

E U R O P E A N C O M M U N I T Y

THIRD MEDIUM-TERM ECONOMIC POLICY PROGRAMME

February 9, 1971

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II/138/71-E

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PROGRAMME +)

Having regard to the Treaty establishing the European Economic Community, and more especially the preamble thereto and Articles 6, 105 and 145,

Having regard to the Council's decision of 15 April 1964 creating a Medium-term Economic Policy Committee,¹

Having regard to the Commission's draft drawn up on the basis of the preliminary draft prepared by the Medium-term Economic Policy Committee,

Having regard to the Opinion of the Assembly,

Having regard to the Opinion of the Economic and Social Committee,

+) The present text is a non-official translation of the "Third Medium-Term Economic Policy Programme" published in the Official Gazette of the European Community, No. L49, March 1, 1971

Considering that a first and a second Medium-term Economic Policy Programme were adopted on 11 April 1967¹ and 12 May 1969² respectively;

Considering that the economic policy followed by the Member States should be directed at attaining the objectives set out in Article 104 of the Treaty establishing the European Economic Community;

Considering that on the occasion of their conference held at The Hague on 1 and 2 December 1969 the Heads of State or Government decided "that the integration process should result in a community of stability and growth" and agreed to prepare "a plan in stages" "with a view to the creation of an economic and monetary union";

Considering that on the occasion of its 99th meeting on 26 January 1970 the Council stipulated that the Third Medium-term Economic Policy Programme should contain quantitative guide figures for the period 1971-75 and should lay down the main structural measures that would have to be taken for the purpose, either at national level or at Community level,

THE COUNCIL OF THE EUROPEAN COMMUNITIES AND THE GOVERNMENTS OF THE MEMBER STATES ADOPT THE THIRD MEDIUM-TERM ECONOMIC POLICY PROGRAMME AND DECLARE THEIR INTENTION OF ACTING IN ACCORDANCE WITH THE GUIDELINES LAID DOWN IN IT:

¹ Journal officiel No. 79, 25 April 1967, p. 1513/67.

² Ibid. No. L 129, 30 May 1969, p. 1.

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CHAPTER I

TOWARDS A COHERENT STRATEGY FOR THE COMMUNITY

A. Political significance of the third programme

1. The present programme is designed to assist the action taken following the Conference of Heads of State or Government at the Hague with a view to the gradual realization of economic and monetary union. While continuing the work embarked on in the first two Medium-term Economic Policy Programmes, it accords with the Council's decision of 26 January 1970: it contains compatible guide figures for the period 1971-75, lays down the broad lines of economic policy and sets out the main structural measures to be taken, both at national and at Community level.

2. The complete realization of economic and monetary union requires that the member countries should be progressively aligning their economic policies achieve a situation that will enable them finally to renounce all protectionist measures within the Community and changes in the ratios between their monetary parities. This will give the business world a new basis for its decisions - the whole economic area of the Community replacing the economic and monetary territories of the several Member States.

3. The potential advantages inherent in the common market have not so far been fully exploited for want of sufficient economic cohesion between the member countries, as is shown by the manifest disparity between completion of the customs union and the limited progress that has been made in adopting common policies. Interdependence among the member countries has made much more rapid strides than harmonization of their attitudes, aims and policies. Each of them has consequently come up against difficulties in bringing its own development into line with external conditions.

These difficulties must be overcome by a preliminary reconciliation of the various national objectives. The compatibility of overall economic trends will then contribute to better use of the opportunities offered by the Community.

In adopting the present programme, the institutions of the Community and the Governments of the Member States express their desire to adopt a comprehensive strategy supported by public opinion and the various groups active in the economic life of the country. This strategy should be such that it conforms, by means of coherent objectives and measures, to the economic, social and political ends of European unity and secures a lasting improvement in the well-being of the citizens of the Community.

B. Results of economic developments since 1960

4. In the last ten years, the rate of economic growth in the member countries of the Community has been satisfactory. The majority of the objectives of economic policy has been achieved. While it is not possible to say just what part in all this has been played by the Community, it is generally accepted that this part has been important, and that all member countries have benefited from integration; furthermore, the disparities between the member countries in average income per head have been considerably reduced.

AVERAGE ANNUAL GROWTH RATE OF GROSS NATIONAL PRODUCT

	Results ¹⁾ 1960-65	Projections 1965-70 ²⁾	Results ^{1), 3)} 1965-70
Germany	5.0	3.3	4.7
France	5.8	5.4	5.6
Italy	5.3	5.0	6.1
Netherlands	5.0	4.8	5.0
Belgium	5.1	4.0	4.4
Luxembourg	3.2	3.0	3.3
Community	5.3	4.5	5.3

1) At 1963 prices and current rates of exchange.

2) Projections made in the first programme, revised to take account, on the one hand, of changes introduced in the second programme and, on the other, of the revision of the French national accounts.

3) The growth rates for 1970 are taken from the national economic budgets.

The economy of the Community has been able to absorb the growth in the labour force, which in a number of countries has been considerable, and at the same time to achieve substantial advances in productivity coupled with a high rate of structural change. The increase in private consumption per head, which is a partial indication of the standard of living, has been appreciable: the average rate of 4.4% recorded since 1960 would mean a doubling of the level in 16 years.

The exchange of goods between the member countries has more than tripled. At the same time the Community's trade with the rest of the world has more than doubled: its foreign trade today represents about one fifth of total world trade, and it now ranks as the principal supplier and the principal purchaser in the world. Finally, the member countries have between them considerably increased the total amount of their aid to the developing countries and expanded their commercial and industrial establishments in the rest of the world.

5. Such results have not been achieved, however, without giving rise to economic and social stresses; the consequences of these stresses have not yet been entirely overcome.

The pace of expansion and the elimination of internal economic frontiers have led to a pronounced change in the structure of demand; the rigidity of the productive apparatus and delays in its adaptation have sometimes resulted in under-utilization of existing capacity and pressure on prices. The problem of disparities between regions has not yet been satisfactorily solved. Under the influence of factors which were not having their origin in all cases outside the Community, an inflationary climate has developed, which has varied in intensity at different times and from one country to another.

6. Because of differences in behaviour and in priorities, the difficulties encountered in all the member countries are reflected in appreciable divergences in their overall economic development.

Corrective action has been all the more difficult to apply in that the establishment of the common market has deprived the regulatory instruments used in the various countries of some of their effect. Coordination of the various policies has undoubtedly led to a certain amount of progress, but altogether it has still proved insufficient. The recent changes in exchange rates in two of the member countries illustrate the risks of the situation.

7. Thus, despite the progress made, the incompatibilities that have occurred in the overall economic development of the Community have been an obstacle to complete achievement of the results hoped for when the Community was established:

- (a) The measures aimed at reducing structural disparities, which would have reinforced the cohesion of the Community, have not been sufficiently woven into a long-term policy;
- (b) The possibilities of regional development offered by the Community as such have not been used to the full;
- (c) Managements have not been able to shape their investment decisions sufficiently on the basis of the large internal market, and it has not been possible to make full use of the possibilities of a better division of labour;
- (d) Because of intra-Community divergences and the international environment, the development of monetary and financial flows within the Community has not led to the constitution of a true European capital market;
- (e) Because of insufficient coordination of decisions, the role the Community has played in international economic relations has not reflected its true economic weight.

8. The present inflationary tendencies in all the member countries are a source of anxiety. Should they continue, they would - apart from their effect on external competitive capacity - lead to radical changes in economic and social behaviour; this in turn would aggravate the disparities between the social classes because of their widely varying ability to cope with the diminishing value of money, would impair the regulatory function of the market and would reduce the volume of voluntary saving. Finally,

it would make it necessary to adopt severe corrective measures which would affect the continuity of structural measures and, in consequence, the possibility of a lasting improvement in the standard of living. Neither the Community as a whole, nor the individual Member States, can allow the massive upward thrust of prices to continue.

The problem of prices is all the more important in that, in relation to economic and monetary union, "price trends within the Member States determine the Community's ability to function, on the basis of fixed exchange rates without changes in parity and without any tendency to disintegrate".¹

9. The importance of these problems is still greater when looked at together with the possible enlargement of the Community. This enlargement, which is desirable among other reasons because of the addition it would ultimately make to the economic potential of an enlarged Community, will in the first few years inevitably raise problems of an economic and social character. Solution of these problems will be facilitated if the cohesion between member countries is ensured by the compatibility of their overall trends.

C. Economic policy and social objectives

10. The economic policy of the Community cannot be limited to the twin objectives of growth and stability. Its real value depends on the contribution it makes to better living conditions: it must both raise the standard of living and improve the quality of life; it must also contribute to a greater community of action in support of the underprivileged.

In pursuing these wider objectives, the greatest importance attaches to the interplay of economic and social developments. Balanced and sustained economic growth is a necessary condition for social progress; but in turn, satisfactory economic development will be possible only if there is satisfactory social security and progress. Society must find a

¹ Memorandum from the Commission to the Council on medium-term guidelines for the economic policy of the Community (1971-75), sec. 17.

way of reconciling these two aspects.

Though this interplay has always existed, it assumes greater importance today with the emergence of tendencies which, in the most diverse fields, combine to cast doubts on certain objectives, methods and relationships that are features of society today.

11. The Community is conscious of these requirements; it is also conscious of the present limits on what it can do. In view of the economic and monetary union that is to come, the general objectives of social development, which are at the moment still part of aims of national policies, will progressively become those of Community policy. But the following general objectives, which are felt in all member countries to deserve priority, should be laid down forthwith:

- (a) A greater effort to meet public needs, in particular education, health and housing, with a view to ensuring balanced progress and a fair distribution of goods and services. This priority means, for most member countries, that private consumption will expand a little less rapidly than the national product, so as to permit a more rapid increase in community services;
- (b) Intensification of the struggle against the harmful effects of growth on the environment (pollution of the atmosphere and of water, noise, and excessive concentration in urban areas). The principle that those responsible for a nuisance must assume responsibility for its prevention or elimination should be applied progressively, due account being taken of the conditions of international competition;
- (c) Equality of opportunity between individuals should be increased by an improved policy of education and training;

- (d) Justice in the distribution of incomes and property should be increased;
- (e) Social security should be adapted to the exigencies of the modern world; in particular, there should be greater protection for those who are most seriously affected by structural change and technical progress, and those who, through no fault of their own, are unable to participate in the productive process.

The present programme cannot set out all the means by which it is possible to further these ambitious but necessary objectives. Its primary concern is to lay down, for the economic policy of the Community and of the Member States, guidelines which can facilitate their attainment.

D. The need for a medium-term strategy

12. Further work on the unification of Europe will be exposed to serious risk, unless it is based on a coherent strategy ensuring that change shall be carried out in orderly fashion. Such a policy must take account of the interplay between the economies of the member countries, between economic and social measures and between internal aspirations and international responsibilities; it must also make due allowance for the differences in economic, social and political structures of the different countries, in their administrative instruments and institutions and in their scales of values.

The medium-term context is particularly appropriate for forecasting structural change in the economy, for fixing objectives, and for the elaboration of a policy: it provides the necessary scope for embarking on a structural policy that will make it possible to overcome the obstacles in the way of a balanced expansion and to resolve the apparent conflict between growth and stability.

13. For the years to come, action to bring trends in the member countries more into line will make it necessary, for the Community, acting in the light of international tendencies, to agree on:

- (a) Quantitative medium-term guide figures consonant with the requirements of compatibility;
- (b) The overall economic and structural policy to be followed for the purpose of ensuring compatible trends.

The present programme represents the first attempt the Community has made to set out in concrete terms the conditions for a more balanced economic development.

14. The guide figures set out in Chapter II indicate the conditions that must be taken into account by the Member States in preparing their economic policies if their overall economic developments are to be mutually compatible and stability in exchange rates within the Community is to be secured.

