly clear that the scope of existing economic policy instruments is relatively narrow. In the years, therefore, ways and means must be sought to extend and improve them.

In the assessment and use to be made of the guidelines set out in the following paragraphs, it will be important to bear in mind that their aim is to provide an answer to the requirements of medium-term economic policy and that they form a coherent whole. It would be a mistake to consider individual guidelines out of context, or to rely on them in order to push through claims incompatible with the objectives of the medium-term economic policy.

2. The general guidelines to be studied and worked out in the various fields of importance for medium-term economic policy must be extended to include the social objectives pursued by the Member States and the Community institutions; what is socially desirable may be limited, in practice, by what is economically possible; conversely, social policy exerts an appreciable impact on economic activity. The interdependence of these two factors means that economic development and social progress must go hand in hand. Although, in the establishment of this first programme, it has not been possible to take into account all broad social considerations, the respective merits of differing objectives were borne in mind. For example, the primacy of the social objective had to be recognized in respect of the age of admission to work and of retirement. In the same way, if the guidelines are to be realistic, economic and social requirements must each be given their due in policy on incomes and on the length of the working week. Lastly, the consonance of social and economic needs in the field of education and training is obvious. But the study of the problems posed by the quest for a satisfactory balance will be pursued under future programmes, and in particular will be widened to cover all fundamental aspects of social policy in the Member States and at Community level.

POLICIES DESIGNED TO STEP UP SUPPLY

3. The paragraphs below describe the policy which the Member States and the Community institutions should follow in order to increase the availability of production factors and to encourage their optimum allocation, thus permitting optimum productivity improvements. This policy consists of a complex of measures which, though they affect separate areas of economic policy, must complement each other. They concern employment and training, public and private investment and scientific and technical research, the removal of difficulties that hamper the division of labour in the Community as a result of disparities in legal and tax provisions; there are also measures to ensure workable competition, to encourage the creation of enterprises of the right size and to create balanced structures for industries and for the regions.

Manpower policy

4. The conditions governing overall economic growth and the prompt satisfaction of individual and social needs will be more difficult to fulfil in the coming five years than in the past because the supply of available manpower is expected to remain scarce and the shortages affecting a number of member countries threaten to grow more serious.

The situation may prove to be most difficult for those countries where, as in Germany, the labour shortage has in recent years already been a major obstacle to any more rapid and more balanced economic expansion, but in the other member countries, too, the outlook is such that serious efforts are increasingly necessary to ensure a better balance between the demand for and supply of manpower.

Existing possibilities of expanding the supply of manpower should be used as fully as consideration of social policy allow. It would not, however, be advisable to curtail the trend towards a higher minimum school-leaving age on the grounds that it means a gradual rise in the age at which young people start work. Moreover, it seems unlikely that arrangements which might be made to keep older people at work longer would have any great effect. An approach which is likely to be more fruitful is that of encouraging women to enter employment, for example by the removal of unduly heavy obstacles in the shape of taxation or social insurance rules hampering the employment of married women. In addition, the supply of labour can be

influenced through policy on emigration and immigration. Here, the first objective, should be to ensure the fullest utilization of such manpower reserves as are still available in the Community, namely the surpluses still to be found in Italy. In the second place, the five Community immigration countries which are in need of immigrants will have in the coming years to recruit more and more labour from non-member countries.

It must not be expected, however, that the measures recommended here will contribute to raising appreciably the available manpower indicated in the original projections. Consequently, efforts should be made to prevent the total number of hours worked from being subjected to an unduly rapid reduction in the working week. Since decisions on the length of the working week are primarily a matter for negotiations between managements and workers, Governments should endeavour to influence both parties by helping them to understand the impact of their decisions on the growth and the equilibrium of the economy as a whole.

The prognostications on the labour market also indicate that efforts will be required to ensure the best possible utilization of available manpower by adapting as fully as possible the structure of supply to that of demand. One requirement is that young people should be given opportunities for vocational training that will enable the needs of the economy, and notably of expanding industries, to be met - in respect both of numbers and of quality. Here it must be remembered that such training cannot yield fully satisfactory results unless it has been preceded by methodical vocational guidance. Since the measures for the development and improvement of the vocational training and guidance of young persons will yield full results only after a number of years, measures designed to promote the geographic and even more the professional mobility of manpower, are more likely to produce rapid results, their means, however, will depend on an increasingly vigorous expansion of the administrative framework. In this connection, vocational readaptation and further training are of particular importance; work in this field must be stepped up if in the medium term a satisfactory balance is to be achieved on the Labour Markets of the Member States.

Investment policy

5. In technically highly developed economies such as those of the Member States, the possibilities of growth and the increases in general economic productivity depend decisively on the scale and the nature of investment. This will apply more than ever in the coming years, during which an

appreciable shortage of labour must be expected in most Member States. Consequently, increased efforts to rationalize operations will be required. Where, as in specific areas of Italy and France, production factors, notably manpower, are still not being fully utilized, the problem is to mobilize them through appropriate additional investment aimed at the establishment of improved regional equilibrium.

The projections of almost all Member States assume, therefore, that there will be an increase in the share of fixed investment in the gross national product, while in all without exception the share of public investment is to rise. In this connection, two problems arise:

- (i) In the first place, the need to create conditions under which the public authorities and industry can actually make the necessary investment effort;
- (ii) Secondly, an increase in the proportion of investment in the gross national product will require action to reduce the proportion of other elements. This involves demand policy, to be discussed below.

On the first point, the authorities responsible for economic policy must take care to see that in the coming years sufficient saving (in its various forms: personal saving, self-financing, public saving) is sufficient to meet the calls of investment finance without monetary stability being endangered. Another important condition is that a satisfactory balance should be achieved between public investment, residential construction and industrial investment and that no one of these items should run too far ahead of the others.

In all member countries the tendency is for central government investment and that of the local authorities to grow appreciably faster than gross national product and industrial investment. It may prove impossible when official investment programmes are confronted with real overall economic resources, to put in hand all the schemes planned, and so care should be taken to see that those programmes which are vital to rapid economic growth are given priority, so that growth opportunities are exploited to the full. In Chapter V, which deals with public finance policy, this question is dealt with in fuller detail. The main point is that the production apparatus of industry can only reach full productivity when the public authorities

have done what is necessary in regard to the expansion and improvement of the economic and social infrastructure.

Moreover, particularly in Member States such as the Netherlands, France and Italy where there is still a housing shortage, great efforts must still be made to narrow the gap between supply and potential demand and thus gradually to eliminate the shortages besetting the housing market.

At the same time the authorities responsible for economic policy should take care to see that the propensity to invest of enterprises is maintained at a vigorous level, notably in those Member States - like Belgium and France - where the share of directly productive investment in the gross national product is relatively low. In this context, attention must be given to the interrelationship between general economic policy and the attitude of industrialists to new investment: for just as sufficiently high industrial investment is important for the rapid, steady and balanced growth of the economy, so conversely does the expectation of such a growth help to induce industry to undertake in good time the investment needed to enable them to exploit future market opportunities. Sufficient mobility of production factors, effective competition and a more vigorous drive in the field of scientific and technical research and development are essential factors in establishing a favourable investment climate. In addition, the authorities responsible for economic policy should improve this climate further by helping industry to find new markets, by providing information on trends in foreign markets and by eliminating obstacles to the development of international trade. At the same time the Member States should, by pursuing an appropriate taxation policy and by improving the operation of the capital market, facilitate the financing of investment and make sure that enterprises have enough capital of their own for this purpose. The question of the contribution which capital imported from non-member countries can make to such financing will be studied from various angles as part of the future work of the Committee.

Research policy

6. To a growing extent the pace at which productivity and consequently economic growth expand will depend in the coming years on the results of scientific and technical research and development. Although study of this question by the working party set up by the Committee for the purpose has, for lack of time, not yet yielded final results and consequently the problems of research policy can only be dealt with more fully in the next programme, the work carried out so far does provide a number of pointers to the sort of policy Member States will have to follow in this field.

Useful though the exchange of scientific and technical experience across the external frontiers of the Community is, it must not be a one-way traffic that could induce the Member States to drop their own research, since in the long run this could seriously impair the international competitiveness of their industries. Accordingly, it is clear that in the long run the scale of research and development work being carried out by Member States cannot be allowed to lag behind comparable work in other highly industrial countries.

On the contrary, if the Member States wish to be assured of steady growth at home and sufficient competitiveness abroad, and if the results of scientific and technical progress are to be turned to good account, then the Member States must all step up their efforts in the field of research. The economic and social progress made in the rest of this century will depend in part on the progress made in the field of research and development. Action should also be taken to improve the speed with which the results of research can be applied.

Work in this sphere must be intensified in all fields of natural and human science, from basic research to technical development. Particular importance attaches to the increase of available funds and the adoption of a rational framework for their allocation. The need for an increase in expenditure is mainly the result of the increased demands made on both personnel and equipment by the progressive specialization of research.

The implementation of an efficient research policy will be facilitated if public funds for research are earmarked for periods or several years according to the procedure for programming public finance suggested in Chapter V below.

Quite apart from the need to step up efforts in all scientific disciplines, an endeavour should be made to increase the effectiveness of the funds and facilities used and decisions should be taken - without encroaching on the independence of research institutions - on the most important areas to be covered. The Member States should as soon as possible study and consult together on appropriate criteria for determining the choice of these areas.

Close co-operation between the public authorities, scientific and technical institutions and industry and commerce is also required. Where research work carried out by enterprises is supported by the public authorities - the Committee regards this as highly desirable - great care must be taken to ensure that competition between enterprises is not distorted.

Efforts in the field of research policy concern not only each individual member country but also the competitive power of the Community as a whole. Accordingly the authorities should examine, in the near future, by referring to the objectives of the medium-term economic policy programme, how far and in what fields of research and development joint or co-ordinated action is necessary in order to obtain rapid or better results. If this examination should show that co-ordination or joint operations is needed at Community level, the requisite steps should be taken as soon as possible.

It is important that the decisions to be taken in the field of research should be taken in the light of objective and detailed statistical information, giving a picture of the research pattern in the various countries and serving as a basis for the forecasting of requirements in this field. It seems that on this very point there are still major lacunae in most of the Member States. They should therefore adopt without delay the measures necessary to improve and supplement existing statistics on scientific and technical research and development, using uniform methods and definitions.

