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COMMUNICATION OF THE COMMISSION TO THE COUNCIL

CONCERNING THE ADJUSTMENT OF THE ECONOMIC POLICY GUIDELINES
FOR 1976, AND PROPOSAL FOR A COUNCIL DECISION

COM(76) 82 final.

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FOREWORD

1. Pursuant to Article 2 of the Council Decision of 18 February 1974 concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States, the Council has undertaken to adapt, as early as possible in the first quarter, the economic policy guidelines for the current year to the new requirements of the economic situation. To this end, and pursuant to Article 1 of the same Decision, the Commission hereby transmits this Communication to the Council.
2. The Commission is also sending to the Council, in accordance with Articles 2 and 12 of the said Decision, a document containing a summary of the economic policies followed in 1975 and also a report on the implementation of the Decision and the degree to which those policies conformed with the objectives established.
3. The five year forecasts of the main macro-economic aggregates, which are referred to in the third paragraph of Article 2, will be included in the fourth medium term economic policy programme which the Commission will present to the Council before the summer, on the basis of the draft version being prepared within the Economic Policy Committee.

A. THE ECONOMIC SITUATION AND OUTLOOK

1. Recent developments

Recovery of economic activity

1.1 The marked deterioration in the economic situation in the Community, which began in the spring of 1974, has come to an end. During the second half of 1975 there were increasingly distinct signs in almost all the Member States of an upturn in the economy and an improvement in the business climate. Over the last few months, production and overall demand have been tending to pick up more strongly in most of the member countries (see Table 1 annexed).

The causes

1.2 The start of economic recovery had already been foreshadowed in the last "Annual Report on the Economic Situation in the Community"¹. The improved economic trend may be attributed to the combined effects of spontaneous expansionary factors and of reflationary measures, including :

- (a) a halt to destocking or a resumption of restocking;
- (b) the recovery of consumer spending, with savings and consumer behaviour beginning to return to normal as price rises eased;
- (c) the effects of the switch to an expansionary economic policy, and more especially budgetary policy, in most of the Member States;
- (d) the gradual improvement in export demand.

However, business investment has remained weak almost everywhere.

Persistence of unemployment

1.3 Since the beginning of the autumn, the rise in unemployment has slowed down a little in some Member States; a drop has actually been recorded in some cases, notably in the Federal Republic of Germany and the Netherlands. Nevertheless in January 1976 the seasonally adjusted number of wholly unemployed in the Community still amounted to roughly 4.7 million, equivalent to an unemployment rate of about 4.4% (see Table 2 annexed). Compared with the lowest level of unemployment reached in 1973 during the last boom the number of wholly unemployed increased by approximately 2½ million, and the number of people on short time by some 2 million.

.../...

¹OJ No. C 297, 29 December 1975

... and
inflation

1.4 Inflationary pressures are much weaker now than at the end of 1973. The slowing-down has been particularly marked in the second half of 1975 in Denmark, the Federal Republic of Germany, Ireland and the United Kingdom. Even so it was not possible to reduce the average monthly increase in consumer prices in the Community, expressed at an annual rate, to much below 10%. Membercountries' inflation rates still differ widely, and at the beginning of 1976 the year-to-year increases ranged from about 5% in Denmark and the Federal Republic of Germany to more than 23% in the United Kingdom (see Table 3 annexed).

No further
improvement
in the current
account

1.5 The notable improvement in the Community's current account from mid-1974 onwards came to a halt as from the middle of 1975, with imports picking up more vigorously than exports as the economy began to recover. Also, after the sharp contraction apparent since the spring of 1974, the volume of world trade no doubt began to grow again, though only very moderately, towards the end of 1975, helped by the economic upturn in the United States. However, for the year as a whole, the volume of world trade, for the first time since the war, will have recorded a fall of more than 5%.

2. The outlook

Uncertainties
about the
recovery

2.1 The recovery now under way is not yet certain. The vigorous rates of growth of production now being recorded are for the most part a reflection of technical adjustments to stocks and the very low starting level. The impact of the deep recession of 1974/75, the lack of stability in world political and monetary relations, the persistence of inflationary dangers and high unemployment, the sharp differences of position between regions and industries, and the very slow recovery of confidence in the economic future by consumers, investors and the two sides of industry are hardly factors justifying an over-optimistic view as to the durability and strength of the economic upswing.

Prospect of a
slow recovery
in world
economic
activity

2.2 World trade will probably continue to revive between now and the end of 1976, mainly as a result of the renewed buoyancy displayed by the economies of the industrialized countries, especially the United States. It remains to be seen whether the recovery apparent in these countries will be vigorous enough to spread, as was the case in the past, to the

.../...

other industrialized countries outside the Community and to the non-oil-producing developing countries. This is a particularly crucial point, since the growth in purchases by the OPEC countries and the state-trading countries is likely to slow down.