These conditions will not suffice in themselves, since compatibility depends on other important factors, in particular on a trend in incomes that is in line with economic possibilities; it is none the less necessary that they should be achieved, for they reflect the overall pattern of economic development, and consequently merit special attention.

Furthermore, the conditions are given their real meaning only through an economic policy capable of ensuring their realization. Far from imposing arbitrary restraints on the member countries, they are simply a reflection of the increased economic interdependence that has grown up among them.

15. A balanced medium-term development should be based in particular on the following principles:

- (a) Short-term economic policy should be such that it keeps the tensions between supply and demand within tolerable limits and does not weaken the longer-term expansionary factors;
- (b) Structural policy must be related to the size of the Community in order to increase the chances that all available productive resources will be turned to account;
- (c) The conditions of competition must be harmonized within the frontiers of the Community. When this is done, account must be taken of the need to secure a better territorial balance. It is not enough, in fact, to eliminate customs duties and measures with similar effect among the Member States if at the same time aids or advantages conferred by legal provisions continue to distort competition.

16. In external economic relations, the economic weight of the countries united in the Community stands out more and more clearly; its importance is particularly marked in the field of trade, where non-member countries have come to look on it as an economic entity entitled to be treated as such in their economic deliberations. Its importance has also been apparent in international monetary relations.

It is therefore fitting that the Community should increasingly work towards unity of action when dealing with the most important external developments, especially as its external economic responsibilities and problems will be enhanced by its enlargement.

In addition, the Community must contribute actively to the economic progress of the developing countries. The annual amount of the net financial resources put at the disposal of these countries already exceeds for the Community as a whole 1% of its gross domestic product and may well remain at least at this level in future. But transfers alone will not suffice to solve the grave problems facing these countries: their growth potential will also have to be increased by means of a trade policy which would promote the diversification of their production structures.

17. The opportunity which the wider economic area offers for raising the level and improving the quality of life cannot be seized without cooperation from the various groups that participate in economic activity in the member countries and at Community level. Care must moreover be taken to ensure that the necessary development of the industrial or regional structures does not impose on those concerned burdens which go beyond what they can support. Consequently, discussions with the various groups concerning the general economic trend and specific lines to be followed must be further developed and put on a permanent footing.

18. Solidarity between the Member States must be further strengthened as economic and monetary union progresses. This means expanding the role of the Community authorities; it also requires that in the member countries decisions of common interest shall be taken with due regard to the point of view of the Community. This will entail the progressive integration of the various instruments of Community financing in a comprehensive budget. Progress on these lines will pose the problem of reinforcing democratic control over the decisions taken by the Community.

19. A strategy based on these considerations is necessary if economic and monetary union is to be attained. It can only be worked out step by step and will require constant adjustment. It will not be easy to apply, for profound changes will first have to be made in the policies and even more in the attitudes of various countries. It is consequently important that this policy should be such that it gains the support of all classes in our society, and that thanks to their support its application makes it possible to achieve a balanced economic development and social progress.

CHAPTER II

THE OVERALL ECONOMIC PROSPECTS AND THEIR COMPATIBILITY

A. Conditions for compatibility of trend

20. To ensure that overall economic trends are compatible within the Community, it is essential to use medium-term guide figures jointly worked out on the basis of quantified projections. These projections make it possible to take account of the various elements of interdependence inside each country, between member countries and with the rest of the world; in so doing the autonomous objectives of the various countries can be made in accordance with what is actually possible.

The medium-term projections take into account the results expected from a structural policy aimed at growth and from the policy of overall economic guidance which must go with it. They presuppose that overall guidance for the economies of the Community will be based both on compatible medium-term guide figures and on the economic situation. It has not however yet been possible to find a satisfactory place in it for shorter-term developments during the period covered by the projections.

It is on this basis that the study group on medium-term economic forecasts has conducted the work on which the arguments used in the present chapter are based.¹

21. Adjustment between national economies that are developing at different rates and from different levels is normally effected by relative movements in domestic prices, by movements of capital, by migration of labour and, if the disequilibrium is fundamental, by changes in monetary parity. In the European Economic Community care should be taken that any such adjustment can be effected without recourse in intra-Community relations to protectionist measures or changes in parity.

The gradual elimination of such methods gives the process of adjustment in the Community a meaning of its own: the member countries are no longer just adapting the expansion of domestic demand to increased opportunities for employment and growth; from now on each must harmonize the conditions of its development with those of its partners so as to

¹ The group's report will be issued in November.

secure greater uniformity of development of the economies and in particular of prices inside the Community and thereby to limit the factors that can disturb the economies. The success of these measures calls for prior harmonization at Community level of the overall guide figures.

22. These figures will be determined by reference to the principal indicators that provide a general picture of the results expected from the overall economic policy. These indicators must include:

- (a) Economic growth (as shown by the growth rate of the gross national product at constant prices);
- (b) The degree of success in achieving full employment (as shown by the unemployment rate);
- (c) The trend of the general price level (implicit price index for the gross national product) representing the tension between supply and demand;
- (d) The establishment of external equilibrium (as shown by the external balance).¹

The choice of these indices tends to place at the very centre of coordination the problem of achieving a growth consonant with the requirements of employment and with the need to watch the relationships between the four corners of the magic square. It also brings out, particularly in the indicators showing the future trends of employment and of prices, the difficulties that must be overcome if a balanced development is to be achieved.

23. These guide figures determine a line of development for a period of several years. The uncertainties and the complexity of the overall economic trend will generally lead to deviations from this line of development; it will therefore be necessary to make regular checks on results and, if need be, to bring the guide figures up to date. Apart from such adjustments as may result from this procedure, the medium-term guide figures will constitute the essential basis for an economic policy in which compatibility will from now on be an element.

¹ This means, in accordance with the standard concepts used in national accounts, the balance of transactions in goods and services, including factor income.

24. The action to concert objectives which the Community and the member countries are thus undertaking is in many respects new. The lack of compatibility which was faced by the Community in the recent period of difficulties and which affects the results obtained by national policies, must not be allowed to continue. Inevitably, such a situation impinges on the choice of strategies and the formulation of plans for the further development, and calls for the gradual adaptation of the Member States' methods and attitudes to the existence of the Community.

The endeavour to attain compatibility does not imply the abandonment of national objectives. On the contrary, by accepting overall Community guide figures, the member countries lay the foundations for a better management of their economies and for a more realistic and more ambitious programming of the desired structural changes. Far from introducing extra constraints, the compatible guide figures are merely the reflection of an interdependence that has in fact already come into being.

B. Prospects of economic development in the Community up to 1975

Starting point

25. The vigorous economic upswing that began in the Community at the end of 1967 seems to have reached a peak in 1969 and 1970 - the base year for the projections. The elimination of the external disequilibria that have appeared in recent years has improved the foundations on which a more stable trend in the balance of payments can be attained. While it was possible to achieve this in 1970 without any marked tendency to fall behind the long-term growth rate, there is still cause for serious concern over the immediate future.

This concern is closely bound up with the rapid advance of costs and prices in all the member countries, an advance which constitutes one of the major problems facing those responsible for economic policy in the Community. Since 1969, rates of inflation in the Community have on the average exceeded those of its principal trading partners. In 1970, the general price level in the Community will probably have risen by more than 5%, or at a rate equivalent to that of growth in real

terms:¹ thus half the increases in nominal incomes are at present being absorbed by the rise in prices.

26. Allowing for the foreseeable developments in the factors of production, real growth in the Community as a whole during the period 1971-1975 may well be maintained in the neighbourhood of the rates recorded in the past, i.e. at about 5% per annum at constant prices for the gross national product, and 4.5% for productivity throughout the economy. The establishment of a balanced medium-term development in the Community assumes, however, that governments will succeed in mastering the present inflationary pressures without inhibiting the expansionary factors.

External situation

27. The prospects for medium-term development in each member country are influenced in part by the level of economic activity in the other countries of the Community and in part by the trend of demand and prices in third countries. The forecasts made by the international organizations indicate that the rate of growth in the industrialized countries will be maintained and that it will accelerate slightly in the developing countries.

It may be expected that the annual growth rate of world trade will be about 7.5%, or somewhat less than in the recent past (9% between 1965 and 1970). This vigorous development of world trade will be strongly influenced by the growing importance of trade within the big customs areas (notably the EEC and EFTA).

¹ For the Community as a whole, the general level of prices may have risen by about 5.6% in 1970 (4.9% in 1969), and the consumer prices by about 4.6% (4.2% in 1969). The rates of increase may have ranged in the various member countries from 4% to 6% (3% to 7% in 1969).

28. It is necessary, moreover, to start with a working hypothesis as regards the trend of prices in the other industrialized countries, especially the United States. To combat the inflationary developments of the last few years, several of these countries have taken fairly severe monetary and budgetary measures to restrain the increase in demand. The hypothesis adopted is that the rise in the general level in prices for the EEC's trading partners will be somewhat smaller than in the recent past,¹ and for the years 1971 to 1975 is likely to work out at an average annual rate of about 3%. A steeper rise in these countries cannot, however, be excluded.

In face of the serious risk that the world-wide inflationary tendencies may persist, the Community can and must, by reason of its growing weight in international trade, adopt an active and independent policy of stabilization: what might be considered inevitable in a single country dependent on its foreign trade cannot be accepted as inevitable for the Community. In accordance with the Treaty of Rome and the Summit Conference held at The Hague late in 1969, the coordination of medium-term economic policies must be related to the endeavour to achieve a "Community of growth and stability". This will enable the Community to make an effective contribution to stabilization of the international price level and international monetary relations.

29. In the next few years the countries of the Community together expect to place at the disposal of the developing countries net financial resources of at least 1% of their gross national product. This commitment would represent in 1975 about \$7 000 million, and for the whole of the period 1971-75 about \$30 000 million.

National projections as starting point for compatible guide figures

30. The outlook for the main medium-term economic developments in the member countries is given below on the basis of the projections prepared by the member countries. Though for most countries still provisional,

¹ 3.7% per annum from 1965 to 1970, 5% per annum from 1968 to 1970.

Principal Trends 1960-75
(national figures)

	Germany		France		Italy		Netherlands		Belgium		Luxembourg	
	1960-70	Proj. 1970-75	1960-70	Proj. 1970-75	1960-70	Proj. 1970-75	1960-70	Proj. 1970-75	1960-70	Proj. 1970-75	1960-70	Proj. 1970-75
Real gross national product (annual rate of growth)	4.9	4.5	5.8	5.6	5.7	6.0	5.0	4.7	4.7	4.8	3.4	3.5
Total labour force (annual rate of growth)	0.4	0	0.8	1.1	-0.6 (0.0) ¹	0.8 (1.2) ¹	1.0	0.9	0.8	0.7	0.6	0.4
Implicit price index for GNP (annual rate of increase)	3.4	2.2	4.3	3.0	4.4	2.8	4.8	4.0	3.4	4.0	3.5	2.5
Implicit consumer price index (annual rate of increase)	2.8	1.9	4.1	2.8	4.0	2.5	4.2	3.3	3.1	3.7	2.6	2.5
Unemployment rate (as % of the labour force), average for the period final year (1975)	0.8	0.7	1.5	1.34	3.3	2.7	1.1	1.3	2.1	1.5	0	0
External balance (as % of GNP), average for the period final year (1975)	1.8	1.7	0.5	0.9	1.3	0.5	0.3	1.3	0.3	0.6	0.4	0
Balance on current account (as % of GNP), average for the period final year (1975)	0.6	0.2	-0.7	0.1	1.9	0.8	0.1	0.8	0.1 ²	0.1	-	0

¹ Alternative evaluation expressing employment as "full-time equivalent".

² 1961-68 for Belgium.

N.B. For the projections the figures indicate orders of magnitude.

