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GROWTH, STABILITY AND EMPLOYMENT :

STOCK-TAKING AND PROSPECTS

- Contribution of the Commission -

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INTRODUCTION

This Tripartite Conference has been called in order to "take stock" on the progress achieved since the June 1976 Tripartite Conference, and to assess the prospects for the future.

In the Commission's view, this exercise will be fruitful only if there is agreement about the nature of the economic and social problems facing the Community, and if there is a common will to overcome them. The Commission has taken this opportunity to elaborate its views on how this can be done.

By reflecting together on these matters, we can achieve a greater consensus about the ways and means by which we can reach the targets we determined collectively a year ago.

STOCK-TAKING

Targets agreed in June 1976

1. At the Tripartite Conference of June 1976, the Conference Partners set themselves the following targets :
 - . a return to full employment by 1980
 - . a gradual reduction of the rate of inflation to approximately 4 to 5 % by 1980, and
 - . an average annual growth of GNP of about 5 % a year in real terms to 1980.
2. These objectives were incorporated in the Fourth Medium Term Programme, as approved by the Council of the Community.

3. The parties agreed to work together to achieve those objectives and agreed to implement the necessary policies. These included economic, monetary, competition, labour market and prices policies. The coordination of macro-economic policies in the Member States was to be improved, and structural policies were to play their part alongside conjunctural policies.
4. A joint effort was to be made by all concerned to contribute to greater price stability. Also, it was agreed to promote workers' asset ownership and their participation in company decision-making.

DEVELOPMENTS SINCE THE LAST TRIPARTITE

Growth

5. It was foreseen that the period following the Tripartite Conference would be difficult. The bottom of the world recession had not long passed, the incipient upturn lacked momentum, inflation rates and employment levels were high, and, in some countries, balance of payments deficits diminished growth prospects. In the event, there was a pause in the world upturn in the months following the Conference and output growth slowed in the Community. While the volume of GNP was some 4,3 % higher in 1976 than in 1975, 1977 may be no more than 3,5 % up on 1976.
6. Germany is the only Member State likely to achieve 5 % growth between 1976 and 1977. Some others may reach 3 or 4 % but, in the United Kingdom, and Denmark, it may be as little as 1 or 2 %.

Unemployment

7. The growth of output slowed the fall in employment in 1976 and will bring it to a halt in 1977. However, this was not enough to prevent Community unemployment rising to 5,0 % in 1976. Unemployment is still increasing in Belgium, France and Italy, and the Community's average level for 1977 may be somewhat higher. Germany and the Netherlands are the only Member States where the average unemployment rate this year is likely to be lower than in 1976.

Inflation

8. Against the background of slow growth and high unemployment, counter inflationary policies have had some modest successes despite the rise in raw material prices and despite, for some countries, the consequences of currency depreciations. In the Community as a whole, the rate of consumer price increases fell from 12,5 % in 1975 to 10 % in 1976. The 1977 figure may be a little below 10 %. Inflation is easing in most Member States.

However, it still remains around 20 % a year in Italy and around 15 % a year in the United Kingdom. In both countries, additional actions have been taken, or are being considered, with a view to reducing the rate of increase. In virtually all Member States the increase in nominal wages has become smaller in 1976 and it is expected that this trend will continue in 1977.

Balance of payments

9. Slow growth is putting a brake on the growth of imports, including oil imports. The Community's external payments on current account may approach balance in 1977, with Germany and Dutch surpluses being largely offset by the deficits of France, the United Kingdom and Denmark.

Policy actions in Member States

10. Member States have rightly tended to concentrate on counter inflationary policies, supported by direct employment measures, and on aids for structural change. Moreover, some countries in balance of payments difficulties have been obliged to adopt restrictive monetary and fiscal policies to control and correct their deficits.
11. A reduction in the rate of inflation is both an end in itself and a necessary condition for a lasting return to faster rates of economic growth. Despite high levels of unemployment, fiscal and monetary policy have generally been tight reinforced, in some countries, by wage and price guidelines. Denmark, France, Italy and the United Kingdom have all strengthened their counter-inflationary policies during the past twelve months.
12. Structural and specific policies have been pursued along with conjunctural measures. All Member States have taken employment measures to avoid redundancies or create new jobs and training places in order to avoid further major increases in unemployment.
13. Most Member States have taken actions to deal with the problems of individual industries or firms, and discussions have taken place at Community level with a view to laying the foundations for future competitiveness and growth in various Community industries.

Consultations with Social Partners

14. The process of coordination of the Member States' macro-economic and industrial policies has continued through the relevant Community Committees. Following the Tripartite Conference, Social Partners have also participated for the first time in

the discussion of economic and social questions in the Economic Policy Committee. The Standing Employment Committee has discussed the employment prospects and the coordination of Community financial instruments. Discussions have also been held with the Social Partners on the policy regarding asset formation with a view to preparing a draft proposal for submission to the Council.