Foreseeable
worsening in
the current
account

2.3 Even if the improvement in the world economy follows the pattern observed in the past, it can only be moderate. Thus, in 1976 the volume of Community exports is hardly likely to expand by more than 5%. This compares with a medium-term growth rate of some 8% in the past, a rate which, moreover, was considerably exceeded in previous booms. The faster increase in imports, combined with an adverse swing in the terms of trade, could cause the Community's current account balance to worsen in 1976 but by no more than 3 to 5 thousand million dollars. In these circumstances, a faster than expected economic recovery could, in certain cases, create problems for those Member States with balance of payments deficits. There will probably be little basic change in the positions of the surplus Member States in 1976 as compared with 1975 (combined surplus of over \$5 000 million).

Danger of
straying off
course

2.4 Import prices and especially raw material prices will tend to move upwards in the recovery phase of the cycle. On the other hand, wage costs per unit of output should rise at a rate much lower than previously in all the Member States, particularly the Federal Republic of Germany, the Netherlands and Denmark. Inflationary pressures and wage cost pressures will, however, persist, particularly in cases where there are further disputes over shares in national income and where insufficient output and productivity gains could lead firms to raise profit margins. Without further vigorous efforts to contain inflation, there can be little hope of any appreciable slowdown in the upward movement of consumer prices between now and the end of the year. In some member countries, inflationary pressures could even get stronger again, thus enlarging the disparities which exist between the countries. Such a development would not be acceptable: it would result in a rise in consumer prices in the Community as a whole of about 10% in 1976 on the previous year, compared with 12.5% in 1975.

.../...

Role of business investment in consolidating the recovery

2.5 In order to achieve continuing and consolidated growth in 1976 despite these difficult conditions, it will be necessary, given the present lack of buoyancy in exports, for other components of demand to supplement the expansionary impetus now coming from the movement of stocks and the propensity to consume. This role will essentially fall to fixed investment. Although there is little doubt that the low degree of capacity utilization will continue to weigh on business investment decisions, it is also true that the recession, while accelerating the process of obsolescence of part of the productive apparatus, has also slowed down the implementation of investment programmes and has increased the need for investment in rationalisation and modernization schemes. Consequently, the progressive improvement in the economic outlook, combined with the impact of the support measures taken by the public authorities, should bring about a revival in the propensity to invest in several Member States. However, a recovery in investment activity implies a substantial improvement in the profitability of enterprises. At this stage, it will be important to avoid, through collaboration with both sides of industry, the traditional sequence of a profit explosion followed by a wage explosion, and the harmful effects of too rapid a switch from "stop" to "go".

3-3.5% growth of GDP

2.6 After the sharp and general decline in production last year, all the Member States should experience positive rates of growth in 1976, with, however, appreciable differences from one country to another. The average annual growth rates will probably be highest in the Federal Republic of Germany, France, the Netherlands and Denmark, and could exceed 4% in some of them. The rate of growth will be much lower in Ireland, Italy and the United Kingdom, where balance of payments and budgetary constraints and structural problems are more acute. As forecast in the last "Annual Report on the Economic Situation in the Community", the Community's real gross domestic product is likely to grow by some 3 - 3½% in 1976, after falling by about 2½% in 1975.

Slow decline
in
unemployment

2.7 Given the appreciable productivity reserves at the disposal of firms, the first phase of the economic recovery will probably bring only a gradual reduction in short-time working and a slight fall in the number of wholly unemployed during the year. The average number of unemployed in 1976 could even be somewhat higher than in the previous year in those Member States in which the economic upswing lags behind that in the other member countries and in which the labour force is expanding sharply. The increasing proportion of young people in the total number of unemployed, which has been evident during the last few years (see Table 5 annexed), might indicate the existence of structural unemployment which, even on the assumption of a more rapid expansion in production, could not, in the absence of specific measures, be reduced to its pre-crisis level.

B. GUIDELINES FOR ECONOMIC POLICY

a) General guidelines

3.1 The trends observed in recent months and the latest business surveys substantially confirm the outlook for 1976 set out in the "Annual Report on the Economic Situation in the Community"¹. Consequently, the general pattern of the economic policy guidelines contained in that Report is still valid. The main task is to underpin the upturn by :

- ensuring strict and prompt implementation of the measures already decided upon to stimulate economic activity and, where necessary, prolonging the application of certain measures so as to avoid interruptions to the economic recovery;
- making further progress in combating inflation and curbing the rise in wage costs, an essential move particularly in those Member States with little room for manoeuvre in the field of balance of payments and budgetary policy i.e. Ireland, Italy and the United Kingdom.

3.2 In spite of the good prospects for a gradual economic upturn in the Community, uncertainty and concern about economic policies will continue in all Member States in 1976. The most important task will be to set the stage for as rapid an improvement as possible in the employment situation and for sustained economic growth without generating renewed bouts of inflation.