Sources: Data and projections are derived from documents provided by the national departments participating in the Study Group on medium-term economic forecasts.

they already reflect the first results of an intensive attempt at confrontation which had proved encouraging despite the sometimes marked differences in conception, procedure and method, and even more in the methods used to estimate development prospects outside the Community.¹

Germany

31. The essential macro-economic data for the medium-term projections for 1970-75 are based principally on the normative 1969-74 projection adopted by the Government in January 1970.²

The quantitative projections are based on the persistence with which key elements are maintained and on the assumption that the longer-term trend of productivity will continue. The employment rate will continue to decline and the slight decrease in the native labour force will have to be offset by the immigration of foreign workers (who by 1975 will number about 2 million). The unemployment rate for the period will probably average about 0.7% of the labour force, a fact which in itself reflects a persistent shortage of manpower. As in the recent past, growth will be achieved only if industry is made more capital intensive by a rapid increase in gross fixed capital formation: by the final year 1975, the rate of investment should be about 26% of the gross national product at current prices. Under these conditions it should be possible to achieve an average annual growth rate of 4.5% in the gross national product at constant prices.

¹ The work of the Study Group on medium-term economic forecasts has been particularly concerned with the technical conditions required if the mutual exchange of information is to be improved and harmonization to be stepped up. The process of constant adaptation used in preparing the medium-term projections and the data relating to the projections for each Member State are described in a report drawn up by the Study Group and attached to the present programme.

² Jahreswirtschaftsbericht 1970 der Bundesregierung (Economic Report of the Federal Government for 1970). Medium-term projections for Germany are produced each year (moving horizon). In Germany, the medium-term quantitative objectives are regularly presented in the form of margins; in order to harmonize the presentation for the different countries in the present text, they are shown here as a single figure.

The Federal Government's objective of price stability, which appears ambitious in the light of past developments, of the forecasts made by other countries and of the persistent shortage of manpower, reflects the public's particular sensitivity on this point - a sensitivity that has been evident in certain legislative provisions.¹ For the general level of prices the aim is that the average annual rate of increase should be about 2.2%.

To meet its rising commitments to foreign countries (immigrants' remittances, transfers to Community and international organizations, aid to developing countries and private exports of capital) without suffering any notable change in the level of the reserves over the period as a whole, the Federal Republic must provide for an external balance of about 1.7% of the gross national product.

France

32. Preparation of the Sixth Plan is proceeding on the basis of the report on the main options presented by the Government and approved by the French Parliament.

This report counts on an average annual increase of around 1.1% in the labour force in the period 1970-75 and expects the trend in productivity per man hour to continue growing in view of the faster pace registered since 1968. These factors suggest an annual growth rate of about 5.6%², similar to that achieved in the last five years.

Greater price stability is considered by the Government to be the basic condition for a rate of growth that will make modernization of the economy possible. The rise in the general level of prices, which averaged 4.3% per annum between 1960 and 1970, should be brought down to 3% per annum at the most; in this way the price situation resulting from

¹ Law on Stability and Growth and Bundesbank Law.

² The figures for France are based on the normal international definitions; for growth and prices they differ by a few tenths from the figures shown in the French national accounts.

devaluation and, consequently, the competitiveness of the French economy would be maintained. This objective requires a decisive move to be made away from the inflationary attitudes of the past, so as to avoid further damaging interruptions in the structural adaptations necessary for future development.

The external balance in particular should in 1970-75 be large enough to enable the country to meet its foreign commitments (aid and transfers), and at the same time to allow the currency reserves to be brought back to a normal level early in the period.

Italy

33. In view of the present stage of programming for the second five-year plan and the uncertainties affecting the base year, the first results of the medium-term projections for 1970-75 should be considered as a purely technical starting point. These results are based at present on the proposals submitted in "Progetto 80" by the Ministry for the Budget and Economic Programming; they have not yet been discussed by the political authorities.

The main aim during the period covered by the projections (1970-75) is to achieve full employment. Employment is to rise by about 1% per annum, and the average unemployment rate to be reduced from 3.5% of the labour force (the average figure for 1965-70) to about 2.7% in 1975. As productivity is rising in line with the long-term trend (1950-70), the real GNP could rise by 6% per annum. To achieve this objective the overall rate of investment would have to rise by 1975 to around 22% (at current prices).

The assumption of an annual average increase of 2.8% in the general price level over the period is at the moment purely technical in character; it may seem ambitious but it is not unrealistic when account is taken of the overall trend since 1965. The external balance, which averaged about 2.1% of GNP over the period 1966-70, is to be reduced to a rate of 0.5% during the 1970-75 period so that it shall be more closely in line with the actual needs of the economy.

Netherlands

34. The Dutch projections for 1970-75 are extrapolations of the medium-term forecasts of the Central Planning Bureau for the period 1968-73;¹ they are purely indicative.

The prospects for the Dutch economy are even more strongly influenced than in most of the other EEC countries by the trend of demand and prices abroad.

Provided that export demand is maintained, the increase in real gross national product should continue at about 4.7% per annum, and the growth of productivity should be about 3.8% per annum.

The assumptions regarding internal development are based on the probable continuance of pressure on the labour market, despite a substantial increase (of almost 1% per annum) in the number of persons employed, whilst at the same time of further reduction in the hours of labour will be carried out. It is hoped, furthermore, that in the next few years it will be easier to keep a better check on the rise in prices after the sharp increases of the last few years and to limit the increase in wages to an annual average of about 8% per person in employment.

It has nevertheless been assumed that there will be a relatively sharp increase (of 4%) in the general level of prices and in consumer prices (about 3.3%), and also some improvement in the terms of trade. The latter item should help towards an external balance of 1.3% of the gross national product.

Belgium

35. The broad guidelines for the preparation of the third medium-term economic development plan for 1971-75 have already been discussed at political level. Having to choose between a real annual growth rate of between 4.5% and 4.8%, the Government and the National Committee for Economic Expansion decided on the higher figure.

¹Central Planning Bureau: "The Dutch Economy in 1973", The Hague, 1970. These projections were drawn up before the recent wage increase, the effects of which will have to be taken into account when policy is being formulated. The Central Planning Bureau's medium-term projections for the economy as a whole are revised at regular intervals according to the moving horizon principle.

This growth rate assumes that the long-term trend of productivity (an increase of about 4% per annum) will be maintained¹ and that the rate of employment will keep on rising at 0.7% per annum, so that by 1975 the rate of unemployment could be reduced from 2.3% (the average for 1965-70) to 1.5% of the labour force.

Largely because of the introduction of the value added tax in 1971, the spontaneous increase in the implicit price index for the gross national product is likely to be fairly vigorous in 1971 and 1972; thereafter it may well fall back, giving an average annual increase of about 4% over the whole period (3.9% for consumer prices).

Although the relationship between the internal price level and the foreign trade balance is not as marked in Belgium as in other Community countries, international price trends still constitute a factor that should not be overlooked.

In view of the expected trend in prices both at home and abroad, there may well be a balanced growth in imports and exports of about 9.5% per annum (at 1965 prices). In 1975, the external balance should be about 0.6% of the gross national product.

Luxembourg

36. The projections drawn up for Luxembourg provide a technical basis for economic and financial programming in that country, where the principle of moving horizons is also to be applied.

It is estimated that Luxembourg will have an overall economic growth rate of 3.5% per annum, a very low unemployment figure and a reduction in the total number of hours worked (an annual increase in the labour force of about 0.4% coupled with a reduction of about 1% in the hours of labour).

The general assumption that prices will increase by 2.5% per annum takes account of certain external influences (particularly from Germany and Belgium); this assumption is, however, very uncertain in view of the proposed increase in the rate of value added tax.

¹The increase in the productivity of the industrial sector may be 4.3%, and would then be higher than in the preceding period 1965-70 (+3.8%).

C. Towards compatible guide figures

37. The forecasts presented above are based on the objectives and analyses of the individual countries. The repeated comparisons that have been carried out in order to judge how far they are compatible have made it possible to narrow the gaps considerably. It is necessary nevertheless to point out that the methods utilized in such a new field are not yet perfect; the varying character of the individual projections is a further complication. In certain cases, moreover, the countries are for the first time establishing projections at current prices which involve the problem of changes in the general price level and so come up against additional difficulties of a technical and political nature.

The compatibility of the national projections

38. In view of the prospects for an expansion of world trade and the economic potential of the individual countries, the national projections seem in general to be realistic in so far as they deal with developments in real terms and, in particular, with the targets for growth and employment.

Taken individually, these projections also seem, by and large, to form a coherent whole. It is nevertheless necessary to note that a marked change has occurred in the development of certain magnitudes (of employment in certain countries, of the external balance in others). In such cases the credibility of the projections depends essentially on the efficacy of structural policies and the speed with which they can be put into effect.

39. The rates for price increases shown in the national projections call for certain observations. The figures vary in their technical significance from one country to another; in addition, the interpretation of these figures will vary with the assumptions made concerning the repercussions of changes in the structure of production and the pattern of trade. Finally, allowance must be made for political considerations concerning the effect of publication, which may affect them. These points may explain in part the differences of almost 2% between the individual national forecasts both for the price index of the national product and for the consumer price index.

In view of the close interdependence between Community countries today, such differences are none the less a matter for concern. It is in fact differences of this order, i.e. cumulative differences of 5 to 10% in a period of 5 years, which made a considerable contribution to the deterioration in external equilibrium and to the recent monetary disturbances.

Comparison of price increases¹

(Figures from the national projections, at annual rates)

		G	F	I	N	B ¹	L
Price index of GNP	1960-70	3.4	4.3	4.4	4.8	3.4	3.5
	1970-75	2.2	3.0	2.8	4.0	4.0	2.5
Price index of sales to private consumers	1960-70	2.8	4.1	4.0	4.2	3.1	2.6
	1970-75	1.9	2.8	2.5	3.3	3.7	2.5

40. The risk of incompatibility is further heightened by differences in attitude and strategy among the member countries when faced with the trends registered in the rest of the world, especially the trend of prices. For certain of the countries, the projections were prepared with an eye on the objective of stability, adopted and announced without reference to international tendencies; they imply a willingness to make a change in parity if this is necessary for the defence of internal economic objectives. Other countries, however, have viewed their price objective in relation to the countries against which they compete or with which they trade, that is to say, principally from the standpoint of competition.

Accordingly, the outlook for compatible trends without change in parity will depend to a large extent on the future trend of international prices:

¹

The figures for 1970-75 are to be considered as orders of magnitude. For Belgium the introduction of VAT in 1971 may well produce an autonomous increase of about 3.5% in the price index of the national product.

(a) Should the trend of these prices be more moderate in future, the differences between the two alternatives considered - adaptation or autonomy - will be considerably reduced, and the differences between price trends in the member countries will be more acceptable.

(b) If, on the other hand, the present inflationary tendencies were to persist on the international plane, the differences in behaviour will very probably lead to incompatibility between economic developments in the various countries.

41. The direct comparison of indicators and of strategies, so far as they can be seen at this stage, brings out the risk of incompatibility. This is a risk which cannot be ignored, especially when it is remembered that some of the assumptions regarding the effects of the policies followed by the various Member States are optimistic. From this point of view, the projections arrived at by the Member States seem to verge on incompatibility - less, it is true, at the beginning of the period covered by the projections (when the effects of parity adjustments are still making themselves felt) than at the end of that period.

Because of the complexity of the economic and monetary relations that determine external equilibrium, it is not possible to say how far and when these differences will lead to actual incompatibility. The emergence of monetary strains can be delayed or accelerated by shifts in the phases of the economic cycle or by extraneous disturbances. When the external equilibrium is insecure, a fortuitous occurrence of minor importance may suffice to touch off speculative movements that can often be checked only by measures that hamper the achievement of other objectives.

The compatible guide figures

42. In implementation of the decision taken by the Council on 26 January 1970, overall guide figures must be determined which will make it possible to establish an area in which there is greater assurance of compatibility. As these

figures are intended to throw light on and facilitate the coordination of economic policies, they call for agreement on a middle course, with each country taking fuller account of the objectives pursued by its partners.