Elimination of legal and tax obstacles

7. The more progress made, by the elimination of traditional obstacles, towards the complete opening of the markets between the Member States and free movement for the factors of production, the more important will be other obstacles stemming from differences between the legal arrangements prevailing in the Member States, notably with regard to taxation, the right of establishment, company law, the law on patents and trademarks, and technical standards. These differences hamper the free movement of products and of production factors within the Common Market and render more difficult the optimum allocation of scarce resources. If the most is to be made of the division of labour in Europe, it will become a matter of ever greater urgency to remove these obstacles - which can represent effective economic frontiers - by adapting and harmonizing legislation.

Competition policy

8. An active competitions policy facilitating, in accordance with the Treaty, constant adjustment of the structure of production and supply to the changing techniques and altered conditions of production and demand is vital if the objectives of the medium-term economic policy are to be attained. Distortions of competition incompatible with the Treaty should therefore be eliminated, whether they derive from government intervention (measures equivalent to tariffs, aids, etc.), from private agreements or from the abuse of dominant positions.

Where in concrete cases the necessary adjustments and optimum results are not obtained by the decisions of businessmen themselves, intervention at certain points in the economic process may prove necessary for a while in order to guide such decisions towards optimum results for the enterprise itself and for the economy as a whole. This necessity may arise, for example - as is explained in other parts of this programme - where there are problems of technical adaptation or difficulties within an industry or a region. The action taken must be such that the sectors or regions concerned become part of a workable and efficient system of competition. The medium-term economic policy objectives should serve as a guide for the rational implementation of an aid policy along these lines. As far as possible everything should be done to prevent aids granted for non-economic reasons, of whatever nature they may be, immobilizing over long periods resources which could be used more productively elsewhere, and steps should be taken to prevent aids working against each other or cancelling each other out.

The drive against agreements between enterprises distorting competition and therefore incompatible with the Common Market must be continued. The requirements of medium-term economic policy should be important elements in deciding whether use should be made of the possibility of exempting certain agreements that fulfil the conditions laid down in Article 85(3), in particular by contributing to technical and economic progress.

Size of enterprises

9. The adjustment of the size of enterprises to the technical and economic conditions of modern production, to the opportunities provided by the creation of the Common Market for production in greater quantities, and to the requirements of the growing competition in the EEC and on the world market is a major Community objective. Its attainment should be facilitated by the elimination

of artificial obstacles - stemming mainly from tax and company legislation - to mergers between enterprises, and by measures designed to facilitate economically justifiable mergers - those that will raise productivity and improve the competitiveness of the enterprises concerned. Industrial combination should, however, not go beyond the point at which the danger of a serious distortion of competition becomes apparent and at which there is no longer any certainty that technical progress would benefit consumers and the economy as a whole.

In fact, the establishment of the Common Market has made it more difficult for a single enterprise to gain a dominant position on a market, and this is all the more true since the growing liberalization of international trade is increasing the role of competition exerted by non-member countries. Another important point is that amalgamations may throw certain workers out of employment, and in such cases proper arrangements for their re-employment must be made.

The policy to be pursued in this field should be supplemented by measures designed to fit small and medium-sized enterprises in the economic structure to the best advantage, so they too can make their important and necessary contribution to a balanced development of the economy. A later programme will include a detailed consideration, from the point of view of medium-term economic policy, of what measures, if any, might be taken to establish an optimum economic structural pattern for enterprises of the various sizes (large, medium and small). In this context it will be useful to compare the experience gained by each of the Member States in this field.

Policy on the structure of industry

10. In the years to come particular importance will also attach to policy on the structure of industry as a contributing factor to rapid, steady and balanced economic expansion; for the 1966-1970 period will be marked by the effects of the recent spurt in technical progress and the further stiffening of competition within the Community and in world trade. Although a detailed treatment of policy on the structure of industry is being held over for a later programme, a few general points may usefully be made here.

In the first place, the policy should be one of the components of a policy for active growth: its aim must be, against the background of as broad a measure of international competition as possible, to stimulate the vigour of the economy, to raise its productivity, to strengthen its competitiveness and thus to contribute to more balanced and thus, in the long run, steadier growth.

On the other hand, the policy on the structure of industry in the Community should not attempt to preserve existing structures or even to keep unprofitable sectors artificially alive: this would have the effect of hampering the development of vigorous industries by compelling them to shoulder the burden of weak or declining industries. This would mean the less than optimum allocation of resources and that the advantages inherent in the establishment of the Common Market, in international trade and in technical progress would be jeopardized. Accordingly, where, for non-economic reasons, the maintenance of a weak industry is deemed indispensable, this should be done in a way which makes clear the burden this places on the economy as a whole, and no measures should be taken or kept in force which have the effect of passing on to other industries in disguised form the costs involved.

Since virtually every growing economy has industries of differing vitality, the policy on the structure of industry must endeavour to ensure that a high degree of mobility in the factors of production favours the expansion of those industries with the best development prospects.

At the same time market transparency should be improved by surveys of specific industries, although the results of such surveys would not necessarily entail acceptance by the Member States or the Community institutions.

Where medium-term economic policy, particularly as a growth policy, points to the need for specific measures in support of weak industries or of new industries with major growth prospects, these should always take the form of measures of adjustment, with particular attention to the requirements of the Common Market, and of international competition. Their sole aim, therefore, should be to render competitive such industries as are potentially profitable or have run into temporary difficulties, for example as a result of the establishment of the Common Market, and to facilitate conversion arrangements. Consequently, specific intervention measures under policy on the structure of industry should always be temporary and the date on which they are to be terminated should as far as possible be specified from the outset.

Care must always be taken to see that in accordance with Articles 92 to 94 of the Treaty of Rome, specific measures in favour of given industries do not engender further distortions of competition for the future.

There is another reason why consultations between the Member States are desirable: with the disappearance of commercial barriers within the Community and the introduction of the common commercial policy - which under the Treaty of Rome should be completed by the end of the transitional period - Member States will no longer be free to use in isolation instruments of external trade policy that are of such importance to policy on the structure of industry.

At a later stage the Committee will consider carefully in what cases and under what rules action to influence the structure of industry might in fact be desirable. When this is done, the structural problems of the main economic sectors (agriculture, industry, services) and the links between them must be studied in an overall medium-term setting, and the situation of those industries creating or threatening to create specific structural problems must also be analysed. Such analyses could well serve as the basis for consultation between the Member States and the Community institutions.

For agriculture, the Governments of the Member States and the Community institutions should, in co-ordinating policy on agricultural structures in accordance with the objectives set out in Article 39 of the Treaty, endeavour to fit agriculture more and more closely into the general economy, as this would make it possible to ensure a fair standard of living for farmers and farm workers. Discussions in the Council have not advanced enough for the Committee to be able to press forward its study of these problems. By way of preparation for its future work, it has asked the Commission's departments to carry out a study on the way consumption, production and external trade in agricultural products can be expected to develop in the period 1966-70, on trends in the farming population, on the investment to be made in agriculture and on the trend of agricultural incomes. Special attention will be given to the effects of the common agricultural policy on the general price level.

In the coming years policy on agricultural structures should aim first and foremost at improving production conditions so as to make more efficient farming possible. The formation of farms of a rational size and the move of manpower away from agriculture must be facilitated. Vocational training, research and agricultural advisory services may also have great importance and marketing methods themselves must be improved. An effort must also be made to see that re-employment in other economic sectors of workers leaving agriculture is facilitated by appropriate training and re-adaptation measures.

The development and improvement of the transport infrastructure, which, at Community level, will be facilitated by the implementation of the Council's decision of 28 February 1966, will be of vital importance in raising the level of general productivity in the years ahead. At the same time, structural measures in the field of transport should be such that they will induce carriers to rationalize and modernize so as to adapt themselves to technical and economic conditions and to be able to supply their services at the lowest possible cost to the economy. The introduction and effective maintenance of workable competition based on parity of treatment between the various types of transport can contribute to adaptation. Lastly, to avoid any wastage of resources, close co-ordination of effort in the field of transport will be needed, not only at national level but also within the framework of the common transport policy. The Community has already made the first moves in this direction.

The supply of fuel and power will call for special attention. The difficulty of **Community coal mining** has forced up costs considerably in recent years, whereas the price of petroleum, available in large quantities on the world market, has dipped sharply. This means that the fuel and power market is undergoing a radical change, with a gradual shift from coal to petroleum, and it seems that nuclear energy is going to supplement the traditional sources of energy. The Community, which must neglect no opportunity to improve the competitiveness of its enterprises, can only benefit from arrangements whereby industry benefits fully from cheaper energy. Consequently, **if** the Community decides to maintain a substantial proportion of coal output, this should be done not by intervening in the process of price formation but by action to bring mining into line with changed conditions. In addition, difficult conversion problems might arise in certain mining areas, and these problems must not be solved in a way that will be detrimental to the interests of the workers. **As for petroleum, a policy** should be elaborated that will ensure and even strengthen competition on the market without risk for the security of supplies.

A last very urgent point is that efforts must be made to improve productivity in the distribution **sector**, so that in the coming years it can handle at lowest possible unit cost the appreciable increase expected in the volume of trade. The right approach is to ensure that there shall be workable competition between the various wholesale and retail distribution channels and that **artificial obstacles** of all kinds are eliminated; great importance

will also attach to the extension and the modernization of enterprises, rationalized stockkeeping and packaging, and to the strengthening of co-operation between small commercial enterprises.

Regional policy

11. A more harmonious development of the various Community regions, in particular a reduction of the gap separating the less favoured from the more favoured regions, is of major importance if balanced medium-term economic growth is to be attained. This means that in the years that lie ahead there is much work to be done in the field of regional policy. Efforts must be made to establish in the less favoured regions conditions facilitating business initiative and thus enabling latent production reserves to be brought into play. At the same time undue concentration of economic activities in certain areas must be prevented, as it leads to disproportionate economic and social costs and consequently limits the possibility of overall growth.

In this connection, special attention must be given to the problem of improving infrastructure. The main need here is to form "development poles" consisting of self-contained groups of enterprises which would be capable of developing spontaneously after a period of initial priming and would in turn promote the development of "secondary centres". Another question that must be examined, with their future profitability in mind, is what main transport routes would enable the outlying regions of the Community to take fuller part in intra-Community trade. The effectiveness of aids granted by the Member States and the Community institutions should also be increased. In this connection, measures concerning long-term schemes should be grouped in flexible programmes covering several years, within which an order of priority for the schemes and measures planned would be established and reconciled with the funds available. Lastly, although the main responsibility for regional policy lies with the Member States, the national policies in this field should be confronted and as far as possible co-ordinated at Community level in order to ensure harmonious economic development within the Community and to help the less favoured regions to catch up with the rest.

Chapter VI below describes in detail the regional policy measures which the Member States and the Community institutions should implement as a matter of priority in the coming years, and for further information the reader is referred to this chapter. It is based on a thorough analysis of the most important regional problems, notably their relationship with overall growth, and of the

objectives, methods and means of action available to those responsible for regional policy. The analysis is given as an annex to this programme.