3.3 Given the continuing uncertainty as to the strength of the economic upturn, budgetary policy should go on sustaining economic activity, by ensuring that the budget deficits should not be reduced at an unduly rapid rate and the expansion in public sector investment should continue. For the reduction in deficits which is required in the long term, current expenditure should be curbed to create more room for capital outlays. In some member countries, stepping up social infrastructure investment is not only the necessary corollary of reaching moderation through incomes policy, it is also a condition for the essential process of adjustment in the medium term.

¹ OJ No. C 297, 29 December 1975

Need to consolidate the recovery

... but without generating new pressures

Budgetary policy to sustain economic activity

Expansionary
but cautious
monetary
policy

3.4 Monetary policy should also encourage sustained economic recovery. However, given that there is so far no reason to question the forecasts of continuing inflation, the expansion of liquidity in the Member States should be kept within narrowly defined limits. To achieve this, monetary financing of central governments' budget deficits must be strictly limited, and targets must be set for the expansion in the money supply which are compatible with the macro-economic objectives.

Improvement in
firms'
profitability
essential

3.5 If there is to be steady economic growth and a high level of employment, job-creating investment must be stepped up considerably. In this connection, it is essential that firms' profitability improve. Rather than through price increases, this should be achieved by productivity gains resulting from economic growth and from a more moderate rate of growth of costs of production.

Need for
further
progress in
the fight
against
inflation

3.6 The upward movement in consumer prices must be slowed down further to prevent the moderation in the rise in money wages from exerting a contractionary effect on consumer demand in real terms. This implies that the upward tendency of administered prices must be strictly controlled. The planned increase in indirect taxes in a number of Member States should, where possible, be disregarded in any wage settlements, so as to prevent chain reactions. A narrowing of the difference in price trends between member countries would prevent disturbances between the "snake" currencies and would facilitate the coordination of monetary policies. If the external values of the Community currencies were kept as strong as possible, this would make an effective contribution to preventing rising import prices and world commodity prices from jeopardising the progress made with difficulty on the price stabilization front.

and for a
narrowing of
the difference
in price
trends

.../...

Complementary
role of social
and employment
policy

3.7 Overall management of the economy must be supplemented by measures under employment and social policy. Selective measures in the fields of basic and further training should in particular help to reduce the high level of unemployment, particularly among young people, which is giving cause for concern; for this purpose, increased use should also be made of the Community resources available under regional, social and structural policy.

Joint effort
from the
various
socio-
economic
groups

3.8 In the current economic situation and also in the medium-term view, it would seem essential to achieve greater consensus between managements and unions on income targets and the economic policy conditions for achieving these targets so as to overcome as quickly as possible the effects of the deep recession which has just ended, to resolve the resulting adjustment problems and to put an end to the disputes concerning the distribution of income. It is only by joint efforts to promote confidence that the expansionary factors leading to the creation of new jobs can be strengthened and the upward movement in prices slowed down further.

The continuation of the dialogue between the two sides of industry, which was launched at the Tripartite Conference in 1975 between representatives of the employers' and workers' organizations, Member States' Ministers of Economic and Social Affairs and the Commission, could make an important contribution to strengthening the economic situation and restoring the confidence of firms and consumers in the Community's economic future.

.../...

b) Guidelines for the individual countries

4.1 In Denmark, the economic recovery which began in the closing months of 1975, following the expansionary measures taken in September, is likely to become well established in 1976. The stimulatory effects which the expansion in private consumption and residential construction is currently having on activity will no doubt be followed by an increase in investment in other areas and in exports. Unemployment could, therefore, be reduced somewhat during the year. Certain upward pressures could make progress, which has been observed up to the present, towards the improvement of prices and costs, more difficult. Consequently, the incomes policy, which was successfully applied in 1975, will have to be continued in order to ensure a balanced recovery.

4.2 In the budgetary field, the measures taken to ease direct and indirect taxation, which have already provided an appreciable stimulus, together with the increase in transfer payments, produced a sharp deterioration in the central government's net borrowing requirement in 1975. In 1976, budgetary policy will remain expansionary, but the expected increase in revenue resulting from the economic upswing and the planned cuts in certain categories of current expenditure should help to reduce this deficit at the end of the year. Given the current outlook for the economy, this would be a timely development and would constitute the first stage in the attainment of longer-term objectives.

4.3. In the monetary field, the expansion in domestic liquidity should be kept within limits which will make it possible to hold interest rates at a level compatible with the constraints stemming from the increased deficit on current account. To achieve this, the central government's borrowing requirement should be met by public loan issues.

4.4 In the Federal Republic of Germany, the combined effects of the reflationary measures already taken by the government and the federal bank and the marked recovery in export demand produced a distinct change in the economic situation in the second half of last year. Judging from the information currently available, the recovery will gather momentum in the coming months, with the result that real gross national product can be expected to grow by an average of 4 to 4 $\frac{1}{2}$ % in 1976. In such circumstances, the authorities responsible for economic policy should be content to await the full effects of the measures already taken to stimulate economic activity.