These guide figures are set out below; they result from a confrontation of the national projections based on the trend of prices and of the external balance,¹ and are to be taken as orders of magnitude.

43. The guide figures submitted by each member country for its balance of foreign transactions have been taken as basic data: they express the net amount of the liabilities (transfers or capital movements) that the country will meet in its dealings with other countries and that it must cover by drawing on real resources.

The external balance also serves as an overall indicator of the tension produced by the relationship between internal and external economic trends. Consequently its average level over a period of several years reflects both the degree of development of the country concerned and the degree of stability of its prices in relation to those of its principal trading partners.

The estimates for the external balance² and for the balance on current account³ are based on the national projections and are expressed as a percentage of the gross national product (at current prices) for the whole period:⁴

-
- 1
cf. Memorandum of the Commission of 15 December 1969 on Medium-term Guidelines for the Economic Policy of the Community (1971-75), Part IV, and the report of the Study Group on medium-term economic forecasts.
- 2
Balance of goods, services and factor income as defined for international accounting purposes; this item shows the net amount of real resources transferred abroad.
- 3
External balance plus balance of current transfers to or from abroad; this item shows the net amount of savings transferred abroad.
- 4
The projections of the member countries contain data for the final year (1975) only.

GUIDE FIGURES FOR EXTERNAL EQUILIBRIUM

Average balances for the period 1971-75 in % of the GNP
(at current prices)

	External balance	Balance on current account
Germany	c. 1.7	c. 0.2
France	c. 1.0	c. 0.1
Italy	c. 0.5	c. 0.8
Netherlands	c. 1.0	c. 0.8
Belgium	c. 0.5	c. 0.1
Luxembourg	c. 0	c. 0
Community	c. 1.0	c. 0.3

44. The guide figures relating to prices are fundamental for the elaboration of economic policies intended to be compatible. The price indicator necessarily has a normative character which increases the technical difficulties of forecasting. But there must in any case be a common figure which is consonant with the objectives and the internal possibilities of the Community. To be acceptable and to guide economic policy effectively, this figure must take into account the diversity of national situations, the inertia that characterizes inflationary behaviour, and the tensions which are found in the situation at the outset and which can only be eliminated by successive steps.

It seems appropriate to accept for the period 1971-75 an average annual rate of increase of between 2.5 and 3%, a little less than the rate adopted in the hypothesis regarding international prices. The choice of this rate reflects the Community's desire to constitute an area of stability. The rate adopted can be achieved if the stability of prices is recognized by all as a decisive factor for an expansion that is socially satisfying and economically effective, and if the Community and its member countries begin at once in applying the policies necessary to achieve it.

The Community must pay particular attention to this figure. If the upward trend of international prices should turn out to be higher than the assumption adopted, the Community will defend stoutly the objectives it has adopted so that it may remain an area of stability and growth. As is stated in the Commission's Memorandum on medium-term guidelines, "a coordinated policy intended to moderate prices within the Community would, because of the very significant share of the Six in world trade, exert a considerable influence on the international price trends. In any event, the Community should in future avoid adapting itself passively to inflationary stimuli from outside".

On a longer view, the figure adopted is such that it should facilitate progress towards the more ambitious objective of stability desired in all member countries. Such an objective must be given due consideration whenever the guide figures are revised; its credibility will depend on the progress made towards compatibility during the first stage of the undertaking.

45. Harmonization of the national price trends around the common figure must be effected gradually. The figures for individual countries must take account in particular of differences in the size of the structural obstacles to stability, of the room for manoeuvre offered by the recent parity changes and the outlook for the immediate future.

GUIDE FIGURES FOR PRICE TRENDS

Average annual rate of increase for 1971-75
(in %)

	Index of the general price level ¹	Price index of sales to consumers
Germany	2.0 - 2.5	1.8 - 2.3
France	2.5 - 3.0	2.3 - 2.8
Italy	2.5 - 3.0	2.3 - 2.8
Netherlands	2.8 - 3.3	2.3 - 2.8
Belgium	2.8 - 3.3	2.6 - 3.1
Luxembourg	2.3 - 2.8	2.3 - 2.8
Community	2.5 - 3.0	2.3 - 2.8

1

Implicit price index of the gross national product.

These figures differ from the national projections taken as a starting point because of the attempt that has been made to bring the extreme positions closer to the Community figure of 2.5 to 3%. It is essential that the relationships between the trends shown for the individual countries should be maintained. In this connection the relationship between the trend in France and the trend in Germany will be of special importance: recent events have shown how serious divergent price trends in these two countries can be.

46. The Community figures for prices should not have any notable effect on the medium-term prospects for employment and growth. Contrary to what has often been noted in short-term developments, an intentional reduction in the rate of inflation need not result in a weakening of the growth rate nor in an increase in the rate of unemployment, provided that economic policy is aimed not only at the full utilization of productive capacity but also at removal of the bottlenecks and strains that are responsible for inflation and unemployment. Experience shows that the monetary illusion, far from leading to an improvement in growth, simply leads to undesirable redistributions.

In the present state of forecasting techniques, the Community figures for the growth rate of the gross national product in real terms must be based on the expansionary trend of productive capacity, corrected when necessary to allow for fluctuations in the size of the labour force and the hours of labour.

Achievement of the projected rates of overall growth will depend on the progress made in productivity and the creation of new jobs; the structural changes that this implies must be backed up by appropriate supporting policies.

¹ The reduction in the hours of labour is likely to average 0.5 to 1%, according to the country.

GUIDE FIGURES FOR GROWTH¹

Average annual rates of growth for 1971-75

	Real gross national product	For information: GNP per person* in employment
Germany	4.3 - 0.8	4.3 - 4.8
France	5.4 - 5.9	4.6 - 5.1
Italy	5.7 - 6.2	5.0 - 5.5 ²
Netherlands	4.5 - 5.0	3.8 - 4.3
Belgium	4.3 - 4.8	3.6 - 4.1
Luxembourg	3.0 - 3.5	2.6 - 3.1
Community	5.0 - 5.5	4.5 - 5.0

The rates of expansion projected in the various countries are in most cases in line with the figures shown above; the objectives for Belgium and Luxembourg, however, are close to the upper limit of the relevant range and therefore assume that structural changes will be more rapid than in the past.

47. Unemployment problems arise in different ways and with varying degrees of severity in the several member countries. Special measures must be taken, within the framework provided by the medium-term guide figures, to remove the real causes of unemployment.

Among these causes, some are cyclical in character and stem from an inadequate level of general economic activity. It is therefore essential that overall management of the economy should be such that there is the highest possible level of employment consonant with the fundamental equilibrium of the economy.

1

The ranges indicated for the growth rates result from uncertainty concerning both the trend of productivity and that of employment. The long-term trend of productivity (GNP per person in employment) is shown for information; the trends forecast for employment are shown in the table on page 20.

2

This high rate is largely due to the rapid advance of productivity in agriculture caused by the massive exodus of persons employed in this sector.

*

Long-term trend.

Unemployment in the Community may however stem largely from structural factors: their importance seems, moreover, to be increasing with the speed of the structural changes which growth is imposing on our economies. The stimulation of overall demand would be no remedy in such a situation: it would only serve to mask the problem temporarily. Such factors call rather for greater recourse to structural measures intended to improve skills and to ease the clearing of vacancies and demands for jobs in given regions and given industries.

The employment indicators shown below must not therefore be considered either as objectives or as threshold values. They show the level of employment that corresponds to a satisfactory level of economic activity, having regard to the probable chances of adapting manpower reserves to the structures of production. In the medium term, the level of the employment indicator is affected far less by fluctuations in the rates of growth of GNP or by the pace of price rises than by the conditions in which this adaptation occurs. It is these conditions that will have to be improved if more acceptable employment levels are to be attained.

UNEMPLOYMENT AS % OF THE LABOUR FORCE¹
(average rates for 1971-75)

Germany	0.8
France	1.5
Italy	3
Netherlands	1.3
Belgium	1.7
Luxembourg	negligible

1

The definition of unemployment used here differs from that used in Germany and the Netherlands. In those two countries the rate of unemployment is normally shown as a percentage of wage and salary earners plus the unemployed.

These figures should be interpreted in the light of the uncertainty over future measures and their effects. Furthermore, the complexity of the situation on the labour market and the differences between national statistics make it difficult to obtain satisfactory comparisons between countries.

It is none the less true that they reflect the differences in the employment situations of the several member countries. They also highlight the importance to be attached to employment problems in the Community in the next few years, thus providing a strong incentive to intensify, both at national and Community level, the pursuit of appropriate structural policies. Since the results to be expected from these policies cannot be immediate, they should be adopted without delay.

D. Conclusions

48. The principal problem to be faced in pursuing the objective of compatibility is constituted by the trend of prices. While price stability is an important objective in all the member countries, the possibilities of attaining it depend on a number of factors.

The first of these factors is success with the regulation of overall demand and the measures taken to solve certain structural problems by promoting the necessary adjustments. In the medium term, certain countries will have to give priority to those measures which will make the greatest contribution to elimination of the strains and bottlenecks which cause inflation and unemployment, but without neglecting the structural measures which are essential to fundamental equilibrium.

Attainment of the objective of compatibility will also depend on the situation in the rest of the world, which can be a source of inflationary stimuli. In certain circumstances the international trend towards higher prices might increase the possibility of incompatible tendencies developing in the Community should the latter not assert its autonomy but instead merely adapting itself to developments. If the Community is to achieve economic and monetary unity, it must ensure that the trend of prices within its boundaries is consonant with the objectives it has set itself. It might then be in a

position to stand aside from the international trend, or at least to exercise a moderating influence. Difficult as such a line may be for one country in isolation, it is perfectly feasible for the Community as a whole.

The importance of such a course is recognized in all the member countries. But success can be achieved only if the common objective of stability is defined realistically, that is to say, in a manner which does not conflict with the objectives of growth and employment and with due regard to the structures and the economic situation to be found in each of the countries.

If the economic policies pursued are to lead to achievement of this objective, the member countries must not only be prepared to take the measures required of each of them, but must also pay careful attention to the situations of each of their partners. A balanced development in the Community will come only as a result of a closely concerted effort on the part of all.

49. In all member countries there is still discussion of the further developments that will be necessary in the next few years both in overall management of the economy and in structural policy. To take account of the guide figures that have been provided, the Member States intend to make the necessary amendments in the formulation of their objectives and policies by the time they finalize their plans or programmes for 1971-75.

To keep to the compatible guide figures will in many cases be far from easy. The chances of success will depend primarily on the economic policies followed in the various countries - and for the main lines of these policies proposals are put forward in the following chapter; they will depend, too, on the elaboration of suitable procedures on the institutional plane; but above all they will depend on the political will, which will be all the more effective if the attainment of the proposed plan is backed by public opinion and if the labour unions participate.

CHAPTER III

GUIDELINES FOR ECONOMIC POLICY

50. To reduce the risks that beset progress towards economic and monetary union and improve the efficiency of the Community's economy, the economic policy adopted, shaped with the aid of compatible guide figures, must be incorporated in a concerted overall strategy based on two complementary elements: management of overall demand and the direction given to structural policy.

51. Overall demand must in the medium term be managed in such a way that any expansion is geared to the real possibilities of development of the productive apparatus, so as to avoid painful adjustments and to ensure the continuity of long-term policy, more especially that concerned with the satisfaction of public needs. The policy of overall management must take account of the special role of the various components of demand and particularly of external demand - a powerful factor in the modernization of the productive apparatus - and public expenditure, an important instrument for the attainment of social objectives.

Structural policy will have to:

- (i) Help or induce productive resources to switch into such activities as conform best to the foreseeable trend of demand, more particularly by stimulating the powers of initiative and innovation;
- (ii) Reduce rigidities and disparities by alleviating the cost of changes to the individual in accordance with the principles of solidarity that are at the basis of all modern societies.