POLICY ON THE TREND OF DEMAND

12. Policy with regard to demand is of considerable importance in the complex of policies designed to promote balanced growth. The main problem is to combine rapid economic growth with a satisfactory price trend. Past experience shows beyond doubt that a higher growth rate of supply is not sufficient for this purpose. It is consequently of great importance to establish a balanced relationship between the various components of demand. In this respect the projections show that for the Community as a whole public expenditure and industrial investment are expected to grow faster than the gross Community product, while the upward movement in private consumption - following the rapid expansion over the years 1960-65 - should in the coming five years lag a little behind the expansion of gross Community product. Consequently, the share of private consumption in the gross Community product, which had increased between 1960 and 1965, should decline a little between now and 1970.

Of course, a rapid growth of private consumption would in itself be a very good thing. Consequently, it is important to ascertain what the consequences would be if there were a more vigorous expansion of consumption at the expense of the other utilization categories. In this connection, it must not be forgotten that the weight of private consumers' expenditure is so heavy that in purely arithmetical terms an increase in the rate of expansion of private consumers' expenditure of 1% would entail a cut in the other utilization categories of about 2%.

Any considerable expansion of private consumption might be at the expense of industrial investment. This would mean that in the longer term the growth of the gross Community product would be hampered and sooner or later the expansion of private consumption itself would necessarily be curtailed. Alternatively, private consumption would be allowed to expand at the expense of public expenditure, i.e. at the expense of public services affecting the general well-being and economic growth itself. From the standpoint of medium-term economic policy, both alternatives are undesirable, all the more since the per caput increase in real consumption shown in the projections for the years ahead is still appreciable. In this connection, the reader is referred to Chapter II, sec. 18, where it is shown that, on the basis of the growth rates assumed in preparing the projections, the level of private consumption will double in a little more than 20 years.

A policy aimed at achieving balanced growth by reducing the pace at which private consumption has been expanding in recent years can be defended and can be effective only if at the same time the expansion of the other utilization categories, such as industrial investment and public expenditure, is held within reasonable bounds. It is therefore very important that co-ordinated and balanced use should be made of the available instruments in the field of public finance policy, monetary and credit policy, capital market policy and incomes policy.

Since a policy aimed at the balanced expansion of demand can succeed in any one country only if and when the other countries are implementing similar policies, it is particularly important that the use of the various instruments affecting demand, notably by affecting income flows, should be co-ordinated at Community level.

Public finance policy

13. The projections set out in Chapter II suggest that collective requirements will increase at a relatively high rate. It should not be forgotten that projections at constant prices underestimate the growth of the share of public expenditure in overall demand at current prices, or that they do not show transfers explicitly.

The Budget Policy Committee has been asked to supply fuller data on the trend to be expected in the main classes of public revenue and expenditure. So far not enough progress has been made in this field for an accurate forecast for the coming years to be given at this stage.

The work carried out so far by the Budget Policy Committee shows that, in order to meet collective requirements, the public authorities will tend in the years ahead to take a larger slice of the gross national product.

Serious problems will therefore arise in the field of public finance, for public demand will have to be kept in harmony with overall economic resources, and the necessary funds to cover financing requirements will have to be found.

In this connection it will have to be decided whether the growth of expenditure could not be curbed, and if so to what extent. Expenditure cuts should, in any case, always be carried out selectively, according to a priority established in advance. At the same time, a check should be made to ascertain whether certain expenditures agreed previously are still justifiable.

It is highly unlikely, however, that the increase in expenditure can reasonably be limited to such an extent as to dispel all financing problems. There appear to be two ways of solving them: recourse to credit - in this case there would normally be issues of long-term domestic loans - or an increase in taxation. If the authorities turn to the capital market, it must be remembered that the interests of the public authorities may conflict with those of enterprises, which will also be needing a larger supply of funds. If an increase in taxation proved inevitable, it would have to be so designed as to encroach on industrial investment and private saving as little as possible. In arrangements of this kind account must also be taken of the harmonization of tax provisions among the Member States.

Optimum allocation of public resources would be facilitated by the forecasting or programming of public finances over several years. Within these forecasts or programmes, the order of priority would be established by type of work, time and region for the various classes of expenditure and reconciled with overall economic resources. Such forecasting or **pre-programming should at the same time provide the basis for the co-ordination** of the budget policies of the governments and the local authorities. Co-ordination is of prime importance since it is the local authorities which are responsible for the greater part of public investment in most Member States - and it is expected to rise sharply in the years to come. Chapter V of this programme examines in more detail certain problems of public financing.

Monetary, credit and capital market policies

14. Stability also demands a monetary and credit policy and a capital market policy which ensures that the overall financing resources available to the economy meet its requirements, while any undue increase in the money supply is avoided. An effort must be made in particular to attract to the capital market a sufficiently large proportion of savings to ensure the financing of long-term investment by long-term saving, whether private or public. Here the aim should be either to give sufficient encouragement to long-term placing of savings or to develop, within reasonable limits, certain devices that will ensure the "transformation" of a part of liquid saving. In certain member countries special attention should be given to institutional saving (insurance companies, retirement funds, investment funds, etc.), whose role could well be strengthened. While the functioning of the capital market is being improved in this way, efforts **should also be made gradually to eliminate the obstacles - notably tax obstacles - still hampering the free movement of capital between Member States.**

It must be stressed in this connection that the success of a policy designed to ensure the non-inflationary financing of investment will itself depend to a large extent on monetary stability, without which there will be no build-up of private saving which can be offered to investors on sufficiently attractive terms.

The medium-term problems of capital market policy will be examined in more detail in a later programme.

Incomes policy

15. Lastly, the achievement of balanced growth will largely depend on the extent to which incomes policy - i.e. decisions of the Governments and of managements and unions designed deliberately to influence the trend of different forms of income - succeeds in curbing the expansion of incomes as a whole and ensuring that the pattern of incomes develops along lines that will allow of sufficient investment. These two economic objectives of the incomes policy are accompanied by a social objective, which is that of adjusting the breakdown of overall income in favour of lower income groups. The incomes policy therefore must cover all forms of income, i.e. profits - whether distributed or not - as well as direct and indirect wages, and must take into account secondary incomes (i.e. transfers) as well as all primary incomes.

From the angle of economic policy, the main function of the incomes policy is to ensure that inflation is not allowed to persist indefinitely. With this end in view an effort should be made to maintain the monetary increase in overall incomes within bounds compatible with the increase in the volume of production. If the relative income of certain social groups or occupations needs to be improved, the overall increases in other income categories will have to be a little less.

Special attention will therefore have to be given, within the framework of this overall policy, to wage and salary incomes, of which the gross volume, varying between three fifths and two thirds of the national income according to country, is far and away the largest share; this will be all the more needed since the labour shortage, which will almost certainly continue in the coming years, will **continue to affect collective bargaining in that it will constitute an incentive to excessive increases and will go on inducing employers to pay more than the agreed scales.** Wages are, of course, freely negotiated between unions and managements, so

one of the main practical objectives of the incomes policy in the years ahead will be to persuade workers and managements to pursue a moderate incomes policy which, without harming the process of adaptation of specific industries, will enable adequate stability of unit production costs taken as a whole to be maintained. Governments will have to make every effort to win over unions and managements to the principle and to the procedures of a policy ensuring, within the framework of an overall incomes policy, the desired moderation in the expansion of the total wages bill. The parties concerned should hold regular discussions - dealing with prices as well as wages - intended to fix, for the various types of income, limits which should bind the freedom of decision of the economic transactors.

It would, however, be too much to expect unions and managements to maintain discipline in this field if the conditions governing internal stability, which are the direct responsibility of the Governments, are not fulfilled. This means, in the first place, that Governments should limit increases in the pay of civil servants and the staffs of public undertakings to standards compatible with general economic equilibrium and should endeavour to ensure that the progress of such incomes is steady, avoiding both delays in adjustment and the sudden jumps which sometimes follow. In the second place, Governments must not confine their efforts to curbing the development of wage and salary incomes only, but must keep a watchful eye on other income categories as well. This means that they must obtain fuller information on trends in these other categories and that they must not hesitate to use the tools available to them - credit policy, tax policy and price policy - to discipline income expansion.

From the psychological as well as from the practical point of view, price policy should play a particularly important role in this connection. Price freezes will be justified only in exceptional circumstances and short periods; but prices should be kept under constant supervision and vigilance should be stepped up wherever there are signs of monopoly conditions occurring on the market. It goes without saying that both energetic action against monopolies and restrictive agreements and the opening of markets to imported supplies are weapons that should constantly be used in countering unjustified price increases: such a policy will in practice dovetail at many points with the competition policy described above, since competition, where it is effective, is the surest guarantee against price increases.

But where competition is not sufficient, the public authorities will have to endeavour to pursue a more flexible price policy, designed to prevent the abuses which can arise from certain dominant positions and to **at the same time prevent the weakening of the financial situation of enterprises that occurs when they are forced to keep their price at levels that do not make sufficient allowance for the upward movement of their costs.** If those concerned use means adapted to the various situations found in different industries and different countries - methods which will involve close contact between Governments and industry - it should be possible to impose directly on the price trend a discipline without which there will not be the desired restraint over incomes. It is only on this condition that the wages and salaries policy described above can be accepted by unions and managements and that the necessary adjustments to the sliding wage scale machinery in certain countries can be contemplated: the rigidity of this machinery threatens to strengthen inflationary processes by giving permanent form to the effect of temporary price increases.

If, however, despite all these efforts, success in curbing the upward movement of aggregate money incomes was not achieved and if as a result the incomes policy failed to attain its objective, Governments would have no choice but to take appreciably more restrictive measures, which would necessarily act as a brake on economic activity.

If, on the other hand, the incomes policy carried out its anti-inflationary function effectively, it should at the same time help to solve the problem of financing investment: monetary stability and the balanced expansion of incomes should ensure, in the conditions of competition expected, a more normal trend in the savings of enterprises and should promote the propensity to save of individuals. In view of present attitudes to saving, however, it is not certain that the spontaneous formation of private saving in its various forms will be adequate to cope with the major investment requirements that will stem from such items as the heavy expansion envisaged for public investment and the persistence, at least in certain countries, of a heavy demand for new housing. Arrangements would then have to be made to stimulate the formation of private saving and to channel it effectively towards those areas where financing needs are greatest and most urgent. One possibility would be to back up incomes policy with a policy on property which would reconcile the desire of workers to enjoy a greater share of what they produce with the need to step up investment.