4.5 As a result of the programmes already adopted, and taking into account that the deficit will be of the same order of magnitude as last year, budgetary policy in 1976 will again have a clearly expansionary effect which, in view of the slack in the economy would seem in line with short-term economic requirements. Any extra tax revenue which might arise from the gradual acceleration in the rate of growth should, however, be used to reduce the large borrowing requirement. This would also help to improve the chances of achieving the medium term aim of narrowing the budget deficit; the first steps in this direction were taken with the law relating to the structure of the budget which was adopted at the end of 1975.

4.6 In the field of monetary policy, the Bundesbank has adopted as its goal for 1976 an average growth in the central bank money stock of 8%. As the velocity of circulation of money increases in a period of economic upswing this rate of growth should be sufficient to finance the foreseeable rise in production and employment whilst steadily lowering the level of liquidity in the economy, which at present is slightly too high, and continuing to reduce the scope for price increases.

4.7 In France, activity is steadily increasing in most sectors, mainly as a result of the end of destocking, the continuing growth of consumers' expenditure, and the public capital expenditure programmes contained in the 1975 plan to stimulate the economy. The pace of the recovery is not yet such that unemployment can be expected to fall significantly in the course of 1976. Moreover, there is reason to fear that progress in bringing down the rate of inflation will be seriously jeopardized in the second half of the year. The growth in imports, which will probably be more rapid than that of exports, will turn the small trade surplus recorded in 1975 into a deficit of the same order of magnitude.

4.8 Budgetary policy should continue to support the upswing in activity. In particular, in order to allow private sector fixed investment to recover, the authorities should aim to improve the liquidity position of firms. Fiscal reliefs, for example, by delaying tax payments, could again be used.

4.9 The personal sector has still not borne a sufficient share of the external burden, which was imposed two years ago by the deterioration in the terms of trade caused by the increase in oil prices. This disequilibrium can only be corrected by a deceleration in the rate of growth of disposable income.

4.10 Changes in the system for controlling prices will play a key role in bringing about a recovery in investment. The policy of easing controls on producer prices of manufactured products must be continued and should be accompanied by strict monitoring of traders' profit margins. The pressure of external competition and productivity gains which will accompany the recovery should limit, to a certain extent, the risks of accelerated inflation.

4.11 The actual stance of monetary policy seems well suited to the present recovery phase. Indeed, the rapid rate at which the money supply has been expanding in recent months will have to be gradually reduced.

4.12 In Ireland, the upturn in activity may take time to materialize. Exports could grow at a slightly slower rate than in 1975 as a result particularly of the drop in the volume of sales of agricultural produce. Private consumption is expected to rise only slowly. While investment should increase as a result of higher public capital expenditure, the employment situation is unlikely to improve until the second half of the year. The rate of price increases should slacken but the extent of this slowdown will depend on the success of the incomes policy. The framing of economic policy should, therefore, reflect the priority that should be attached to this problem. In this respect, an incomes pause up to the end of 1976, as proposed, could well be the essential condition for a progressive return to a more balanced internal situation, which would stimulate the longer term prospects for growth and employment.

4.13 The budget presented on 28 January 1976 and which in general conforms with the guidelines fixed in the annual report on the economic situation in the Community should equally contribute to a large extent to the realisation of these objectives. It is characterised by a marked curb on current expenditure, an appreciable strengthening of taxation and a strong increase in public sector capital expenditure, calculated to have a positive effect on employment. In total the borrowing requirements both of central and general government, although remaining high, have ceased to increase as a percentage of gross domestic product. This represents a break in the trend observed in the past few years.

4.14 As for monetary policy, the authorities should endeavour to finance as much as possible of the public sector's borrowing requirement by non-monetary means, such as long-term loans issued directly to the public.

4.15 In 1975, the economic situation in Italy was characterised by a marked deceleration in the rate of price inflation, a large reduction in the balance of payments deficit and a slowdown in economic activity which persisted into the summer months. The recovery, which first became apparent at the end of last year, should continue in 1976. However, it should be assumed that the recovery will develop only slowly, as several factors - especially the delays in the renewal of the collective wage agreements and, more importantly, the crisis involving the Government and the lira which occurred in January - might cause industrialists to adopt a "wait-and-see" attitude.

4.16 The strong pressure on the lira in January forced the monetary authorities to suspend their intervention in the exchange markets. As a result, between 20 January and 2 March, the weighted depreciation of the lira increased by some 13%. On the assumption that this development is maintained, the Italian balance of payments, which in any case would have worsened during the upswing, would have to bear the additional burden of a deterioration in the terms of trade. Such a possibility is all the more to be feared since in Italy, which is an important processor of raw materials, the price elasticity of imports is rather limited.

4.17 A further depreciation of the lira and its harmful repercussions on the wage-price spiral can only be avoided, as is desirable, by an economic policy aimed at absorbing the State budget deficit and stemming the rise in unit wage costs. To restore balance to the economy both internally and externally the Italian authorities must apply an economic policy even more stringent than that in the Council Directive of 18 December 1975 on the granting of medium-term financial assistance to Italy (1). A restrictive policy should be followed in

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(1) Council Directive of 18 December 1975 (OJ No. L 330/48, 24 December 1975).

policy should be followed in relation to government expenditure, the Treasury deficit and credit expansion. This implies a comparatively high level of interest rates, together with appropriate fiscal policy measures. In any case, an important contribution from the two sides of industry to achieving a more moderate increase in nominal incomes is essential.