52. In the present phase of development of the Community, the principal measures to be taken to implement these overall and structural guidelines within the framework of mutual compatibility are still a matter for the Member States. Nevertheless, it is at Community level that the conditions must be created for effective coordination of overall policies and that certain structural measures will find their natural field of application and their real chances of success.

A. Guidelines by country

53. In all the member countries work is in hand to draw up medium-term programmes or plans for the period 1971-75; though approached by methods that differ in many cases, it is dominated by the common endeavour to ensure better control of economic developments with a view to meeting the needs of the individual and of society.

To progress along this path, the economic policies in the member countries will have to reconcile the requirements of internal development with those of closer cohesion within the Community.

A first condition to achieve this end is the coherent management of overall demand.

At the same time, the changes to be made call for thorough-going structural measures, which are tied up with the overall guide figures. Even though the problems to be solved vary in urgency according to the country, their nature is often the same: the measures to be given priority relate in all cases to employment policy, regional policy, tax reform, and public-sector tasks. It is important that in these fields the solutions arrived at should take as full account as possible of the requirements and the opportunities presented by the Community. This is the background to the guidelines for each country that are set out below.

Germany

54. The sustained expansion of the German economy, in which external economic relations have played a decisive part, has been accompanied by a price trend which, without fully satisfying the internal requirements of stability, has nevertheless remained below the tendencies prevailing in other countries. The modest increase in the labour force has assisted the tendency towards full employment and made it necessary to recruit foreign labour on a fairly large scale. The relatively high mobility of labour has facilitated structural adjustments.

The structures prevailing, the attitudes adopted and the policies pursued have caused the movement of prices to diverge sharply from the international trend. This favoured the accumulation of heavy surpluses on the external balance and at times induced the appearance of inflationary impulses stemming from abroad. To remedy these disturbances and in particular to safeguard the attainment of internal stability, budgetary and monetary policy has had to be given a defensive bias. The revaluation of 1969 has not however prevented the persistence of price strains; the effects, still powerful, of the inflationary pressures shroud the short-term prospects in uncertainty.

55. The stagnation of the level of employment resulting from demographic tendencies places a fairly strict limit on the growth possibilities in the next few years. In view of the increased interdependence of the country and its partners within the Community, the reconciliation of the objective of price stability with the objective of an appropriate surplus on the external balance will be one of the central problems of medium-term economic policy. The formulation of the objective of stability must take account of the public's sensibilities on the subject and must be guided by the provisions contained in legislation. The external surplus aimed at must be sufficient to cover the financing of foreseeable commitments and capital export targets. But it is necessary to ensure, by keeping internal demand at an appropriate level, that an expansion of the external surplus does not entail the need for capital to be exported on an excessive scale.

(a) Improvement in overall management of the economy

56. Short-term economic policy will in future have to pay more attention to medium-term tendencies. It will be necessary, in conjunction with corresponding measures taken at Community level:

- (i) To improve the content and rapidity of presentation of statistical information and give greater precision to the methods of forecasting and projection;
- (ii) To lay down the margins of fluctuation that are acceptable at short term;
- (iii) To develop the system of early-warning indicators (flow of new orders, size of order books, delivery periods, jobs vacant).

57. Financial policy should be made more flexible to take account of the requirements of the economic situation:

- (i) Budgets should be shaped to a greater extent according to the medium-term development of production potential, and "contingency budgets" should be envisaged to offset fluctuations in the business trend; in particular flexible balances should be incorporated in the medium-term investment programmes;
- (ii) Fiscal policy should be put more at the service of a counter-cyclical policy for the public finances, so as to avoid extensive delays in the implementation of public-sector tasks and avert structural distortions in economic development.

58. Incomes policy should ensure a development of consumer demand sufficient to utilize growth potential to the full, while holding the advance of private consumption within the limits imposed by the need to safeguard stability. This course implies:

- (i) Greater uniformity in the trend of incomes to avoid postponements which are followed by demands for larger wage awards that touch off additional price increases;

- (ii) Establishment by the State of the social and economic conditions that will provide employers and unions with a suitable framework for their autonomous decisions;
- (iii) An active policy on the formation of personal assets assuring workers of increased participation in the growth of productive capital, both private and public.

(b) Stimulation of growth and structural change

59. A more active employment policy calls in particular for:

- (i) Extension of vocational training geared to the changes in technology and the pattern of demand;
- (ii) Intensification of further training and retraining, not only for native but also for foreign workers.

60. The promotion of industrial development and the policy on the structure of individual industries should place the emphasis on:

- (i) Reinforcement of effective competition by creating improved possibilities of cooperation for small and medium-sized enterprises, preventing the abuse of economic power and controlling the process of concentration where it poses a threat to competition;
- (ii) General financial incentives in favour of new technologies and innovations;
- (iii) Selective encouragement of key sectors that are of particular importance to overall economic and technical progress, notably nuclear energy, the aeronautical and space industry, and electronic data processing;
- (iv) Aids, limited in time and granted on a descending scale, to individual industries facing stagnation and really needing them to adjust, provided these aids do not jeopardize competition;
- (v) Reinforcement of the efficiency of small and medium-sized enterprises, in particular by assistance from the public authorities in the matter of business organization, management training, joint research and the financing of the acquisition of holdings.

61. Promotion of the regional economies must be improved by efforts:

- (i) Not to increase the number of development areas;
- (ii) To concentrate financial resources in centres with widespread ramifications.

Regional policy should be backed up by a structural policy for agriculture aimed not only at improving the efficiency of enterprises capable of development, but also at encouraging the abandonment of enterprises not paying their way by more vigorous measures of social policy. It is also necessary to create a sufficient number of jobs in non-agricultural sectors.

62. Medium-term financial planning must provide for the necessary development of the social and economic infrastructures. In view of the arrears to be made good in the matter of public services and investment, public expenditure must be earmarked as a matter of priority for the following purposes:

- (i) Extension of the educational system,
- (ii) Increased protection of the environment and hospital services,
- (iii) Residential construction and transport infrastructure.

To provide the necessary finance, special efforts will have to be made to contain private consumption and encourage the formation of savings by broad masses of the population. To the extent that that is not enough, recourse must be had to suitable fiscal or budgetary measures which are neutral in their effect on the level of prices.

France

63. The French economy, which developed under a fairly dirigiste and relatively closed system within the franc zone, has opened up progressively since 1958 to outside stimuli. The common market, by laying open the problems of competition and adaptation, has exercised a profound beneficial effect on growth in France. Despite certain handicaps deriving in particular from the relatively low percentage of persons of working age, the overall growth rate has been high. Adaptation to international competition, which coincides in the last analysis with the exigencies of modernization, has called for thorough-going structural changes, reflected in the great progress that has been made in productivity. But the experience of the last few years, especially in the field of foreign trade and prices, also reflects the persistence of certain weaknesses in the productive apparatus and the factors influencing it.

64. Enlargement of the economic basis must therefore be the cornerstone of the strategy for the years to come. The objective of development rests both on an expansion of demand generated to a large extent by export demand and on full utilization of the growth potential, which assumes a continuation of the efforts towards industrialization. The policy to ensure such development must be pursued against the background of stable prices, which are the necessary precondition for a better allocation of the factors of production, a more equitable distribution of incomes, and the constant pursuit of efforts aimed at eliminating obsolete structures and patterns of behaviour. It is for this reason that the French Government intends to make France a "moderate price zone". The degree of competitiveness achieved as a result of the recent changes of parity, far from being subjected to steady erosion, will have to be preserved in the years to come. On these terms the Sixth Plan will be able to resolve the apparent conflict between growth and stability and reconcile the objective of expansion with that of competitive power.

(a) Improvement in overall management of the economy

65. Medium-term management of overall demand is necessary to the achievement of a more regular trend for growth, itself a fundamental prerequisite for

achieving full employment and a safeguard against the appearance of inflationary pressures.

The following guidelines would have to be observed:

- (i) Management of overall demand should permit the liberalization of foreign trade to play its full part as an expansionary force;
- (ii) The desired distribution between public and private demand should be the result of longer-term and balanced choice, and not of adjustments imposed by inflation;
- (iii) Equilibrium between investment and saving will require, in view of the substantial funds needed for productive investment and residential construction, that the authorities make sure of their own financial equilibrium;
- (iv) The propensity to save of households will be greatly stimulated by permanent efforts to ensure price stability; attainment of this objective would be facilitated by the development of a policy to encourage saving by broader masses of the population;
- (v) Short-term economic policy will have to take fuller account of the medium-term guidelines; to this end it is most important to establish guide marks for timing and indicators making it possible to supervise progress towards the targets laid down.

66. In the light of these guidelines, public finance policy should aim especially at:

- (i) Annual budget decisions that fit into the medium-term prospects so that a real choice can be made regarding the equilibrium, the structure and the growth rate of public expenditure;
- (ii) A medium-term growth in public expenditure not exceeding the growth in the gross national product in terms of money, in view of the already high fiscal and parafiscal charges levied on the national resources;
- (iii) A change in the structure of public expenditure in favour of public sector investment. The compatibility of this objective with budget equilibrium, however, presupposes a reduction in the burden of subsidies by an appropriate structural policy;

(iv) A gradual reduction in the weight of indirect taxation in order to ease its effect on prices and move towards tax harmonization in the Community. This reduction will pose the problem of greater equity in taxation through developing income tax.

(b) Stimulation of growth and structural change

67. Under structural policy, priority should be given to measures that help to establish a more coherent and progress-orientated society.

68. Primary importance should be attached to employment policy, vocational training and housing policy with a view to eliminating one of the main obstacles to the free movement of people and improving their well-being.

69. The reinforcement of the productive apparatus depends on the following measures:

- (i) The development of a policy for competition and prices is necessary not only to maintain overall economic equilibrium but also to stimulate the necessary adaptation of structures and attitudes and to permit a better distribution of the factors of production and incomes. The policy should apply particularly to the sectors and enterprises still insufficiently exposed to competition. It is also important that the consumer, who should benefit more from advances in productivity in the form of a relative reduction in prices, should be better provided with information;
- (ii) The adaptation of enterprises to market conditions should be encouraged, especially for the small and medium-sized enterprises and for public enterprises, whose managements should be given greater independence;
- (iii) The modernization of the structure of agriculture should be accelerated and based on an active policy of regional development;
- (iv) The possibilities of scientific and technological innovation should be promoted by a research policy placing greater emphasis on applications of industrial utility;

- (v) the financing possibilities of enterprises should be improved by bringing down the barriers between financial flows, establishing a better interest-rate structure, and ensuring more equality of treatment in the rules that govern access to the capital market.

The measures to be taken in these fields have evidently a close connection with the corresponding measures taken at Community level and will only achieve their full effect if the size of the Community is taken into account.

70. In stepping up the efforts to meet public needs priority must be given to such investment as facilitates the adaptation of people and enterprises to the exigencies of industrial change and geographical equilibrium:

- (i) Education and vocational training
- (ii) Road-system
- (iii) Telecommunications and urban development.

Similarly, the growth of the population and increased structural changes set ambitious targets for housing policy.

71. A better geographical distribution of economic activity is an essential condition for providing the population with a standard of welfare not measured simply in terms of growth.

The principal aims of regional policy should be:

- (i) Better balance between Paris and the provinces, especially by the promotion of regional centres;
- (ii) More vigorous development of the regions to the west and southwest;
- (iii) Continuation of the conversion measures in regions on the decline;
- (iv) Improvement and opening up of rural areas.

The effectiveness of the means available would be greater if they could be concentrated on a certain number of centres suitable for enlarging the economic basis of the country.

Italy

72. Italy has achieved extremely rapid growth accompanied by profound structural changes. The flexibility of its productive apparatus and the existence of a sizeable reserve of manpower have enabled it to take good advantage of integration in the Common Market and make remarkable progress in the field of industrialization. The gap between the national income per head of the population and the Community average has been narrowed.