The situation with regard to incomes policy still varies widely from country to country. Even in those countries where there is an institutional framework, this is not enough to ensure the effectiveness of the policy: all the political, social and economic factors must be taken into account. Accordingly, the Member States and the Community

must press forward actively their study of what an incomes policy can do, and how it will be applied.

External trade policy

16. International trade is an important factor in the economic development of the various member countries. Not only does economic growth entail growing import needs, which must be paid for by a corresponding increase in exports, but growth is itself stimulated by exports: the rapid expansion of exports is a spur to investment, particularly in those industries for which the country in question enjoys a favourable position on the international market. Structural improvements and rationalization measures resulting from such investment make a decisive contribution to advances in productivity.

From 1960 to 1965 merchandise exports from member countries expanded briskly. For the Community as a whole they increased by 10% per year, twice as fast as the gross Community product. This relatively rapid increase was mainly accounted for by the increase in intra-Community trade, which was 13.6% per year, while exports to non-member countries gained at the rate of 5.2% per year. It is by no means an **overstatement to say** that a high rate of growth in Western European countries demands a rapid increase in their exports.

For the period 1966-70 the projections given in Chapter II are based on the assumption that external demand will develop favourably, with imports growing appreciably more rapidly than domestic product. For this, further progress with European integration is essential, and it will in the years ahead be one of the main springs of economic growth in the six countries, especially in those where far-reaching structural changes and a more vigorous rationalization drive are most needed if they are to adapt themselves successfully to international competition.

The projections also presuppose the satisfactory expansion of world demand. Here, the Member States and the Community institutions can make their contribution, within the framework of international co-operation arrangements, by campaigning for the elimination of obstacles to international trade and so for a better division of labour throughout the world, by pursuing their efforts to prevent **all disturbances in the flow of** international payments, and by granting the developing countries effective aid in overcoming their difficulties.

Finally, demand from abroad will develop favourably only if conditions in the Member States are such that the favourable trend can be turned to good account. They will not be sufficiently competitive unless the competitiveness of individual enterprises is enhanced by the action needed to step up productivity and to adapt the goods produced to the changing pattern of internal demand. At the same time, efforts must be made to see that the stability of prices is not jeopardized by the trend of costs, as this could substantially weaken the ability of firms in the Member States to trade on world markets.



C H A P T E R I V

POLICY ON EMPLOYMENT AND VOCATIONAL TRAINING



The Committee has examined the problems that will face Member States in the years to come because of the need to adapt labour supply to demand; they are described in detail in a memorandum annexed to this programme. The points brought out in the memorandum form the basis for the guidelines set out below for the policy in the field of employment and vocational training which should be followed by the Member States and the Community institutions in order to help adapt the labour supply quantitatively and qualitatively to demand.

The outlook for the labour force and employment

2. The medium-term economic outlook as described in Chapter II of this programme points to persistence of the labour shortage which has already obtained for several years throughout most of the Community. Despite the fact that overall demand should expand almost as rapidly as between 1960 and 1965, the overall increase in the working population is likely to slow down fairly appreciably, and this will be the main factor setting bounds to growth during the years 1966 to 1970. Including an estimate for net migration to and from the Community, the labour force available in the Community is expected to increase from 76 100 000 in 1965 to only 77 900 000 in 1970, a mean annual growth rate of 0.4%, compared with 0.6% between 1960 and 1965. In addition, the unemployment rate for 1970 is expected to be even a little lower than the present rate (1.6% as against 1.9% in 1965), which means that unemployment is expected to shrink further in Italy and that for the other countries full employment will be maintained and in certain cases heavy strain may persist.

The degree of strain on the labour markets will depend at least as much on trends in the pattern of production as on aggregate figures: rapid changes of pattern will remain an important feature of the economic growth of the member countries and this will mean redundancy in certain industries or occupations and a heavy demand for manpower in others. Workers will be required to change trades and in some cases to move from one area to another. Accordingly the strain which is indicated by the overall medium-term employment projections is liable to be aggravated if manpower is not sufficiently adaptable, and this factor is largely dependent on the arrangements made to promote geographical mobility and to improve the conditions for vocational training in the widest sense.

These are the problems which seem likely to arise for the Community taken as a whole, but the demographic and economic structures of the different member countries vary widely, and the problems they will have to cope with will vary likewise. In Germany, for example, the labour shortage is expected to remain acute and the demand for foreign labour will continue to be very heavy. In the Benelux countries and in France, the current shortages are expected to persist but not grow worse, and the demand for foreign labour will remain firm. In Italy, on the other hand, rising employment will not entirely eliminate the surplus of unskilled labour, which is likely to remain appreciable; throughout this period, consequently, the tendency for workers to emigrate is likely to persist. Despite these surpluses, however, there may be appreciable shortages of skilled workers.

POLICY ON THE OVERALL VOLUME OF EMPLOYMENT

3. Since it is likely that a labour shortage will affect the greater part of the Community, the employment policy of the Member States and of the Community institutions should in the first place seek to establish whether, in so far as considerations of social progress permit, the supply of labour could not be stepped up beyond the level assumed in making the projections. There are in theory several ways of doing this: the span of working life (from the beginning of work to retirement), work by women, the length of the working week, and immigration. Examination of these possibilities has led to the following conclusions.

Age for starting work

4. The age at which young people start work depends partly on the legal requirements concerning the minimum age at which children may leave school and partly on the extent of any voluntary school attendance after that age. Quite apart from obvious social and human factors, this is a field in which long-term economic considerations, i.e. the advantage of disposing in the long run of a better-trained labour force, must be given priority over medium-term considerations, i.e. the need to relieve strain threatening the labour markets in the Member States in the next few years. There can be no question of halting the movement for raising the school-leaving age at an early date to 15 years throughout the Community and later to 16 years at different dates in the different countries, always provided of course that the additional time devoted to general basic training is put to good use. Nor can there be any question of a slackening of the drive to induce young people to attend general or vocational schools or any other general or vocational training

institutions. Their attendance at these institutions is obviously in line with the long-term interest of the economies.

Age of retirement

5. The retirement age generally coincides with that at which pension schemes permit the payment of a full pension - 65 years in most cases - but can be affected by certain arrangements designed to induce workers to work on after the age of 65 or, on the other hand, to retire early. A basic principle here is that old age pension insurance should not be used as a medium-term employment policy weapon instead of as the social instrument for which it was designed. This means that it would be wrong to raise the retirement age in order to step up the labour supply. However, in view of the strain expected on the labour market, it would also be a mistake to lower the retirement age except in special cases of a social nature. Moreover, it would be wrong to inhibit the tendency to improve retirement pensions with the aim of inducing workers qualifying for such pensions to work as long as possible.

On the other hand, workers willing and able to do so should be encouraged to work on after the official retiring age. Restrictions preventing a worker drawing retirement pay as well as wages should, where they still exist (notably in Belgium), be adjusted. Another measure which should be contemplated is the payment of higher pensions to workers agreeing to defer their retirement. Lastly, research should be carried out to establish whether the employment of elderly persons could not be facilitated by arrangements to channel them into different jobs better adapted to their age. Measures of this kind should be envisaged not only for workers who have reached retirement age but also for elderly workers likely to be discharged before having reached that age, for whom a different job should normally be preferable to early retirement. However, none of the measures which could be taken to lengthen the working life of elderly persons seems likely, in the medium term, to produce any significant increase in the numbers available for employment. The extension of working life is not equally useful in all industries, so it would perhaps be wiser to vary the incentives somewhat from industry to industry, notably by means of collective agreements.

Women workers

6. To increase the number of women in paid employment would seem to be a more fruitful approach to the problem of increasing the overall supply of labour in the medium term, especially in those member countries where the proportion of women at work is relatively low. This is, however, more easily said than done. It is not entirely a matter of employment policy, since the proportion of women in paid employment is partly related to the socio-economic pattern and may vary appreciably for this reason from one region to another of the same country.

It is difficult to see how far changes in this pattern may in the next few years help to increase the proportion of women in paid employment. It does seem, however, that the decline of employment in certain "traditional" activities in which many women are employed, such as agriculture, retail trade or the textile industry, will be more than offset by a further increase in opportunities open to women in many "modern" activities such as department stores, offices, services of all natures and certain manufacturing industries. But if fullest use is to be made of these opportunities, the access of women to new activities must be encouraged by the right policy on vocational training and readaptation, which must be designed not only to facilitate transition from one type of activity to another but also to facilitate the access to working life of women who would be willing to work or return to work provided they could obtain jobs involving some degree of skill.

Since the proportion of unmarried women in paid employment is generally already high, a substantial increase in the proportion of women at work will depend mainly on the specific measures which can be taken to promote the work of married women - especially those who do not have children to look after - i.e. measures to eliminate certain financial obstacles or certain family difficulties. For example, measures should be taken to prevent graduated taxation on joint incomes discouraging married women too much from working, and tax rules should if necessary be adjusted for this purpose. Another measure would be the elimination as far as possible of the social security obstacles which in certain countries hamper the part-time employment of women. It would also be appropriate if public and private employers took fresh steps to develop this form of employment - which has the advantage of allowing women to look after the home and work at the same time - in conditions that do not involve devaluation of the work carried out by women. Lastly, employers and the responsible administrative departments as

well should, by building up adequate collective facilities, give many women increased opportunities to free themselves if necessary during working hours of the need to watch over the children for whom they are responsible.

Hours worked

7. With a constant supply of manpower, the volume of work carried out may vary appreciably according to the number of hours a worker puts in during the year. Now, as a result both of the reduction in the length of the agreed working week and of the extension of annual holidays, the basic trend is for the number of hours worked in the year to decline as workers devote part of the benefit of increased productivity to increased leisure. This development is by no means complete, and it must be expected that the unions will continue to press in the medium term for the number of hours worked in the year to be reduced in one way or another.

The improvement in productivity expected for the period 1966-70 could no doubt justify devoting part of the benefit once again to the improvement of working conditions from this angle. Since, however, the labour shortage means that in most of the member countries there will be no way of offsetting the shorter working hours by equivalent increases in staff, there are bound to be certain losses in the supply of goods and services unless a rationalization drive specifically aimed at making shorter hours possible has already been carried out or is carried through concurrently. Failing this - and there are industries in which the scope for rationalization is necessarily very limited - cuts in the number of hours worked would be bound to weaken production potential (while overall demand will continue to exert vigorous pressure) and would inevitably increase production costs, with all the consequences this could entail in regard to competitiveness abroad. It is therefore important that reductions in the working week made operative in the coming years should be introduced at a rate and under conditions that will allow a satisfactory growth rate to be maintained without internal and external equilibrium being disturbed.