In following such a policy, with the aim of fighting inflation and re-establishing a balance of payments equilibrium by a suitable development of exports, the Italian authorities would also be serving the interests of the Community as a whole. To this end, the Community should provide assistance, especially in the form of the Community loan, on condition that the authorities do not take any measures, either direct or indirect, which could impede or disturb trade between Member States.

4.18 In the Netherlands, the recovery, which began in the middle of last year and which brought with it an improvement in the employment situation, should continue during the first half of 1976. However, as the level of new orders remained low until the end of last year, it will be a few months before a firm base for balanced growth becomes established and spontaneous recovery factors take over from economic policy measures.

4.19 Budgetary policy must therefore continue to support economic activity. For the time being, the central government budget for 1976 must remain in line with the original guidelines, which urged that the reflationary programmes adopted in 1975 be maintained. On a cash basis, the net borrowing requirement will grow appreciably on last year's figure.

4.20 As the outflow of capital will probably be insufficient to offset the surplus on current account, the overall balance of payments will be in surplus. As a result, conditions on the money market will most probably be reasonably easy.

4.21 To reduce the risks of a resurgence of inflation at a later stage of the recovery, it would be advisable to finance the Treasury deficit as far as possible by long-term borrowing, without, however, putting a further brake on the outflow of capital.

4.22 The rise in wage costs will have to slacken if investor confidence and the employment situation are to improve. Steps in this direction have been taken recently and these should lead in the course of the year to a slowdown in the rate of increase of consumer prices. It would seem essential to obtain the collaboration of both sides of industry if such a policy is to be successful.

BELGO-LUXEMBOURG ECONOMIC UNION

a) BELGIUM

4.23 In Belgium, where activity picked up fairly rapidly in the fourth quarter, mainly as a result of an upturn in domestic demand and in exports, demand should continue to expand during the first half of 1976. This will be largely the result of restocking, increased public investment, and progress in residential construction, whereas the growth in private consumption may only be slight.

4.24 For most of the year, the rate of expansion will depend partly on the boost provided by public investment. There is therefore no need to change the general guidelines for budgetary policy set out in the "Annual Report on the economic situation in the Community", and which are implied in the central government budget for 1976. The authorities could, in addition, encourage business investment by effectively removing the burden of value added tax from such investment and ensure that the subsidised housing programme is strictly implemented.

4.25 With business investment still sluggish it should be fairly easy for the Government to finance the budget deficit from private sector savings. Despite the difficulties arising from the close interdependence of the internal and external markets, the authorities should seek to avoid a fresh rise in interest rates, or at least to limit the extent of any upward movement. In this context, some recourse to short-term borrowing could be acceptable.

4.26 The continued rise in prices is a source of concern. Some moderation in prices and costs would seem to be a prerequisite for any lasting improvement in the economic situation and particularly in the labour market. The measures envisaged as part of the recovery programme are, moreover, a move in this direction, but will only be fully effective if applied without delay. The same is true for the new procedure for the prior notification of price increases and for the strict control of profit margins.

b) LUXEMBOURG

4.27 In Luxembourg, where activity seems to be picking up again in a number of newly-established export-biased industries but where the revival in new orders received by the iron and steel industry is still modest, it will probably be several months before the economy shows signs of a significant recovery.

4.28 While the putting into operation of the new law creating an unemployment fund is awaited, the maintenance on a temporary basis of selective measures aimed in particular at avoiding short-time working still appears desirable. There is no need to change the budgetary policy guidelines laid down in the Annual Report. The central government budget for 1976 will no doubt provide for a large net borrowing requirement. However, although the budgetary reserves built up previously have already been drawn upon substantially for, among others, expenditure arising from the implementation of works of public interest to occupy the unemployed, there should not be much problem in financing this deficit in the near future.

4.29 Despite the considerable progress that has been made recently, in the United Kingdom, towards reducing the rate of inflation and the deficit on the current balance of payments, the annual rate of price inflation remains a source of concern. Given the unforeseen depth of the recession and a higher rate of inflation than expected originally, public expenditure rose to a higher level than planned, leading to a larger public sector borrowing requirement. The financing of this deficit did not, however, prevent a slowing down in the growth of the main monetary aggregates in 1975, although it has created a potential for a more rapid expansion of the money supply in 1976.