These changes contrast with the persistent gravity of the country's regional problems. In spite of the efforts that have been made, the relative gap between incomes in the north and the south has been practically maintained, while emigration has intensified. In addition, the necessary changes are held back more and more throughout the country by shortfalls in public investment.

As the buoyancy of export demand contrasted with a moderate trend in domestic demand, the surpluses on current account rose to a very high level, measured against domestic requirements and the relative position of the country.

73. The year 1970, marked by the consequences of the wage awards of the autumn of 1969, will probably show a sharp increase in private consumers' expenditure and prices, a reduction in the external balance and a stagnation in investments. The instability resulting from this situation must be taken into account in working out a medium-term strategy for 1971-75. The imbalances to be overcome during that period resemble the disequilibria which the first Italian programme has tried to remedy since 1966.

(a) Improvement in overall management of the economy

74. While the growth provided for in the projections seems capable of realization, overall, without major economic difficulty, it is essential that it is achieved in circumstances which permit better satisfaction of the domestic priorities.

Once the success of the present stabilization measures is assured, it will be advisable to aim at more satisfactory external equilibrium while maintaining the trend of the components of domestic demand, particularly investment and priority public expenditure, at a level compatible with that of the partner countries. It will be necessary nevertheless to take account of the limits set to public sector indebtedness.

75. Greater influence should be exerted on the timing of wage awards, in particular by closer coordination between the representations of the employer and labour unions and between them and the public authorities.

76. The effectiveness of public finance policy should be increased both to improve management of the business trend and to assist the attainment of the medium-term objectives.

For this purpose it is necessary:

- (i) To show in the budget the forecasts of actual revenue and expenditure so as to clarify the implications of the budget estimates for the economic situation and to safeguard better interaction of economic programming and budget policy;
- (ii) To include in the medium-term programme a multi-annual forecast at current prices for the public finances (central government, local authorities and social security);
- (iii) To expedite the reform of local authority finances so as to improve the financial equilibrium of the local authorities and to avert conflicts between their budget decisions and the requirements of management of the business trend.

(b) Stimulation of growth and structural change

77. The elimination of regional imbalances remains the prime objective of Italian economic policy. The measures taken by the public authorities have helped to prevent a deterioration in the situation, but disparities between regions have not shown any appreciable amount of decreasing since the war.

To remedy this situation it would be desirable:

- (i) To lay down, while avoiding any excessive fragmentation or concentration of the productive apparatus, the broad lines of regional reorganization and the corresponding instruments in order to contribute effectively to ironing out the regional imbalances;

- (ii) To step up public efforts and improve coordination between the public authorities and the private sector with a view to increasing investment in the south;
- (iii) To encourage specialization and marketing in agriculture so as to improve the income of the workers remaining on the land;
- (iv) To promote the development of efficient medium-sized enterprises with high value added capable of creating a large number of new jobs.

78. The importance of employment problems in Italy, which are closely connected with the differences between the regions, demands that all economic policy measures should accord high priority to the solution of the difficulties in this field. Furthermore, specific measures will have to be taken, notably to provide better information on all the elements of the labour market, promote general and vocational training for workers, and channel investments into regions where manpower is available.

79. Special efforts must be made to make good the serious delay that has arisen in public spending, notably on schools, hospitals, urban transport, residential construction and urban development. One of the reasons for this delay is the inadequate organization of the administrative system. It is proposed to remedy this by the creation of management agencies for public investment as already envisaged in "Progetto 80".

80. Furthermore, it is essential to ensure better utilization of savings, in line with the requirements of economic development. Overall, Italy has achieved a rate of private savings which approaches that of its partners in the Community, and conforms with the forecasts under the country's first programme (1966-70). Nevertheless, investments have lagged seriously behind because of inadequate channelling of saving flows and the existing economic and political conditions. There is a need to improve the functioning of the capital market, notably by diversifying the forms and possibilities of investment.

Netherlands

81. During the past twenty years, the Dutch economy, traditionally open to world markets, has witnessed rapid expansion owing to an increase in the population and rapid industrialization; for several years, however, growth has been accompanied by strains.

After prices and incomes had moved up to the level prevailing in the Common Market, their rise has gained in strength since 1963. The introduction of value added tax on 1 January 1969 likewise exerted a temporary upward pressure on prices. The balance on current account has been unsatisfactory in the Netherlands since 1963.

82. In 1970, growth matched the trend of the last ten years and investment recovered after flattening out in 1969. In spite of a restrictive monetary policy, the price trend continued to reflect strains, and the external balance showed a deficit of about Fl. 500 million.

Recent events on the wage front make it difficult to envisage a quick return to a more balanced situation.

(a) Improvement in overall management of the economy

83. In the years to come efforts must be made mainly to check the expansion of demand and keep it within the limits set by the trend of production. This will make it possible to earn a surplus on current account with which to meet the requirements of aid to the developing countries. Finally it will be necessary to introduce a greater measure of flexibility in short-term economic policy.

84. Public finance policy must be fitted into this general framework. An early adaptation of the tax rates and increased flexibility in public spending will improve the effectiveness of short-term economic policy.

The public finance policy of the central government should also help to ensure equilibrium between overall saving and overall investment. In the present situation, which is characterized by a measure of disequilibrium in the capital market and by difficulties facing the local authorities in financing their investments because of an insufficient level of saving, it is essential to follow a policy

aimed at maintaining the deficit on the public finances at its present level in absolute terms. In this way, the ratio between that deficit and the national income would come down progressively. This implies a balanced development of public revenue and expenditure.

As regards revenue, taxation can only be increased cautiously in view of the risk of repercussions on incomes and prices. Certainly the risk would be smaller if the increases were mainly in direct taxes, but this would have the effect of widening still further the gap between the structure of tax receipts in the Netherlands and the other member countries.

Such caution in tax policy should lead to a limitation to the increase of expenditures; it will be all the more necessary to include the expenditures in a multi-annual programme. Care will also have to be taken to ensure as far as possible that the public enterprises do not run deficits.

(b) Stimulation of growth and structural change

85. Employment policy must be designed to solve the problems of a labour market characterized by tensions in certain regions and structural unemployment in others.

The particular requirements are:

- (i) To intensify vocational information, guidance and retraining;
- (ii) To break down the forecasts of supply and demand on the labour market, by region and by skill;
- (iii) To improve vocational training at all levels.

86. Industrial policy must mainly be aimed at the following objectives:

- (i) Elimination of the obstacles to industrial development which may be inherent in any process of growth and the effects of which make an impact on industrialization in general, particularly in certain sectors;
- (ii) Encouragement of the development, innovation and marketing of new products;

- (iii) General reinforcement of the competitive power of enterprises, especially by taking restructuring measures in certain sectors;
- (iv) Direction of industrial activities to particular localities so as to bring about a more balanced geographical distribution of employment.

The attainment of these objectives will depend particularly on greater mobility of the factors of production and on the success of employment policy.

An increase in production is not the only nor the most important of the objectives to be considered. In a country as densely populated as the Netherlands, a great effort must be made to combat nuisances of all kinds. It is essential that the expenditure incurred in eliminating the effects or the causes of the nuisances is borne essentially by those responsible for them.

Belgium

87. Since the end of the 1950s, growth, utilization of capacity, productivity and investment have been going up in the Belgian economy.

This acceleration, however, has not been without its problems. The regional balance has changed for both demographic and economic reasons. The rise in prices, which up to 1960 had been very moderate owing to the sizeable amount of unemployment, accelerated appreciably.

88. The trend in 1970 is characterized by full utilization of the factors of production and by a sharper rise in wages, the increase in which had been comparatively modest in 1969. Domestic demand is firm and prices are going up appreciably, though on the whole less rapidly than in the other Community countries. The external balance continues to be in surplus, and the substantial increase in investment by enterprises is a favourable factor.

(a) Improvement in overall management of the economy

89. The acceleration in the rate of growth expected for 1970-75 will be possible only if the country achieves better progress in productivity in services and in industry.

In view of the outward-looking nature of the Belgian economy, exports and imports will continue to expand rapidly. Achievement of the trend forecast, however, implies a slightly faster increase in exports.

On the trend of domestic demand, care must be taken to ensure that gross fixed asset formation, more particularly productive investment, advances at a higher rate than gross national product. In order to meet expanding public needs, private consumption must continue to increase less rapidly than gross national product.

90. In order to contribute to the common efforts aimed at reducing the disparities in price trends within the Community, it will be necessary to bring the average annual price increase down to a rate approaching 3% (after allowing for the effects of VAT).

For this purpose the time-lag in the effects of monetary policy must be reduced to a minimum.

Furthermore, the possibilities open to public finance policy have not been exhausted. To make better use of public finance as an instrument of short-term economic policy and structural policy, it will be necessary:

- (i) To achieve a substantially higher rate of public saving than in recent years, in order to avoid adding to inflationary pressures and provide more finance for public investment;
- (ii) to this end, to keep the ordinary budget in equilibrium, particularly by seeing to a more moderate increase in public expenditure and subsidies.

(b) Stimulation of growth and structural change

91. An active employment policy should primarily aim at the utilization of the manpower available in the country. To this end there is a need:

- (i) To encourage an increase in female labour;
- (ii) To promote the readiness of workers to transfer to another industry or move to another part of the country;
- (iii) To improve the integration of young people in the labour market.

It would thus be appropriate:

- (i) To develop a system of broadly-based initial training and provide more possibilities for vocational training and retraining both for young people and adults;
- (ii) To organize a permanent and rapid information service on the labour markets.

Particular needs in certain sectors or regions will require an active immigration policy.

92. The development of a powerful and competitive system of industry remains one of the essential requirements for strong economic growth and harmonious regional development in the years to come. To this end, industrial policy should be based on closer coordination of activity in the different ministerial departments:

- (i) It will be necessary to achieve better coordination by establishing statistics on public contracts and by drawing up annual and medium-term programmes;

- (ii) Special systems of agreements (agreements for the promotion of business in administration, agreements for technological promotion, agreements for restructuring and most especially progress agreements) will be introduced. This will be done within the framework of the bill on economic expansion, taking account of the need for the harmonization of aids within the Community;
- (iii) The measures to assist enterprises in adjusting their size, like the research efforts of enterprises, must be continued at national and at Community level;
- (iii) Progress in the management of enterprises and in the marketing of products must be encouraged.

Luxembourg

93. The Luxembourg economy is characterized by the overriding importance of its iron and steel industry (over 25% of the gross national product) and by the extent to which it is export-oriented (exports represent 80% of the gross national product). Movements in the terms of trade accordingly play an important part. The principal problems that affect Luxembourg's economic policy relate to the trend of prices, the recruitment of labour, and industrial diversification.

94. The inflationary pressures recorded particularly in the past few years derive from the rise in prices abroad, the introduction of VAT, and higher costs in many sectors, mainly as a result of wage increases and reductions in the hours of labour. In order to avoid the risk of tensions arising in the economy, the authorities must increase the efficacy of the instruments of short-term economic policy, especially in the fields of tax policy and public spending.

95. On the labour market, a shortage of native manpower has developed owing to the relative rise in the ratio of old people to total population; the advance in employment has only been achieved by recruitment of frontier workers and migrant workers, which accounts for the almost complete absence of unemployment. Immigration policy must pay attention in particular to improving the reception conditions for foreign workers.

96. The process of diversification of the productive apparatus, already embarked upon, should be continued by measures to attract foreign enterprises of high productivity. The public authorities must channel national savings to a greater extent into productive investment by enterprises.

B. Guidelines for the Community

97. Economic policy in the Community is starting out on a new path. The general guidelines laid down in the present programme create some of the conditions essential to this end. They must be considered in close conjunction with the proposals formulated in the report of the working group instructed to work out the basic lines for the establishment by stages of economic and monetary union in the Community.

98. In the next few years, increasingly important and wide-ranging measures will have to be taken at Community level if an economic development is to be achieved which conforms with the domestic objectives of the member countries and meets the requirements of compatibility. These measures must in particular relate to:

- (i) The coordination of demand management, and
- (ii) Structural adaptation.