The general principle must therefore be established that in the years ahead the working week shall be reduced by only a moderate amount, especially in those member countries such as Germany where sharp cuts in the working week have been approved in the last few years and where, consequently, the number of hours worked in the year per worker is already appreciably lower than in the others; in such countries the labour shortage could be particularly acute. At the same time, an effort must be made to offset as

far as possible by concomitant rationalization measures any cuts in working hours decided upon. It would also be desirable that such decisions should vary from one industry to another to take account of structural differences. Lastly, care must be taken that these reductions are not made at times when they could be an additional factor of strain on the economy in general or on a particular industry.

The fact, nevertheless, that decisions concerning the length of the working week are to a great extent a matter for free negotiation between unions and managements raises the problem of the means those in charge of economic policy will be able to use in order to ensure that developments in the length of the working week conform, in the medium term, with these principles. Governments should in any case attempt to influence the two sides of industry by bringing home to them the importance of any decisions they may take for the growth and the equilibrium of the economy as a whole. The success of the policy recommended with regard to the length of the working week depends therefore, to a large extent, on persuasion, and this presupposes close contact and mutual trust between Governments and the workers' and employers' organizations concerned.

Immigration and emigration

8. The last factor affecting the supply of labour is policy on immigration and emigration. The first objective of this policy should be that of ensuring, through implementation of the clauses of the Treaty concerning the free movement of workers, the optimum utilization of the Community's labour resources. In this context measures are urgently needed to encourage the placing in other member countries of Italy's surplus of manpower, which is likely to persist for some years. The introduction of arrangements for free movement between the Member States will not suffice to ensure optimum employment of labour in the Community. Co-operation between employment departments in the various countries must be strengthened, and further efforts ought to be made to encourage the vocational training of workers who are willing to emigrate from Italy to other Community countries but who are prevented from doing so for lack of the necessary skills. In addition, further work will need to be done in connection with Community regulations on the social security of migrant workers in order to ensure that a change from one country to another does not involve a worker in difficulties over the benefits to which he is entitled.

None the less, the five Community countries concerned will have to meet their need for foreign labour by bringing in even more workers from non-member countries than in the past. In this connection, the Member States should co-ordinate their policies on recruitment in these non-member countries in order to take account of their mutual interests, and employment service should refrain from encouraging the recruitment of workers from non-member countries already working in another Member State.

In view of the recruiting difficulties, which are liable to increase, Member States employing workers from Italy and from non-member countries should endeavour to attenuate the instability of immigrant manpower by improving the social facilities available to foreign workers in the host countries, particularly by finding satisfactory solutions to the housing difficulties which often prevent workers bringing their families to join them.

ADAPTATION OF MANPOWER SUPPLY TO PATTERN OF DEMAND

9. The various measures suggested for increasing the supply of manpower beyond what is to be found in the original projections, and thus to help relieve strain on the labour market, seem unlikely to make an adequate contribution to solving the problem. The probable persistence of a labour shortage in the coming years means that special care must be taken to ensure the best possible adaptation of resources to requirements, i.e. to correct and, still better, to prevent the structural distortions liable to arise between demand and supply, and to see that supply can meet demand in satisfactory conditions. Action against these structural distortions - which may be due to a lack of geographical mobility among workers or to the fact that skills available and skills required do not tally - is thus one of the most important policy moves for improving overall productivity and, perhaps, for raising the growth potential of the economy.

Vocational training of young people

10. The structural adaptation of manpower requires first of all that young people should be given vocational training enabling them to meet - both in numbers and in skills - the requirements of the economy, especially in the expanding industries. It is true that the fresh efforts which will be made

in the coming years to step up and adapt the normal machinery of training to the needs of the future will by the nature of things bear fruit mainly after the period covered by the first programme. But some of the measures taken will mature sooner and affect in particular the supply of skilled workers, and in any case the decisions for the longer term must be taken now.

The work that the Member States are planning to carry out during the next few years in the field of vocational training for young people will mean a considerable advance, and in the case of Italy a major advance, on the present situation. None the less, it is doubtful whether present plans will suffice to meet not only the growing desire of young people to acquire a training that will give them an assured future but also the growing demand for skilled workers, technicians, and supervisory grades. Greater efforts should therefore be made, notably in technical training in France but even more in Italy, where a general shortage of training facilities seems certain to persist throughout the period covered by the first programme. In all member countries the training of middle and higher supervisory grades and of teachers for tomorrow must be given particular attention, as requirements in this field are in any case bound to keep on increasing rapidly.

While the principle that their economies must sooner or later benefit from a higher general level of individual ability means that Member States should make the greatest possible efforts in the vocational training of young people, care must be taken to ensure that the efforts made are rational, in other words that they are effective. Two main concepts should underlie policy in this field: the first is that the decisions to be taken concerning the training of young people are long-range decisions which the authorities would be wise to prepare thoroughly, if not by projections in the strict sense of the word, than at least after due consideration of the long-term trends in the occupational pattern of employment; the second is that wherever possible young people should be given a training which, rather than preparing them to work in a specific trade, should impart to them basic knowledge wide enough to give them a range of opportunities and, above all,

should enable them to adapt themselves to the changes which may supervene later in their working lives as a result of economic and technical developments. These two concepts, the first of which implies fuller use of certain forward analyses that could provide more efficient guidance for the training of young people, and the second of which implies that the problems of the distant future should be solved by means of training on a wider basis, may seem to conflict. In fact they complement one another, at least in so far as efforts to foresee over the long term the occupational pattern of employment can never yield anything more than general guidance expressed at best in very approximate figures, and in so far as a broadly-based training going beyond general education in the strict sense can only be given once the basic choice of occupational field has been made. In this respect, thorough long-range studies - where necessary on a quantitative basis - of training requirements at all levels could well provide a useful guide to policy. In addition, the Member States should compare and contrast at Community level any projections or studies they make in this field so as to benefit from each other's experience and to seek out together the best course to follow.

What is already certain is that the steady raising of the level of knowledge necessary for modern life will impose on all countries the need to increase very considerably the facilities for training medium- and higher-grade supervisory staff in all trades and occupations. In addition, the progressive reform of training facilities and syllabuses will have to be speeded up so as to give more room for the teaching of basic knowledge prior to specialization. The raising of the minimum school-leaving age should help here, provided the opportunity it gives to bridge the gap between general training and vocational training proper is exploited by some form of pre-training or vocational initiation. Lastly, the Member States should endeavour to co-ordinate their vocational training work with that being carried out in industry and to establish or develop for this purpose any form of co-operation that may appear practicable and desirable.

Member States must also make efforts in the years ahead to remedy certain anomalies in the siting of training facilities. In particular, a special effort must be made to improve the situation in agricultural areas, where the large reserves of manpower formed by young people living in the country must be harnessed to the needs of the economy: they must either be prepared to carry on in agriculture or be helped to move to other sectors of activity. The Member States must try to offer more and better opportunities for the training of girls, with the aim not only of improving the status of women's work but also of meeting the demand for women workers that can be expected to follow the increasingly rapid expansion occurring in many administrative and service activities.

Vocational guidance for young people

11. If the vocational training of young people is to yield the most satisfactory results, the authorities must provide methodical vocational guidance prior to such training, so that young people can be helped in their choice of a calling. It must be recognized that in most member countries this work has not developed nearly fast enough and they will therefore have to make a major effort in this field. In addition, as the period spent by children at school becomes longer and longer, fuller and more elaborate arrangements should take the place of the present arrangements under which advice is all too often given at the end of the compulsory school attendance period and at no other time.

Mobility of labour

12. The fact that the vocational training and guidance of young people are instruments of long-term rather than medium-term economic policy means that the mobility of adult workers must be seen as the ideal remedy to the structural distortions which are bound to emerge in the years to come between demand and supply on the labour market. One aim of employment policy must therefore be to give every encouragement to mobility of labour in the three forms of geographical mobility, of transfers from one industry to another and of changing from one trade to another - all three of which, incidentally, are frequently involved in one move. For this purpose a set of measures will be needed, and in most Member States these are still far from being ready for implementation.

13. The first objective in this field must be to improve the organization and machinery of employment services so as to enable them, in certain countries at least, to shoulder more effectively than at present the duties incumbent upon them with regard to the guidance and placing of workers wishing to change jobs and even trades. This would mean that they must dispose of greater funds than at present, notably in order to extend the amount of information they can give concerning employment and to help them do more in the way of giving advice to workers. In certain cases - especially in the rural areas - the network of employment services itself is inadequate and needs extension. Improvements should also be made in the links between these services at national level, for example through the institution, where they do not already exist, of regional intermediary offices between the central offices and those in outlying areas; in addition the contacts at Community level maintained under the regulations adopted pursuant to Articles 48 and 49 of the Treaty of Rome (free movement of workers) should be strengthened.

14. More should also be done to facilitate the necessary movement of workers or at least - through contributions to transport and resettlement costs - to make them less burdensome socially. It should be recalled that this resettlement aid normally qualifies for partial reimbursement from the European Social Fund or, where it concerns workers in the ECSC industries, for specific aids from the High Authority.

Training, readaptation and further training of adults.

15. Another problem is that a new job, whether in the same place or elsewhere, calls for the acquisition of fresh skills, and the more rapid structural changes in the economy which must be expected in the coming years are bound to make this contingency more common. Not only will the heavy drift from agriculture continue, but there will also be changes between industries and the upward movement of manpower into higher-level jobs resulting from the chronic shortage of skilled and highly skilled staffs in certain rapidly expanding industries. Consequently, an effective training, retraining and further training policy is far and away the most

important medium-term instrument available for the structural adaptation of manpower and is one of the main instruments of employment policy as a whole.

One of the foremost aims of medium-term employment policy should be a major expansion of existing arrangements for the rapid training and the readaptation of adults, so that workers who had not been lucky enough to receive training in the past or who had chosen trades for which there is no future could have better chances of acquiring a skill or of training for a fresh type of work. This means that the purpose underlying most of the work being done by the Member States in this field, namely retraining the unemployed, should be replaced by a much more ambitious objective, that of giving all workers, adults and even young people who have missed the ordinary training facilities, a chance to make good past deficiencies. This is a process which is already well under way. For this purpose, not only should facilities for more rapid training be provided, but workers should also be granted compensation for loss of wages, so that they can use these facilities without undue hardship. It is neither necessary nor even desirable that the authorities should assume full responsibility for details of such training, and there seem to be good practical reasons why industry itself should play a more or less active role in this work, perhaps with assistance from public funds. The authorities should, in any case, co-ordinate the complex of measures adopted in this field, ensuring in particular that the geographical distribution of readaptation facilities takes more fully into account the specific needs of areas in difficulties, and notably of those areas where heavy emigration or a drift from the land may be expected to persist. At Community level the European Social Fund should, particularly if its powers were widened, continue to assist Member States in this field.