4.30 Prospects for 1976 point to a small but gradually strengthening recovery in output, mainly on account of a sharp reduction in the rate of destocking, a recovery of consumers' expenditure in the second half of the year and a marked shift of real resources into the balance of payments, partly because of the contribution from North Sea oil. The rising trend in unemployment is not expected to come to an end before the second half of the year. As a result of the policy of income restraint, combined with continued controls on prices, there are good prospects that the rate of inflation will decline further in the months ahead. To ensure the continued success of the counterinflation policy, new arrangements will be needed to replace the present pay limit from the end of July 1976. These arrangements should be compatible with the over-riding objective of bringing the rate of wage inflation closer to that obtaining in the United Kingdom's principal competitors, which is an essential precondition for a return to higher levels of employment in the foreseeable future.

4.31 Despite the very high, and still rising, level of unemployment, three important constraints - the balance of payments deficit, inflation, and the size of the public sector borrowing requirement - make it necessary for the authorities to continue to resist the growing pressure to significantly reflate the economy. Assuming that the recovery in economic activity gathers momentum during the course of the year, it would be both necessary

.../...

and feasible to start reducing the borrowing requirement. To this end, the announced policies of introducing more extensively the use of cash limits, and of allowing no further increase in the volume of public expenditure between 1976/77 and the following three financial years should be strictly implemented.

4.32 The stance of monetary policy should be such as to ensure that, when private sector demand for credit starts to expand more vigorously, the rate of growth of the money supply broadly defined (M3) remains sufficiently restrained to help achieve the Government's target for inflation. Such a policy would contribute to maintaining interest rates at a level appropriate to the need to finance the continuing external deficit.

C. CONCLUSIONS

The economic outlook has improved somewhat in most Member States since the "Annual Report on the Economic Situation in the Community" was presented in October last year. The economic policy guidelines for 1976, adopted by the Council in November 1975, are in broad terms still valid.

In 1976, the member countries of the Community can count on a moderate economic recovery, which will set in only after a lag in those countries facing severe structural difficulties, i.e. Ireland, Italy and the United Kingdom.

The risks inherent in the current upturn are still, however, present. They range from uncertainty about export demand, fears of a renewed upsurge in inflation, the still inadequate level of consumer confidence at a time of persistent high unemployment, to the doubts concerning the strength of firms' propensity to invest in the months ahead.

The efforts to consolidate the short-term economic trend must be geared to curbing further the rise in costs and prices and to narrowing the differences in price movements between Member States, on the one hand, and to improving the conditions in the medium term necessary to bring down unemployment, on the other. Specific measures of employment and training policy are called for in all member countries. Incomes policy in the broadest sense will, however, have to play a key role in the current situation. It must prevent the emergence of fresh upward pressure on prices and also make possible the necessary adjustments to the income and behaviour patterns of the various groups in the economy and, consequently, a rapid reduction in unemployment.

The Commission requests the Council to adopt the above guidelines and to invite Member States to draw up their economic policies accordingly.

ANNEKE

- Table 1 - INDUSTRIAL PRODUCTION
- Table 2 - UNEMPLOYMENT
- Table 3 - CONSUMER PRICES
- Table 4 - TRADE BALANCE
- Table 5 - STRUCTURAL VARIATIONS OF UNEMPLOYMENT BY AGE AND SEX

GRAPH

INDUSTRIAL PRODUCTION (1)
(% change on preceding period)

Table 1

	1974		1975							Dec. 75	Dec. 74
	III	IV	I	II	III	IV ⁽²⁾	Oct. ⁽²⁾	Nov. ⁽²⁾	Dec. ⁽²⁾		
F.R. Germany	- 2,7	- 3,2	- 2,3	- 3,6	+ 1,8	+ 2,8	+ 0,3	+ 5,3	- 3,0	+ 0,9	
France	- 1,9	- 3,7	- 4,2	- 2,6	- 0,5	+ 3,8	+ 1,4	+ 0,3	+ 4,9	+ 2,2	
Ireland	- 2,4	- 2,0	- 2,3	- 0,4							
Italy	- 1,8	- 9,1	0,0	- 3,7	+ 2,3	+ 0,3	- 0,1	+ 1,9	- 3,9	+ 0,6	
Netherlands	0,0	- 1,3	- 2,7	- 3,5	- 0,4	+ 4,4	+ 0,3	+ 6,5	- 2,4	+ 0,6	
Belgium	- 1,7	- 3,7	- 3,3	- 2,9	- 5,0	+ 4,3	+ 2,8	+ 5,3	- 7,4	- 6,5	
Luxembourg	- 2,5	- 5,3	- 8,8	- 10,2	- 10,1	+ 13,9	- 8,0	+ 11,1	- 0,8	- 8,5	
United Kingdom	- 0,9	- 1,2	+ 0,2	- 5,6	- 1,6	+ 2,8	+ 2,5	+ 0,3	+ 0,5	- 2,7	
Community	- 1,9	- 3,6	- 2,0	- 3,5	- 0,2	+ 3,1	+ 1,2	+ 3,0	- 1,0	+ 0,3	

(1) Excluding construction. France: excluding construction, feed, beverages and tobacco.
For Denmark, no comparative data available, calculated on the basis of seasonally adjusted indices of the Statistical Office of the European Communities.

(2) Provisional.

: Data not available.