They must take account of the economic relations of the Community with third countries, and implementation will call for a wider and more systematic dialogue with the various groups that participate in economic activity.

I. Conditions for effective coordination of demand management

(a) Improvement and approximation of the instruments of economic policy

99. While the trend of demand depends largely on incomes and their distribution, management of demand is above all a matter for monetary policy and public finance policy. These are the essential fields for the coordination of economic policy. On the basis of the principles set out in the two previous programmes, the following guidelines must be laid down with a view to economic and monetary union.

100. In the field of monetary and credit policy, there is a need to lay down in common the essential guidelines, particularly on liquidity, lending to the public and private sectors, and interest-rate policy. Where the differences that now exist between the countries as regards the instruments of monetary policy impede the drawing up of such guidelines, the instruments must be adapted and harmonized.

For the liquidity trend and capital movements to be influenced sufficiently there is also a need to establish a European money and capital market with regard to which the responsible authorities will have joint and effective powers of regulation; the establishment of such a market naturally calls for the liberalization of capital movements.

101. In the matter of public finance, it is essential to arrive, within the framework of regular consultation on general economic tendencies, at a concerted line in budget policy in both its structural and short-term economic aspects. To this end, particular attention should be paid to the financing surpluses or deficits and how they should be covered. It will also be advisable, to the extent necessary for such concerted action, to synchronize the stages of budget preparation and further harmonize the budget structures.

A closer link must be established in all the member countries between the budgets and the medium-term economic programmes. Medium-term forecasts of the trend of the public finances are required, notably for keeping the progress of expenditure in line with the possibilities of growth and the long-term needs of the economy and for sizing up the consequences of proposed changes or reforms in taxation. The establishment of medium-term guidemarks in the field of public finance would greatly facilitate implementation of the guide figures for the Community.

Nevertheless, recourse to medium-term forecasts for public finance must not be allowed to introduce an element of rigidity that could run counter to the requirements of short-term economic policy. The necessary flexibility must be sought, on the side of revenue as of expenditure, either by a well-considered variation of tax pressure, or by recourse to instruments such as contingency budgets, the building up of counter-cyclical equalization reserves or other ways of temporarily freezing funds. Where necessary, the appropriate statutory provisions will have to be made in budgetary and tax legislation. These procedures should in particular permit the governments to vary tax rates within a band prescribed by law and rapidly adjust spending policy.

The importance of social security to the general equilibrium of the public finances in the member countries calls for a thorough comparison of the problems involved and the policies followed. To this end it will

be necessary in particular to press forward with the work on the forecasts, for a period of several years, of revenue and expenditure.

Furthermore, it will have to be made sure that the development of the finances of the local authorities conforms both to the structural objectives to be attained and to the requirements of short-term economic policy.

102. The management of overall demand by monetary policy and public finance policy may be compromised by independent factors relating to the line which the various economic groups are taking over incomes and enterprises over prices. The economic pressures arising from the influence of these factors will then call for a restrictive policy that slows down economic growth.

To ensure the effectiveness of the management of overall demand and to enable a more flexible use to be made of the instruments of monetary, credit and budgetary policy it is essential to find ways, by acting in concert with the various groups that participate in economic activity, of bringing about a trend of incomes and prices better adapted to the requirements of a balanced development of the economy.

(b) Concerted preparation of decisions

103. To ensure the success of a concerted management of overall demand, the preparation of decisions at Community level will have to be improved considerably and the Member States will have to take fuller account of Community requirements.

104. When preparing the principal decisions at national level allowance should be made for the problems and interests of the partner countries. For this purpose, formulae should be worked out whereby more attention can be paid to the Community viewpoint in the process of arriving at national decisions. The expression of this point of view will amplify the information at the disposal of the member countries in the determination of the measures to be taken.

105. At Community level, the consultation procedures should in a first stage be improved by extending the rule which makes consultations obligatory and requires them to be held prior to the taking of decisions, making full use of the responsibilities accorded to the Community institutions. The consultations, like the decisions to be taken at Community level, should cover the following points:

- (i) Establishment of compatible annual economic budgets;
- (ii) Introduction of a system of early warning indicators in conjunction with the compatible medium-term guide figures;
- (iii) Fixing of permissible margins for fluctuations in the economic trend;
- (iv) Review of the implementation of the medium-term guide figures and periodical forward projection of these figures;
- (v) Synchronization of national programming procedures.

106. In spite of the progress already made, statistical and economic information must be improved. The work programmes of the statistical institutes should leave plenty of room for the requirements resulting from the coordination of economic policies. It will likewise be necessary to improve materially the exchange of economic and social information among the member countries.

The effects of the interpenetration of the economies of the member countries should be studied in depth. Community interdependence models, developed and processed in common, could be brought into use.

The Community authorities should pay particular attention to these problems.

II. The Community's role in the field of structural policy

107. The principal task of the Community in this field is to encourage the establishment of a large single market to which the public authorities and private transactors gear their decisions, in the light of their particular priorities and within the limits set by the need to safeguard general economic equilibrium. Implementation of this task involves mainly the taking of outline measures concerning particular aspects of the large single market.

However, a development resting on this principle alone is not enough to take full advantage of the possibilities offered by the Community. In fact the natural forces of the market are often found to produce concentrations which widen the existing disparities between regions. On the other hand, national policies are sometimes dominated by one-sided attitudes leading to costly efforts by the countries to outbid each other. The member countries often shrink from taking certain measures called for in the interest of social progress because of the cost and the immediate consequences to their competitive position.

It will consequently be advisable for the outline conditions fixed for the large single market to be accompanied by measures embarked upon jointly by the member countries and aimed at putting the spontaneous forces of growth at the service of social objectives.

Furthermore, specific measures must be taken with a view to acting directly on certain structural disparities that could upset the process of economic or social development in the Community.

108. The present chapter does not go into the whole of these questions. In many sectors it is enough to confirm the guidelines laid down in the first two programmes. This is particularly true of agriculture, a sector which poses problems of cardinal importance in respect of which the guidelines set out in the second programme are still completely valid; these problems were dealt with in the "Memorandum on the Reform of Agriculture" submitted by the Commission to the Council.

Other problems have acquired increased importance in the Community, such as protection of the environment and its financing, social security policy, the place of the worker in the enterprise, the role of services in the modern economy, etc. The Medium-term Economic Policy Committee is considering the possibility of dealing with these questions at a later date.

109. In the context of this programme, the task is to draw up guidelines on certain types of structural measures which are deemed to be of major importance for the encouragement of a balanced economic and social development in the Community; such measures should be initiated or at least prepared without delay. They are directed to the following ends:

- (a) Unity of the internal market:
 - (i) Free movement,
 - (ii) Adaptation of enterprises;
- (b) Promotion of new activities, with special reference to:
 - (i) Regional aspects of Community activities,
 - (ii) Adaptation of workers to the requirements of new jobs.
- (c) Better utilization of the financial instruments of the Community.

(a) Unity of the internal market

Free movement

110. Significant progress towards a unified internal market has been made in recent years, but there are still serious obstacles which, apart from attitudes reflecting national or local peculiarities, arise to a large extent from barriers formed by statutory and administrative provisions. For this reason it is necessary to lay down the following priorities in this field:

- 1. For the free movement of goods:
 - (i) Progressive harmonization of indirect taxes;
 - (ii) Faster elimination of technical and administrative obstacles to trade;
 - (iii) Free access to public contracts for enterprises from all Member States.
- 2. For the free movement of persons:
 - (i) Information on the employment situation and employment possibilities in various member countries;

- (ii) Establishment of overall and detailed forecasts in the field of employment;
 - (iii) Better integration of migrant workers in their new sphere of life and employment;
 - (iv) Mutual recognition of evidence of occupational qualifications.
3. For the right of establishment and freedom to supply services:
- (i) Adaptation of the statutory provisions governing access to commercial occupations;
 - (ii) Mutual recognition of diplomas, especially for occupations in the services sector.

The relevant efforts should be concentrated primarily on the groups of services directly connected with industrial activity and the financing of such activity.

4. For the free movement of capital:
- (i) Greater progress in the elimination of foreign exchange restrictions;
 - (ii) Removal of obstacles to the issue of securities and lending within the Community;
 - (iii) Adjustment by appropriate means of direct taxes so as to promote a closer integration of security markets, more particularly by the elimination of double taxation and tax discrimination;
 - (iv) Adaptation of the regulations governing institutional investors so as to extend progressively their scope for raising funds in the Community.

Implementation of these provisions must be linked to the progress made in the coordination of monetary and financial policy.

Adaptation of enterprises to the wider market

111. Enterprises have already begun to adjust their structures to the scale of the Community, but in some fields these efforts are still lagging seriously behind the progress already made in opening up the markets.

Among the measures likely to help adapt the productive apparatus to the true scale of the market, particular importance attaches to:

- (i) The creation of suitable outline conditions for industrial development;
- (ii) Free access to procurement contracts;
- (iii) The promotion of technological development.

112. In creating outline conditions for industrial development the following priorities should be observed:

- (i) Adjustment of the national rules of competition to the requirements of the common market;
- (ii) Faster elimination of the technical and legal obstacles to trade;
- (iii) Improvement of the conditions for the restructuring of enterprises in the Community, and in particular:
 - (a) Removal of the tax obstacles to the transfer of profits or assets within companies or groups established at European level,
 - (b) Adoption of the status of a European company and introduction of more flexible arrangements such as economic interest groupings;
 - (c) More vigorous integration of security markets.
- (iv) Promotion of cooperation among small and medium-sized enterprises.

113. Free access to procurement contracts is an essential requirement for products of the technologically advanced industries and for certain conventional

equipment goods so far sold on large but isolated national markets. Rapid decisions should be taken on the basis of Commission proposals for directives on the procedures for awarding public contracts, and further proposals should be made as soon as possible so that all the fields are covered.

Moreover, the policies on public contracts could be coordinated by the harmonization of technical standards for the products concerned, by greater clarity and by more complete statistical information on the contracts awarded. Finally, an examination should be made of the advisability of concerting the awarding of public contracts in certain cases and for certain products.

114. To promote technological progress it would be appropriate, as proposed by the Commission,¹ to provide in certain cases a possibility for the public authorities and industry to conclude at Community level contracts for the development and production of new equipment goods intended for a wider market or involving risks outstripping the capacities of a single country. These contracts should lay down clearly the respective responsibilities of the public authorities and of industry to ensure that enterprises are not being subsidized without precise agreement being reached on the objectives aimed at.

Concerted or joint schemes for technological cooperation with non-member countries will have to be devised and embarked upon. This applies particularly to certain areas of special Community interest, including for example modern means of transport, space research, electronics and supplies of enriched uranium.

115. As far as investments from non-member countries are concerned, it would be necessary to expedite the establishment of an information system. Consideration must also be given to the advisability of holding consultations at Community level to examine the cases that could raise problems in the Community.

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cf. Commission memorandum on industrial policy, page 357.

(b) Promotion of new activities

116. While manpower requirements are going up in many fields, there is sometimes also a certain concern about the future of employment and the security of earnings. This contrast is largely a matter of the regional problems facing in different degrees all the member countries and of difficulties of adjustment on the labour market despite a high level of economic activity. It is essential to seek and promote better equilibrium between the needs of the economy and the skills of people by pursuing a suitable regional policy and an active employment policy.

Regional policy

117. Town and country planning and regional development are indispensable for promoting in the Community a development in which the location of productive activities is more closely geared to the main centres of population.

118. The policies followed in this field by the member countries, which have principally been motivated by national considerations, must in future take fuller account of the Community interest. To this end, better coordination of national policies must be ensured in certain fields.

(a) There is a particular need for better coordination of the infrastructure policies of the various member countries. Such coordination is required not only for investment itself but also for transport rate formation, the standards for the various means and modes of transport, and certain other aspects of transport; it must make allowance for the unfavourable situation in certain regions.