It would be a mistake, however, to confine these efforts to the rapid training of skilled workers. Another matter meriting consideration and much closer attention than in the past is that of further training - not only the adaptation of a worker's knowledge to technical progress (permanent instruction arrangements), but perhaps also the acquisition of a higher level of knowledge which will give him the opportunity to fill a higher post (social betterment). These are two other ways of making the most of a worker's aptitudes during his working life, and their economic value is

obvious. Consequently, the authorities should endeavour to institute or develop the necessary arrangements so that even in the medium term an appreciable contribution can be made to the improvement of overall productivity.

16. For all this work, as for that recommended above with regard to the vocational training of young people, the Member States should co-operate closely, acting within the framework of the Treaty of Rome and in conformity with the General Principles for the implementation of a common vocational training policy adopted by the Council on 2 April 1963.

C H A P T E R V
P U B L I C F I N A N C E P O L I C Y

1. As part of the preparatory work for the first programme, the Medium-Term Economic Policy Committee has, in view of the special importance of the problems posed by public finance in the coming years, asked the Budget Policy Committee to work out figures on the overall development of public revenues and expenditures⁽¹⁾ up till 1970.

This is the first time that an attempt has been made to establish medium-term forecasts in the field of public finances for the Member States of the Community on a uniform pattern. These forecasts naturally are of an extremely hypothetical nature and still rest on differing bases in the various Member States; some of them are not yet official. Consequently there are many gaps and deficiencies in the material. In particular, some of the countries were still not in a position to supply all the desired information, especially with regard to investment. Others had submitted requirements forecasts some of which had not yet been reconciled with overall economic resources. None the less the forecasts do point to certain general trends which will be discerned in the field of public finance in the years to come making it possible to give a picture of the resulting problems and to develop tentative guidelines for public budgetary policy in the Community. One of the first tasks to be carried out in the framework of the medium-term economic policy will be to amplify the work undertaken in the field of public finance and to proceed to certain quantitative comparisons which it has not yet been possible to carry out. In this connection the forecasting methods used are to be improved and at the same time the basic assumption on general economic development are to be defined more exactly.

2. According to the information presented by the Budget Policy Committee, public expenditure as a whole for the years 1966-70 should grow rapidly in all the Member States; in general it is expected that its growth will exceed the increases in the gross national product. The rapid growth of public capital expenditure will be particularly pronounced in all the countries.

(1) The concept of public budgets refers to the budgets of the public administrations as defined for national accounting purposes: central governments, regional and local authorities and the social security system, but not public enterprises (railways, postal services, publicly owned enterprises, nationalized enterprises, etc.). Current expenditure comprises purchases of goods and services for public consumption, the wages and salaries of employees in public service and income transfers to households, to non-profit-making organizations, to enterprises or to abroad. Capital expenditure comprises own capital investment, capital transfers, loans, advances, holdings by the public authorities, and the amortization of the funded public debt.

Current expenditure is expected to increase less rapidly than capital expenditure; none the less it is in most cases likely that it will continue to grow more rapidly than gross national product. This applies especially to transfers (social security payments, subsidies, etc.), which can be expected to grow relatively rapidly in most of the member countries even if current legislation is not changed. It is also quite possible that the expansion of current expenditure in several member countries has been estimated at too low a rate because of the methods used and the initial assumptions, in which case the balance of the budget will of course be affected.

The main source of danger to the balance of budgets is likely to be the fact that, according to the estimates, revenue will be increasing more slowly than expenditure: most member countries have assumed essentially unchanged tax rates, with the result that revenue from taxation will develop on lines roughly parallel to the trend of the gross national product or at best - given the progressive nature of some taxes - will grow a little more rapidly.

The assumptions used therefore point to a substantial increase in public financing needs. At the same time a noteworthy deterioration in the current accounts of almost all member countries **is to be feared, so that public saving as a means of financing capital expenditure will tend to decline in importance.**

3. These trends had too a number of very important conclusions for medium-term economic policy; they concern, in the main, the following problems:

- (i) The reconciliation of public requirements with overall economic resources;
- (ii) The raising of funds to cover financing requirements;
- (iii) The need to take into account budget programmes covering several years;
- (iv) The establishment of an order of priority for specific expenditure categories (notably for investment);
- (v) The co-ordination of the budgetary policies of the various public administrations (central governments, local authorities and social security).

Reconciliation of public requirements with overall economic resources

4. One of the most important results of the forecasts is that they show that central governments will tend in the coming years to claim a larger share of the gross national product to cover collective requirements. There are many reasons why this trend is particularly marked in respect of the development of public investment. In most member countries work on the economic and

social infrastructure - roads, harbours, schools, hospitals, etc. - has in recent years been unable to keep abreast of general economic development. Economic and social infrastructure investment has most leeway to make up where facilities need to be provided in response to certain individual requirements which require collective investment and which in recent years **have grown far more than the average - requirements arising, for example, from the use of motor vehicles and from use of hospitals as progress is made in the field of social security.** The trend towards urbanization noted in all member countries in the last ten years has had similar effects, causing considerable bottlenecks that affect economic and social equilibrium. The growth of requirements of this type is unlikely to lose momentum in the next few years.

Another point is that public activity in certain fields, such as education, scientific and technical research, and investment in the less developed areas - topics discussed in more detail in other parts of this programme - will grow appreciably in the coming years. In highly-developed economies they are essential if international competitiveness is to be strengthened, rapid economic growth maintained and social progress promoted. These forms of governmental activity also reflect the need, which is growing more and more pronounced in the Member States, to devote part of the wealth accruing from economic growth to the satisfaction of human needs in the field of culture, education and health.

It is obvious that the work carried out by Governments and by other public administrations, especially the installation and improvement of infrastructure, will involve expenditure - some of it on a large scale - which (calculated in terms of the cost of each project) will tend to increase because of the growing technical difficulty of the work. **These costs cannot be defrayed unless the growth of the other utilization categories is correspondingly slowed down and total claims on the gross national product are reconciled with real resources without monetary stability being jeopardized.** Since, in view of the need to ensure **sufficient adequate economic growth in the medium-term, it is not desirable to finance Government investment at the expense of industrial investment,** consumption expenditure is the main demand component in which growth must be curbed.

Covering public financing requirements

5. The distinctly greater demands of public financing which are to be expected in most Member States, given the initial assumptions, raise substantial problems in regard both to overall economic balance and to the sources from which these demands can be met.

In a few member countries the requirements are expected to be so great that they could engender serious difficulties for the general balance of the economy; the authorities will have to make absolutely certain that this does not occur.

Consequently, where greater recourse to the capital market is not feasible or desirable, the right policy will be to curb the growth of expenditure or to raise revenue by higher taxes. In most countries the proper course will doubtless be a combination of both methods.

Curbing the growth of expenditure

6. In some member countries the expenditure estimates probably leave definite possibilities of curbing the growth of expenditure. The reason for this is to be found **partly in the methods of forecasts used, which - as, for example, in Germany - start with estimates made for each sector without co-ordination of the various collective requirements and without reference to the availability of funds.**

With overall economic resources as they are, it looks as if a reduction **in the growth of public expenditure envisaged will be necessary in most of the countries.** But the authorities should refrain from setting linear limits to increases or cuts in expenditure under which all categories of expenditure are reduced by the same percentage. This would conflict with the need to respect priorities and would ignore the fact that the various categories of expenditure are not equally flexible.

The necessary cuts should be operated selectively under a system of priorities that ought as far as possible to be developed on the basis of a budget plan covering several years. In view of the heavy collective investment

requirements, an effort is at present being made in almost all member countries to give particularly high priority to investment expenditure and to concentrate cuts in expenditure as far as possible on consumption and transfer expenditure. But it must be remembered that a number of expenditure categories in the field of public consumption merit the same priority as investment expenditure. Certain expenditure items, for example, the pay of public servants, must keep in step with general economic development; others represent in many ways the necessary counterpart of investment expenditure, for example the cost for maintenance of roads or of schools. Lastly there are forms of public consumption expenditure, such as outlay on the improvement of education, which are vital to economic and social progress.

None the less there must in all member countries still be opportunities for rationalization in certain sectors of public administration which could, in the light of technical progress, easily be turned to good account. In each case, where the various public expenditure headings are being increased, the authorities should carefully check whether and how far the increases are really necessary. At the same time expenditures agreed previously should be kept under constant review and, where appropriate, amendment of the laws fixing these expenditures should be contemplated.

To facilitate the control of expenditure, the methods of selection between the various expenditure categories should be examined more closely so that the allocation of public funds under the various headings can be made along more rational lines.

In addition, more and more should be done to make public supply and transport undertakings, which in some countries have fairly substantial deficits, pay their way. For this reason it should be made possible for these undertakings to adjust to economic and technical progress and in particular to carry out the necessary investment and rationalization measures and to align their charges - in the light of market conditions - on actual costs. In so far, however, as specific deficits cannot be made good, given the obligations stemming from the notion of public service or arising for social reasons, they should be balanced as appropriate from the central government budget or from the local authorities directly concerned⁽¹⁾, which is more appropriate.

(1) In this connection, the Council decision of 13 May 1965 concerning the harmonization of certain provisions affecting competition by rail, road and inland waterway provides that the obligations on transport undertakings stemming from the notion of public service should only be maintained in so far as they are indispensable to ensure adequate transport. For such obligations as are maintained, the same decision stipulates that the relevant costs incurred by transport undertakings should be defrayed by the authorities

Since, according to available forecasts, public subsidies and similar transfers to commerce and industry are likely to rise very appreciably in a number of Member States, it must be strongly emphasized once again that such payments should be made only in accordance with the principles set out in Chapters III and VI. In addition, their volume should not be so great as to seriously jeopardize budgetary equilibrium, especially as this would in the long run conflict with the object of most subsidies.

There is little hope, however, that such curbs as may be made on the growth of public expenditure will suffice to solve the problem of budgetary equilibrium in all Community countries.

Public indebtedness

7. If then it is assumed that fiscal legislation remains unchanged, it will be necessary in all Member States to borrow even larger sums to cover the growing need for public infrastructure investment; this will be necessary even in countries like the Netherlands, where central government investment is in principle to be financed out of current revenue, by far the greater part of public investment being generally carried out by the local authorities. To prevent the equilibrium of the economy as a whole, and particularly price stability, being jeopardized, financing needs not covered from current revenue should be accounted for by the issue of long-term domestic loans. Where the authorities resort to short-term bank advances and, in particular, to advances from the central banks, or to the issue of short-term public securities, they should do so for only limited periods, and even then only with due regard for the requirements of short-term economic policy. Care must then be taken to see that the central governments' net indebtedness under this heading does not increase to any appreciable extent over a long period.