UNEMPLOYMENT (1)

Table 2
(thousands)

	1974		1975						1976	Rate of unemployment (5)
	III	IV	I	II	III	IV	Nov.	Dec.	Jan.	Jan.
Denmark	61.6	76.4	99.8	100.3	110.1	112.3	108.1	112.3	111.9	4.5
F.R. Germany	695.1	854.1	1026.9	1125.7	1155.9	1126.9	1154.3	1126.9	1059.3	4.0
France	547.1	662.9	732.2	870.9	958.5	913.8	922.5	913.8	886.9	4.0
Ireland	75.0	87.6	97.3	105.9	108.1	113.0	109.2	113.0	109.8	9.7
Italy (2)	594	551	632	671	692					
(3)	1016.3	1013.8	1053.1	1117.3	1163.2	1151.7	1160.1	1151.7		
Netherlands	154.1	169.0	188.9	206.0	223.4	220.4	222.3	220.4	215.1	4.5
Belgium	126.4	142.9	168.0	195.7	218.5	235.0	235.0	235.0	234.0	5.9
Luxembourg	0.1	0.1	0.1	0.2	0.2	0.6	0.6	0.6	0.5	0.3
United Kingdom	682.8	701.8	780.2	996.2	1248.2	1243.5	1204.8	1243.5	1340.4	5.3
Community(4) Change ('000) on preceding period.	+364	+310	+480	+546	+444	-39	-34	+19	+8	
Rate of unemploy- ment (5)	2.8	3.1	3.5	4.0	4.4	4.4	4.4	4.4	4.4	4.4

(1) Figures at end of period, seasonally adjusted.

(2) Italy : ISTAT

(3) Italy : Ministry of Labour

(4) Estimates by services of Commission, include Italy : ISTAT.

(5) Number of unemployed as % of civilian labour force: include Italy ISTAT

Source : S.O.E.C..

CONSUMER PRICES

Table 3

	1974		1975 (1)						1976	12 month rate of change
	III	IV	I	II	III	IV	(2) Nov.	(2) Dec.	(2) Jan.	
Denmark	+ 3,5	+ 3,3	+ 1,1	+2,3	+1,7	- 0,9	+1,6	+0,1	+0,6	+ 4,7
F.R. Germany	+ 0,7	+ 1,6	+ 1,9	+2,1	+0,4	+ 0,9	+0,3	+0,3	+0,8	+ 5,3
France	+ 3,2	+ 3,0	+ 2,7	+2,4	+2,2	+2,0	+0,6	+0,6	+1,1	+ 9,6
Ireland	+ 3,9	+ 4,6	+ 8,0	+6,1	-0,8	+2,8	:	:	:	+16,8
Italy	+ 7,2	+ 4,7	+ 2,9	+2,9	+1,9	+3,0	+1,1	+0,8	+1,3	+11,3
Netherlands	+ 2,5	+ 2,6	+ 2,3	+2,2	+2,7	+1,4	+0,4	+0,2	+0,5	+ 8,8
Belgium	+ 4,1	+ 2,6	+ 2,9	+2,3	+2,6	+2,8	+1,1	+0,5	+0,9	+10,9
Luxembourg	+ 1,9	+ 2,9	+ 2,9	+2,6	+2,1	+3,0	+0,8	+0,6	+1,5	+11,8
United Kingdom	+ 2,1	+ 5,3	+ 6,3	+10,4	+2,5	+3,9	+1,2	+1,2	+1,3	+23,4
Community	+ 3,0	+ 3,3	+ 3,2	+4,0	+1,7	+2,2	+0,8	+0,7	+ 1,0	+ 11,4

(1) Quarterly percentage variation (end of quarter data).

(2) Monthly percentage variation.

: Data not available.

Sources: national statistics.

TRADE BALANCE

Table 4

Mio EUR

	1974		1975						1976
	III	IV	I	II	III	IV	Nov.	Dec.	Jan.
Denmark	- 94	-111	-86	- 61	- 103	- 180	- 208	- 239	:
F.R. Germany	+1316	+1323	+1207	+1045	+ 768	+ 896	+1006	+ 893	+867
France	-518	-341	- 111	+ 53	- 97	- 386	- 239	- 415	-376
Ireland	- 99	- 47	- 54	- 39	- 31	- 32	- 43	- 71	- 71
Italy	- 778	-558	-122	-132	- 207	- 457	- 253	-745	:
Netherlands	- 123	-157	- 82	+ 3	- 69	+ 68	+ 3	+ 9	:
B.L.E.U.	- 18	+ 17	+ 60	- 65	- 111	:	- 22	:	:
United Kingdom	-1041	-961	-587	-425	- 625	- 635	- 706	- 494	-567
Community (1)	-1272	-865	- 77	- 80	- 209	:	(-774)	:	:

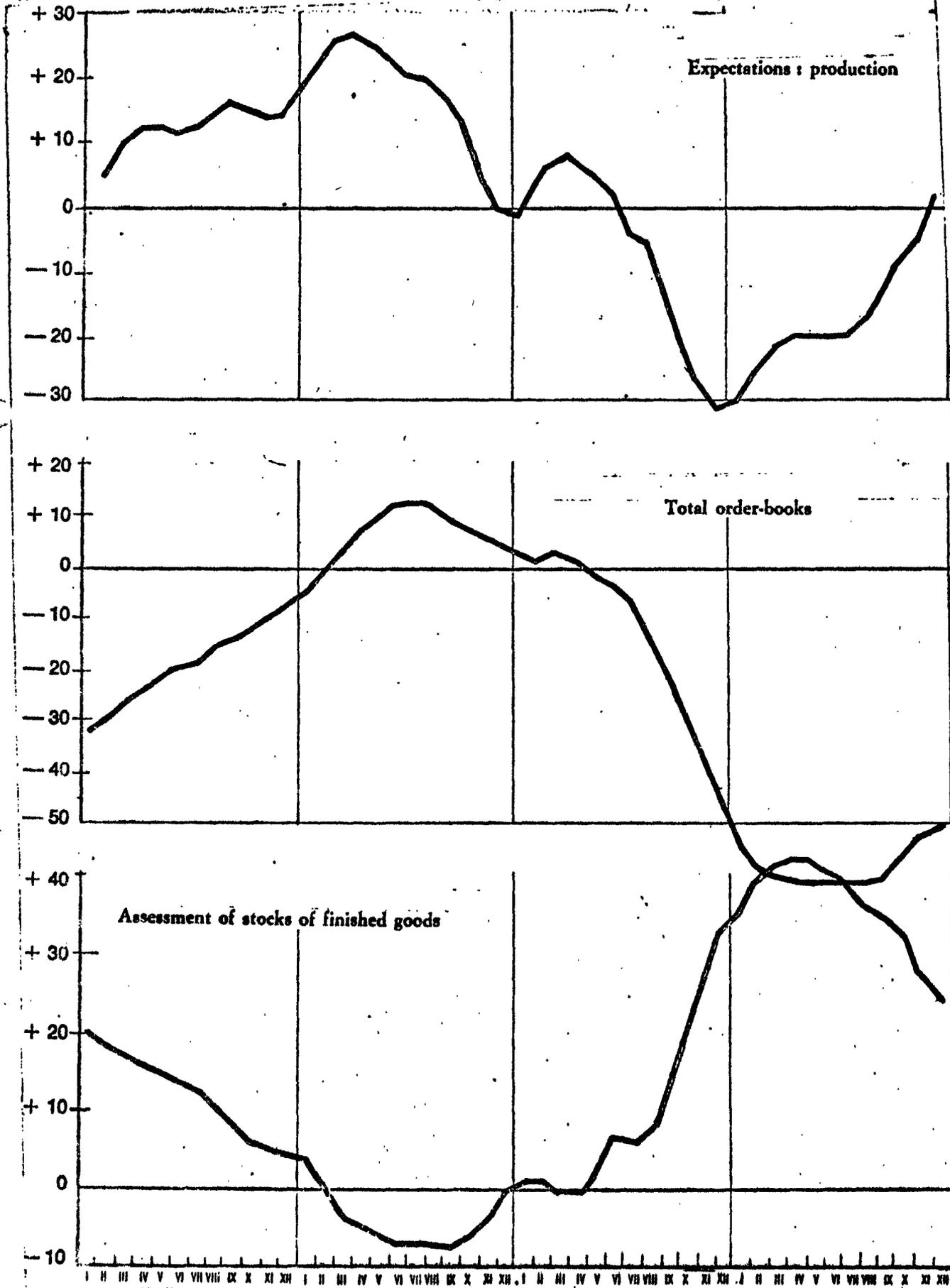
Seasonally adjusted figures : Data not available

Quarterly figures = monthly averages Source: S.O.E.C.

(1) Community: extra-Community trade only

RESULTS OF THE BUSINESS SURVEY ¹⁾
OF COMMUNITY INDUSTRY ²⁾
(three-month moving averages)

% of answers



1972

1973

1974

1) Excluding construction, food, beverages and tobacco.
 2) Original Community.

PROPOSAL FOR A COUNCIL DECISION

on the adjustment to the guidelines for economic policy for 1976

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community,

Having regard to the Council Decision 74/120/EEC of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community (1), and particularly Articles 1 and 2 thereof,

Having regard to the proposal by the Commission,

Taking into consideration that the Council agrees with the analysis of the economic situation set out in the Communication from the Commission of the 3rd March 1976 , concerning the adjustment of the economic policy guidelines for 1976,

HAS ADOPTED THIS DECISION

Article 1

The Member States pursue their economic policies in conformity with the guidelines which are specified in the Annex to this Decision (2).

Article 2

This Decision is addressed to all Member States.

Done at Brussels,

1976

For the Council

The President

(1) OJ No L63, 5 March 1974, p. 16.

(2) Chapter B of the Communication from the Commission to the Council.