(b) In working out the policies on the structure of the principal industries, account must be taken at national and Community level of the interaction of these policies with regional development.

Moreover, the Community and national authorities must, in the field of aids, endeavour to avoid wasting funds and to eliminate the economic contradictions that arise from insufficient coordination. The establishment of priorities by region and industry will make a decisive contribution to such coordination. Work on this should be put in hand without delay while coordination of aids within the Community should be strengthened forthwith.

With this in view, it is desirable:

- (i) Either to arrange for confrontation of the principal schemes proposed in the field of regional aids, with this confrontation gradually leading to the establishment of internally consistent and broad guidelines on the granting of aids;
- (ii) Or to adopt from the outset a common line on the aid schemes. This approach would involve efforts to make aids to the various industries and regions more "transparent", and harmonization of the level of aids, which would be limited, in a first stage, to the central regions of the Community where most of the mutual outbidding occurs.

119. Over and above such concerted action and coordination, balanced development of the Community requires that the responsibility of the Member States should be supplemented by a responsibility of the Community for a number of regional problems of common interest. The points to be given priority are:

- (i) The problems posed by the considerable backwardness of certain large less developed peripheral regions;
- (ii) The difficulties that may result directly from integration in the Community (in the frontier regions, for example);
- (iii) The regional impact of the principal common policies, and especially of the common agricultural policy, which must be coordinated with a regional policy aimed at promoting economically healthy activities in the regions affected by developments in agriculture;
- (iv) The problems posed by changes appreciably affecting the economic potential of certain regions particularly as a result of the decline of a dominant economic activity in the region.

These are the priorities that should guide the steps taken by the Member States, as well as the measures taken by the Community by means of the financial instruments already at its disposal (European Investment Bank, the Social Fund and the Guidance Section of the EAGGF). It is essential to achieve closer coordination of the objectives of these moves and to ease the strict conditions that govern them.

To enlarge the economic basis of the Community, it will also be necessary to stimulate the flow of capital and the initiative of enterprises towards the backward areas. For this purpose it will be necessary to work out a coherent system of financial inducements.

If it should appear that the present financial instruments cannot be adapted satisfactorily and in a reasonable space of time, the question will arise of providing new resources for the regional measures to be taken by the Community.

Employment policy

120. Although a regional policy on the lines indicated above will make an important contribution to the solution of employment problems, an active employment policy must also be adopted to deal with specific problems that arise in the labour markets.

121. This policy should in the first place be concerned with vocational training or retraining for trades or regions in which the need arises. The measures to be taken require that a study should be rapidly undertaken of the quantitative and qualitative features of the problems of unemployment and of the occupational and geographical mobility of labour existing in the Community. The employment forecasts should also be studied in the light of the medium-term economic projections.

In order gradually to resolve the conflict between security of employment and occupational and geographical mobility, the workers must be assured of sufficient continuity of earnings during the period of retraining. The efforts to be made to this end could be shared between the enterprises (for instance under collective wage agreements) and the public authorities. The conditions will have to be determined under

which such measures may be taken, supported if need be by a financial contribution from the Community.

122. The reform of the Social Fund recently decided on by the Council is designed to enable the Fund to be used to deal with a very wide range of problems. Its work should be governed by the following principles:

- (i) Concentration on programmes concerning problems of major importance;
- (ii) Promotion of projects serving as a model or an incentive with a view to pooling the experience of the member countries in a field of decisive importance for the future.

To help create new economic activities, assistance from the Social Fund should be coordinated with the use of other financial instruments of the Community.

(c) Conditions for more effective financial intervention by the Community

123. The Community already possesses instruments enabling it to participate in projects of common interest. Apart from guarantee operations under the EAGGF¹ to the amount of 1 600 million units of account, the Community disburses 500 million u.a. a year on structural operations. The sums employed, though of limited amount in relation to the problems involved, none the less represent a start in the direction of Community solidarity on the structural plane.

For the purposes of economic and monetary union, it is essential that these resources should be more effectively utilized from now on, and to this end three conditions must be fulfilled:

- (i) The priorities must be fixed in a way that enables the resources to be used to the best effect;
- (ii) The sharp division existing between the different instruments should be reduced;
- (iii) The individual instruments should be employed in such a way as to avoid deleterious fragmentation.

¹1968/69

124. To improve the efficacy of the financial instruments, it is also essential to define clearly the nature of the contribution which they are to make to the economic development of each country and of the Community. Created for the purpose of promoting common or concerted measures, these instruments should not be considered mainly as a means of transferring resources between member countries. If such were the object of the Community measures it would be unnecessary to resort to procedures as complex as those now used: one global transfer would suffice, but it would only be effective if it were employed for schemes of common interest.

It will no doubt be necessary in due time to contemplate a genuine system of solidarity or financial equalization arrangements as found in every unified economic entity. The scope for this grows as the compatibility of overall economic developments and the participation of the Community authorities in the decisions of common interest taken in the Member States come to be better assured.

For the time being the Community instruments must fulfil the difficult but essential task of facilitating the adaptation of the existing economic and social structures by converting them in certain fields to the scale of the possibilities offered by the Community. If this task is to be accomplished with the help of financial assistance from the Community, the development of economic incentives must be given priority over preoccupation with financial equalization arrangements; coordination of individual interests and of interests of particular industries must be supplemented by the establishment of a common interest.

125. The Community measures will have to be concentrated on certain objectives chosen on the basis of an overall assessment of the priorities. The common budget, which will be established from 1971 onwards for the Community's own resources, will facilitate examination of the means of improving the coherence of the Community measures and of incorporating them in an overall view of Community development. It is essential that the unity of the budget does not remain a pure formality and that the budget funds are not regarded as earmarked in advance for use in a particular sector.

Until such alignment is achieved, certain changes in policy lines could be decided on straight away in an effort to ensure better adjustment of the instruments to the overall context. In allocating funds from the EAGGF (Guidance Section), for instance, the Community should take account not only of objectives of a purely agricultural nature but also of objectives relating to the planning of rural areas in regions in which the difficulties of the farmers are most serious. Similarly, the ECSC funds could be used to a greater extent to finance conversion.

Unlike the instruments dealt with above, the European Investment Bank enjoys a certain measure of flexibility in the utilization of its funds. It would be better, however, if its activities were more closely geared to the structural guidelines of the Community and the Member States. The establishment of such guidelines would enable the Investment Bank inter alia:

- (i) To adapt its operations to the priorities of regional policy, which would have to be coherent from the Community point of view;
- (ii) To facilitate also the modernization or reorganization of enterprises, more especially when a common interest is involved.

III. External economic relations

General objectives

126. As progress is made towards economic and monetary union, increasing importance attaches to the coherence of decisions affecting external economic relations, whether they are taken at national level or at Community level. The authorities taking the decisions must therefore regularly compare their views on the economic situation and prospects in the non-member countries, and the impact these external factors have on their own economic strategy. In particular, the Community must study the incidence of external economic developments on the trend of international liquidity and on the guide figures laid down by the member countries for the level of employment, growth, the price trend and the external balance. Care must also be taken to see that the individual national objectives regarding the external balance supplement each other and help attain the common objective set to the Community as a whole.

127. Accordingly, the measures taken by the Community and the member countries should aim at:

- (i) Safeguarding the results obtained in recent decades through international economic cooperation in the world-wide organizations (reciprocal respect of undertakings entered into on a bilateral or multilateral basis with non-member countries);
- (ii) Actively promoting the international division of labour taking account of the new conditions for technological progress and of the interests of the developing countries;
- (iii) Actively contributing to the elimination of the artificial distortions of competition that have been registered;
- (iv) Dealing with structural changes arising from international specialization and alleviating any social difficulties affecting workers in the sectors concerned;
- (v) Cooperating constructively in the solution of problems which all the members of international organizations have to face, notably in the financial, industrial and technical fields.

Specific measures under commercial policy

128. As part of its efforts to expand trade with non-member countries the Community recommends an active export policy. To this end and with a view to eliminating distortions of competition, the member countries agree on the need to harmonize as soon as possible the principles, and the manner in which these are applied, concerning export credit guarantees, the financing of exports, the interest rates charged for **credits** and the periods for which credits are granted. Particular attention must be paid to the question of opening up new markets and the establishment of European firms in non-member countries.

129. In certain circumstances a policy of import promotion could be useful to the Community, especially if pressures inherent in the business situation have to be overcome by a temporary increase in recourse to external supplies. Such a policy might also prove necessary to overcome difficulties in purchasing certain products abroad and to ensure long-term security of supply in sectors in which the Community is heavily dependent on imports.

130. The Community also intends to step up its efforts, in accordance with Articles 39 and 110 of the EEC Treaty, to promote the harmonious development of world trade in agricultural products, which constitute an important part of the receipts of developing countries. It is necessary, among other things, to assure the Community's participation in international agreements

on agricultural products; the Community is particularly concerned to improve the equilibrium between overall supply and demand for these products and to stabilize prices in the corresponding world markets. The import and export arrangements that the Community operates in trade in agricultural products should make it possible to take account of the special situation in individual non-member countries, without thereby **compromising** the smooth working of the market organizations set up in the Community. This standpoint is particularly important for the developing countries. In addition, the Community endeavours to guide agricultural production so as to avoid the formation of structural surpluses. Such a policy would undoubtedly result in the Community being able to maintain the net overall volume of its imports of agricultural products. In the longer run, the solution of the problems connected with world agricultural production could be worked out within the framework of international agreements.

131. The financial contributions made by the Community as a whole, even if they are maintained at the current rate of more than 1% of the gross domestic product, will still not suffice to solve the problems of development aid; therefore the Community institutions and the governments of the member countries must explore, in conjunction with the beneficiary countries, better ways of utilizing the financial and technical aid granted and increase the growth potential of the developing countries by a suitable commercial policy.

It will therefore be necessary to promote **export-oriented** industrialization in the developing countries through appropriate measures and in particular through an enlargement of sales outlets, so as to give these countries a larger share in world trade and in the benefits ensuing therefrom. With this end in view, the Community has declared its readiness to accord to the developing countries some general unilateral preferences for the import of finished and semi-finished products. It is ready, moreover, to work out pragmatic solutions for the problems connected with raw materials and basic materials with a view to stabilizing the markets in these products; where this enables influence to be exerted on price formation, it should be used to achieve better equilibrium between the trend of supply and that of demand.

132. Trading relations with the **state-trading** countries must be intensified. The aim is to bring the rules governing trade with these countries gradually into line with the provisions applying between members of GATT.

IV. Dialogue with the groups participating in economic activity

133. Closer coordination of the member countries' economic policies as part of the move to economic and monetary union calls for a more comprehensive and systematic dialogue between the groups participating in economic activity and the Community authorities.

The preparation of the medium-term economic policy programmes is already the subject of consultations within the Economic and Social Committee. It would also be desirable to bring together at appropriate intervals the representatives of workers and employers with a view in particular to discussing the relationship between general economic policy and social policy in its various aspects, and to pave the way, by a regular effort to concert the objectives and the instruments to be used, for the adoption of a more coherent and more easily realizable economic policy.

Such concerted action should relate both to the overall guide figures under medium-term economic policy and to the specific guidelines for Community measures in certain concrete fields affecting the various groups that participate in economic activity. The implementation of the programmes should also be examined with these groups.

134. The Community measures relating to employment problems are already the subject of consultations on vocational training, the free movement of workers and the activities of the Social Fund. The setting up of a Standing Committee on Employment, already agreed in principle by the Council, will make it possible to extend considerably the range of these consultations, which should be integrated into the framework of the deliberations on the general guidelines.

135. Moreover, it would also be useful to encourage the various groups that participate in economic activity to establish direct contacts at Community level to deal with specific questions facing particular sectors. Such contacts would make a meaningful contribution to keeping them better informed for their work.

Done at Brussels, 9 February 1971.

For the Council
The President
M. SCHUMANN