However, the interests of the public authorities as issuers of loans will compete with those of industry, which may also need to make increased calls on the capital markets to finance its investment. In a period when there are in any case likely to be appreciable difficulties in the way of smooth economic growth recourse to the capital market is only defensible as long as sufficient real saving is available to meet the demand for capital. It is true that private saving will continue to expand sharply in the member countries, particularly if the objective of optimum economic growth for a long period, coupled with maintenance of external and internal stability, is achieved at the earliest possible moment. However, even if measures were taken to stimulate the formation of savings and to improve

the working of the capital market, it would remain doubtful whether the influx of savings to the capital market would suffice to cover the growing demand for credit from the public authorities and from industry.

Increase in revenue from taxation

8. In view of the forecasts on the financing needs of the public sector and the limited resources available on the capital market, circumstances might arise in which an additional increase in tax revenue would prove unavoidable, although the budget forecasts provided by the Member States have so far been based on the principle that an increase in tax rates will not be necessary and that budgetary equilibrium can be achieved by other means. In the Netherlands, however, it is intended to establish budgetary equilibrium by adapting tax rates, unless increased recourse by the public authorities to the capital market is feasible without economic equilibrium being jeopardized.

If an increase in tax revenue proves unavoidable, the additional burden should fall where it will hit private savings and industrial investment as little as possible. Increased revenue should therefore be raised mainly through those taxes which affect consumption expenditure. At the same time the implications of the proposed measures for harmonization of taxes among the Member States should also be taken into account. This means that the authorities should, wherever possible, refrain from any new measure of tax policy that would hamper harmonization. In those Member States where the share of taxes based on production is relatively small, this is the point at which revenues could be increased by appropriate adaptation measures. By the adoption of the tax on value added system (TVA), these measures should be fitted into the framework of the harmonization of turnover taxes. Conversely, the other Member States would move towards harmonization if they aimed at increasing the yield of taxes on income and wealth.

Forecasting or programming of public budgets over several years

9. It is important that public finance policy should take account of longer-term growth opportunities. It must be so designed as to create optimum conditions for economic growth, the economic structure and internal and external stability. Consequently, some guidance is required, in the form of public budget forecasts or programmes covering several years, concerning the longer-term development of public budgets in the aggregate and of the main categories of revenue and expenditure. These forecasts can be supplemented, in limited priority fields, by specific programmes some of which may be turned into a firm commitment. This will not be an attempt in any way to replace the annual budgets: it will be an effort to establish a framework into which the annual budgets will be fitted. By bringing out their impact on the volume and balance of the budget over a longer period, such a framework should facilitate the decisions on budget policy taken by Governments and Parliaments.

The programming of the public budgets over a number of years could well, at the same time, provide a more rational basis for a finance policy better adapted to current economic developments. The programming of certain forms of public expenditure over a period of several years makes it possible to hasten or delay particular expenditures in a way that can help to stabilize the economic trend. In addition, the forecasting or programming of public budgets for several years ahead could make a valuable contribution to the early preparation of the technical planning and implementation of specific public investment programmes, so that they could be put in hand - should the economy show signs of flagging - without undue delay.

Moreover, the institution of this forecasting or programming arrangement would mean an additional valuable instrument for the co-ordination of budget policy and of general economic policy in the Member States and at Community level. For this reason, such forecasts or programmes should be established at the earliest possible moment and the Member States should endeavour so to select their methods and periods of time that rational confrontation of forecasts or programmes within the Community would be possible.

Establishment of priorities

10. The forecasting or programming of public budgets for several years ahead will also be an important aid in efforts to establish the most comprehensive order of priorities for individual expenditure categories. This order must be established if the most efficient allocation of public resources is to be ensured. Such an order of priority should reflect the specific, chronological or regional urgency of the expenditures planned, and decisions should be taken as far as possible in the light of overall economic requirements. At the same time the interdependence of priorities must also be taken into account, as certain expenditures may be indispensable for, or may be the direct consequence of, other expenditures.

In this connection, the various types of public investment are of special importance: in the coming years they will be rising particularly fast in all member countries and it is a matter of particular urgency that they should be reconciled with the production capacities of specific industries, notably of building. In any case everything should be done to avoid the recurrence of serious substantial imbalances in one field or another, such as have in the last few years occurred in a number of member countries partly because of too rapid and too massive outlays of public funds or of the excessive incentives offered to the building industry. Action on these lines seems essential because of the need to maintain price stability and because, if prices were to rise, the cost of the various investment schemes would exceed estimates and so add to the difficulty of attaining budgetary equilibrium. The establishment of an order of priorities should enable the authorities to avoid undue pressure being placed on certain types of production capacity, and it would ensure that in case of need it would not be all the schemes, or most of them, which would be delayed, but only the least urgent. The arrangement should also be that the priorities would be granted to whole schemes or (in the case, for example, of road-building) to sufficiently large sections, and that, through the improvement of budgeting methods, uninterrupted implementation would be ensured, enabling modern production techniques to be turned to best account. Lastly, a point to be borne in mind in subdividing major projects is the need to grant priority to those parts likely to help eliminate particularly difficult bottlenecks, or those that can be turned into good account as quickly as possible.

Co-ordination of the budget policies of the various public authorities

11. An important condition for any efficient medium-term economic policy is close co-ordination in all member countries of the various public authorities (central government, local authorities, social insurance), not only in respect of the aggregate financing resources available to the public authorities but even more with regard to the economic impact of their transactions. Since, in most member countries, far and away the greater part of public investment is carried out by the local authorities, particularly the communes, it is important to ensure that their investment fits into the framework of general economic policy.

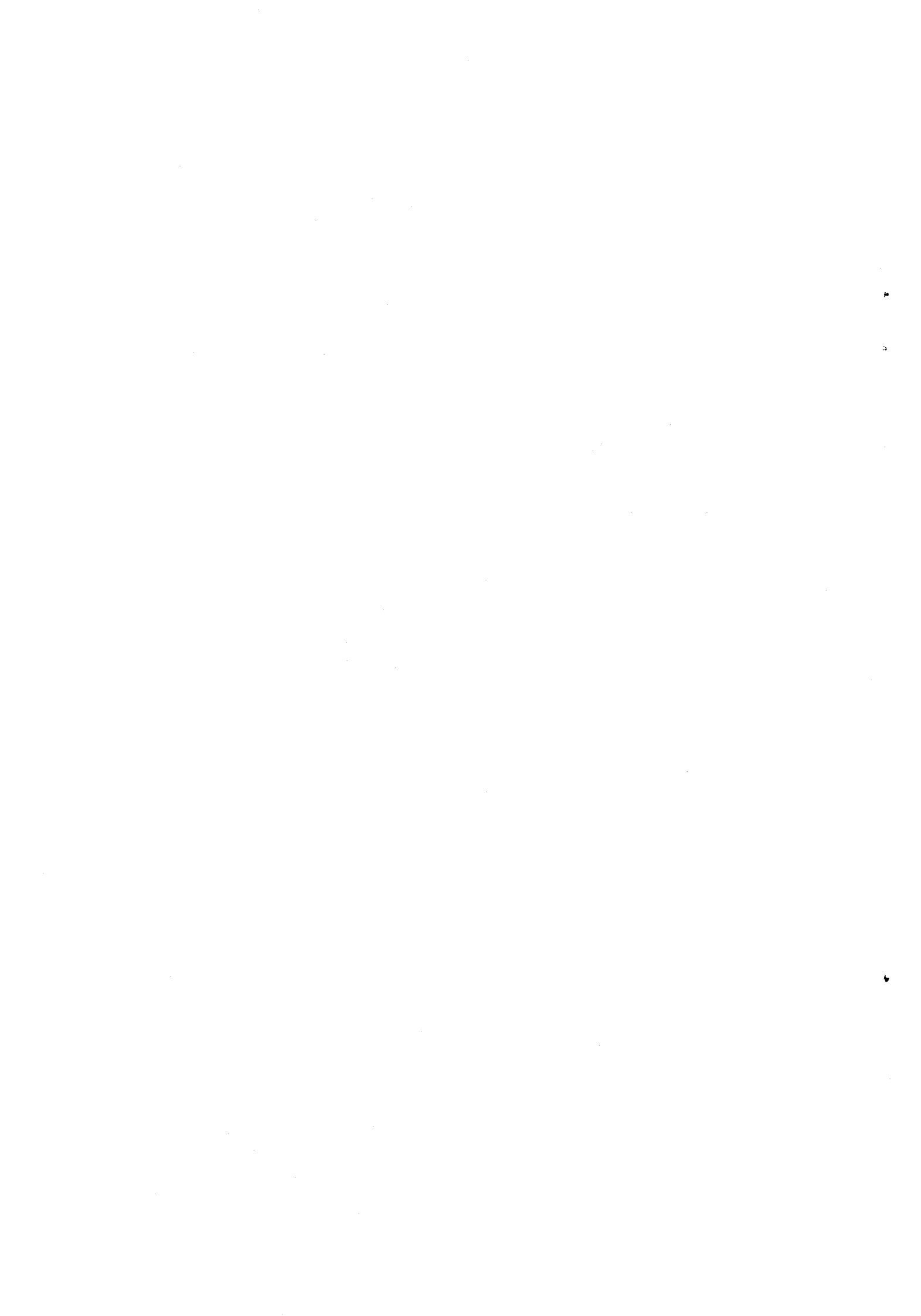
Where the requisite procedures for co-ordination do not yet exist, they will have to be established as soon as possible, and steps must if necessary be taken to ensure that the central authorities exert over local authorities sufficient influence to make them comply, in their expenditure, with the requirements of the medium-term economic policy; there is perhaps a case, in this connection, for attaching certain conditions to central government subsidies. This does not mean that the independence of the local authorities should be encroached upon.

On the other hand the central governments must ensure that local authorities do not have difficulty in financing such of their expenditure as is essential in connection with the medium-term economic and short-term economic policy, notably certain investment expenditure. It is important to examine in this context whether and to what extent they should be given greater opportunities to obtain additional tax revenue, so as to cut down their borrowing on the capital market.

12. In a number of member countries, social security will raise special problems in the coming years. Even if there is no change in current legislation, expenditure under this heading may well expand - mainly because of the sharp increase in old age pensions and the rapid upward movement expected in sickness insurance payments - more rapidly than the gross national product. Serious financial difficulties will result, since there must be an increase either in contributions or in subsidies from the public purse. The financing problems of social security, taken as a whole, are to be studied later by the Committee with due consideration of their economic and social aspects.

C H A P T E R VI

REGIONAL POLICY



1. In close co-operation with the group of senior officials responsible for regional policy in the Member States, the Committee has examined in detail the problems of regional policy in the Community. The most important of these problems, their connection with growth policy, and the general objectives, methods and measures of regional policy are described in more detail in an annex to this programme. They form the basis for the following guidelines for the regional policy of the Member States and of the Community institutions. It should be stressed that the operations proposed are confined to the most important regional policy measures, to which the Member States and the Community institutions should give top priority in the coming years.

Regional policy objectives

2. The creation of optimum conditions for balanced economic growth and a balanced economic structure will require appreciable efforts in the field of regional policy. One of the most important tasks will be to bring into play existing production reserves in the problem areas and thus to promote both overall economic growth and an improved regional equilibrium. Concurrently, the authorities should endeavour to prevent the development of those excessive concentrations of industry which generate unduly sharp rises in economic and social costs and aggravate the serious shortage of labour already prevailing in certain centres.

The most important task before those responsible for regional policy is to find ways and means of establishing conditions that will make it possible for businessmen to embark on new ventures. In the Community, action on these lines is of particular significance in so far as the benefits of a wider market, in terms of employment, production and real income, can only make themselves felt if enterprises, and particularly industrial enterprises, are in principle free to set up in the regions that offer them the greatest advantages. This means that their decisions should not be influenced by excessively wide inequalities in the provision of public services - notably infrastructure - in the various regions. It should therefore be the aim of those responsible for regional policy to place the various regions in comparable starting conditions and so to

ensure that the Community's problem areas - particularly the major outlying areas - are given a proper share in the geographical reorganization of production in the Common Market. In this connection care should be taken to see that measures of structural policy for specific industries, notably in the field of agriculture and the manufacturing industries, are co-ordinated with regional policy.

Unless the contrast between the predominantly agricultural areas of the Community and the others is to become more marked, major efforts in regard to agricultural structure will be called for in the coming years. The unification of the agricultural markets and the fixing of single prices will entail, in a number of cases, a relative or absolute reduction in prices paid to farmers, and this may mean serious problems in those areas where the structure of farming is unsatisfactory. In addition, as economic growth advances, it tends to bring out more clearly the structural weaknesses of those regions where the economy is based mainly on farming. Thus those in charge of policy on agricultural structures must, particularly in the problem areas mainly devoted to farming, seek to influence production as regards both its volume and its siting in relation to natural economic conditions; in this way it should be possible to make farming in the individual areas competitive and to fit it as rationally as possible into the framework of the general economy.

Infrastructure

3. One of the most important ways of furthering the development and adjustment of problem areas is by improving infrastructure. Action may be needed - the actual requirements will have to be determined case by case - to improve economic infrastructure in the narrower sense of the term (industrial estates areas and communications), or education (general education and vocational training), or social and cultural equipment (housing, hospitals and leisure facilities).

Infrastructure work should take account of the need to build up "development poles", preferably based on urban centres already in existence. These poles should be formed by a group of industrial enterprises and services that could develop spontaneously after assistance in starting up. Where these development poles are sufficiently dynamic they would promote the development of "secondary centres".

4. An effort should also be devoted to the establishment of major European transport routes enabling outlying areas to participate more fully in intra-Community merchandise trade. The Member States and the Community institutions should therefore lose no time in undertaking jointly to decide, in the light of future profitability, on the trunk routes which are most urgently needed in order to promote the development of the backward areas; they should also agree on arrangements for carrying out the work deemed necessary. The consultation procedure laid down in the Council decision of 28 February 1966 on investment in transport infrastructure, notably on such investment as may have an impact on the development of one or more regions, provides in this connection a valuable aid to the co-ordination of transport investments of importance for regional policy.

Rates and conditions of transport

5. Rates and conditions of transport involving any element of support or protection (Article 80 of the Treaty), should be allowed only in support of regions for the development of which they are still indispensable. To avoid the danger of distortion of the optimum geographic distribution of economic activities within the Community, these benefits should - save in exceptional cases to be discussed individually - normally be initial aids only, and more and more of them should expire on dates specified at the outset. On the other hand, the public transport rates in highly developed areas should as far as possible be brought close to real costs so as to prevent enterprises sited in these regions enjoying an artificial competitive advantage.

Financial aid

6. In order to make any financial aids granted as effective as possible, the Member States should be guided more in the future by the following principles :

- (i) Financial aid cannot alone ensure the development of backward regions and will only produce the required effect if the necessary infrastructure is provided at the same time;

- (ii) Aid should stimulate the establishment of firms at localities and centres offering the best chances for development in the backward regions; to this end, aid programmes should be designed to foster the development of "poles" and "centres" of the kind already found in certain countries;
- (iii) Financial advantages should only be granted to undertakings which are financially sound and likely to remain competitive for a long period; in the major backward areas, these advantages should encourage the establishment of "primary undertakings" which will stimulate other activities;
- (iv) Any financial advantages granted should assist the adaptation of regional structures to new economic and technical requirements; they should therefore take the form of temporary aid and Member States should in no circumstances give permanent assistance which might hinder adaptation and lead to the continuation of non-competitive activities; such permanent aid would not only mean a loss of production to the economy as a whole but would ultimately create fresh regional problems;
- (v) At both national and Community level, regional and competition policy require that the amount of aid given should be proportionate to the problems involved, with priority for regions faced with the worst problems.

So that aid may be granted in accordance with the above principles and the Community institutions can more easily decide whether it is compatible with the Treaty, assistance should wherever possible be included in regional programmes or in the detailed studies discussed below.

Regional studies and programmes

7. Even more than other aspects of economic policy, the regional policy of the Member States and of the Community institutions should take into account the longer-term aspects of economic and social development. In order to do this, thorough studies of regional structure and of the longer-term regional development prospects are desirable. These studies should take as basis the

natural role of each region in the Common Market and the probable trend of its potential labour force, and they should establish what activities, given adequate mobility of labour, should be started up. In this connection, the importance of urban centres for the development of the regions must also be borne in mind. Studies of this kind are necessary for the implementation of a complex of mutually consistent measures designed to ensure the development of the various regions.

It would be wise to include the long-range regional measures in flexible programmes covering several years, within which an order of priority for the various projects and measures would be established and reconciled with the availability of funds. Consequently, the Member States and the Community institutions should therefore pursue their studies with a view to reaching agreement on the main lines of the method to be followed to establish these programmes.

The Member States should give priority to the drafting of such programmes for those Community areas which have to cope with the most difficult problems of development and of adaptation. The programmes should be designed to facilitate co-ordination of the means and facilities available to the regional, national and Community institutions and to make possible their concentration on the main points of regional development.

It is vital to integrate these programmes into general economic policy and, if need be, into the general programmes of economic development, making sure that they are compatible with the other priority objectives of economic policy. Co-ordination on these lines is also desirable to prevent attempts by the regions to outbid each other and to forestall the emergence of incompatible elements in their respective programmes. Accordingly, where they have not already done so, Member States should at the earliest possible moment make all the necessary arrangements to ensure the co-ordination of the various regional programmes.

Financial resources of the Community

8. The financial resources of which the European institutions dispose have already made a notable contribution to regional development in the Community. The efficacy of this aid should in future be improved by the measures indicated below.

The resources of the European Investment Bank should be better adjusted to the requirements of regional policy so that the Bank - particularly in the larger backward areas - can make a better contribution to regional development, notably to the financing of such infrastructure programmes as have particularly favourable effects on overall economic development. This will not, however, be possible unless Member States make greater efforts to facilitate the Bank's access to the capital markets.

Furthermore, so that the Bank can play a more active part in regional development, a study should be made to determine whether, and on what conditions, interest rates and charges paid by borrowers in the most backward areas should now be reduced, as is already the case in some regions. A point to be remembered in this study is that the use of interest rates as an instrument for regulating the flow of money, credit and capital must not be jeopardized by granting interest rebates on too liberal a scale.

Since balanced regional development requires that measures to facilitate the training and structural adaptation of labour should also serve regional objectives, the help of the European Social Fund could assume special importance. The Committee attaches the greatest importance to the outcome of the current discussions in the Council on the proposals which the Commission has put forward in this connection.⁽¹⁾

The regional policy of the Member States and the possibilities for the general economic development of the various regions must also be kept in mind when policies on the structure of agriculture in the Community are being co-ordinated and subsidies granted from the Agricultural Guidance and Guarantee Fund.

(1) Commission proposals to the Council for the amendment of Regulation No. 9 and for a supplementary regulation relating to the European Social Fund.

Regional policies at Community level

9. Although responsibility for regional policy lies mainly with the Member States, the "confrontation" and as far as possible the co-ordination of regional policies at Community level is particularly necessary. It will contribute to harmonious economic development and assist efforts to help the less favoured areas catch up with the rest. Unless there is this confrontation, it will not be possible for the resources of the Member States and of the Community to be concentrated on the regional policy objectives selected as meriting priority treatment in the framework of the medium-term economic policy. Confrontation should also make it possible to ensure that the measures taken in implementation of the common policies, notably in the field of agriculture and of transport, take regional interests sufficiently into account.

It is desirable, in this respect, that the regional policies should be confronted and as far as possible co-ordinated at Community level in order :

- (i) To ensure that the assumptions underlying these policies, for example with regard to migration, are mutually consistent;
- (ii) To assess the effects of market integration on the economies of the various regions;
- (iii) To estimate and allow for the impact of the common policies (covering agriculture, transport, vocational training, trade, etc.) on the economies of these regions;
- (iv) To see how far exceptions to the general principles of the Treaty of Rome are justified for reasons of regional policy (aids, application to transport of rates or conditions involving any element of support or protection within the meaning of Article 80 of the Treaty, safeguard clauses), and to ensure that steps taken by the public authorities do not favour the establishment of firms which in the long run cannot cope with competition from outside;
- (v) To examine whether and if so how far Community financing resources (those of the European Investment Bank, of the European Social Fund, of the European Agricultural Guidance and Guarantee Fund and of the High Authority) can contribute to the execution of these policies.

10. Since adequate statistical information is extremely important for regional studies and programmes, the Member States and the Community institutions should also make efforts to ensure that regional statistics too are improved and expanded and to decide at the earliest possible moment what statistical material should be given priority in this connection.

In addition, the Member States and the Community institutions should establish a regular exchange of information on the experience gained with the methods used and measured applied in the field of regional development, and also on the results obtained.