Stock-taking conclusions

15. Some progress has been made, but not much. The Community is below its growth target. The reduction in the inflation rate has been modest, and the spread of rates between Member States remains wide. There has been no greater convergence in the economies of the member countries, and there has been no real progress towards the employment target.
16. A quick recovery could not have been expected. However, the achievements over the past year have been below what had been hoped for at the time of the last Tripartite. This is despite the fact that the policies followed have been more or less in line with those that were recommended. In particular, major efforts have been made by Governments and Social Partners to reduce the rate of inflation. In most instances, a restraint on the growth of money wages has been effectively accepted. Clearly, the problems were more serious than they had seemed.

THE NATURE OF THE PROBLEMS

17. The Community, in the last three years, has fallen into its first serious recession. The recession has been deep and prolonged because its causes were more complex than those of previous down-turns in activity.
18. Declining confidence among both consumers and investors can normally be overcome by appropriate Government budgetary action. This time, however, the interaction of the various factors which had led to the recession - both external and internal to the Community - have combined to inhibit the process of recovery.
19. It is as well to re-call what these factors were.

External factors

Oil prices, raw materials and competitiveness

20. Oil price rises at the end of 1973 effectively reduced the real income of the non oil-producing countries by some 3 %, by moving the terms of trade in favour of the OPEC countries.

This alone was equivalent to a year's growth in some member countries, but its total effect on the world economy was even bigger since the oil-producing countries were unable to spend all their new found incomes.

21. In principle, the increased savings of the OPEC countries could have been fully offset by increased spending elsewhere. In practice, this did not happen on a sufficient scale due to the balance of payments difficulties of non-OPEC countries.
22. Apart from oil price increases, changes in other factors have affected the competitive position of the Community in recent years. In particular, there have been large fluctuations in prices of raw materials, on the importation of which the Community is strongly dependent. As a result, the share of national income required to pay for the same volume of imports has risen. This has had repercussions on both pay and profits with resulting consequences on purchasing power and on the level of investments.
23. This has accentuated the external constraints to which the Community is subject, and which need to be respected in view of our obligations as regard both,
 - . developed countries, particularly in the framework of GATT, and
 - . developing countries in the framework of UNCTAD and the Conference on International Economic Co-operation, in particular with regard to associated countries in the context of the Lomé Convention and the other preferential agreements.

World trade developments

24. The current difficulties have been notable for their severity, coincidence and world-wide character. Industrial production in the OECD countries as a whole fell by about 8,5 % between 1974 and 1975, the biggest fall from peak to trough since the 1930's, and the volume of world trade fell by 4,5 % in the same period. At present, both industrial production and world trade are still well below past trends and this continues to hamper growth in the Community.

Developing countries effects

25. The continuing and rapid rate of industrialisation in the world, especially in developing countries, has meant a rapid change in the production and employment structures of developed countries.
26. This process passed relatively easily when there was a high level of world demand, and it posed only limited difficulties for the Community when it was faced with a general shortage of labour. The impact of the world recession has been to highlight all the underlying tensions and difficulties that are involved in the restructuring of production and employment, and its international re-distribution.

27. Nevertheless, the process of liberalisation of trade with developing countries must continue. This permits the Community to increase its exports, notably of capital goods, to countries which represent a growing market, in some cases larger than those of some industrialised countries.

28. It must be recognized, however, that the redeployment of labour away from sectors affected by competition from developing countries towards sectors which can benefit from growing markets is often achieved at the expense of the less qualified workers and the weaker regions. This process, particularly in periods of under-employment, will not occur easily on its own, and calls for an active employment policy in order to minimize social costs.

Internal factors

Inflation

29. In the period prior to, and during, the recession, inflation rates in all major industrial countries, outside and inside the Community, rose to post-war peaks. Explanations of causes are varied, complex and disputable. What is clear, however, is that inflation was not only socially damaging, but was a major factor in both producing an economic downturn and in inhibiting the recovery.

Investment weakness

30. In a number of countries in the Community, private investment has been flagging since the end of the 1960's. A relatively slow growth in investment volume in the early 1970's was followed by a fall in absolute terms in 1974-1976, and the subsequent recovery has been weak. Total fixed investment has fallen relative to national output in all Member States - in the Community as a whole, it had dropped from 23,2 % of total output in 1970 to some 20,4 % in 1977.

Government difficulties to stimulate employment

31. Governments were limited in the extent to which they could revive activity by additional spending and additional investment since public sector deficits were already large and overall tax rates high.

32. Companies were reluctant to respond to Government incentives both because of their uncertainty about future demand and because of the difficulty of reversing decisions to recruit additional staff.

Increased labour market participation

33. Between 1973 and 1975, the number of young entrants onto the labour market increased by some 30 %. This came about because of the population bulge in the middle and late 50's and will keep the number of new entrants high for the next four to five years.
34. In addition, changing social circumstances have led to the rapid increase in female employment, particularly of married women. Both factors caused additional strains on the labour market as the Community entered the recession.
35. At the same time, migrant employment in the Community decreased but not by anything like the amounts expected since an increasing proportion of migrants have become eligible to stay in their host countries, and have opted to do so. It is worth noting that the free circulation system in the Community has stood up very well during this difficult period.

The Consequences

36. The effect of all this on economic activity was as follows.
37. In most countries, fears of unemployment due to the recession and fears of capital loss due to inflation combined to cause a rise in the proportion of personal incomes that were saved.
38. Companies did not add to their spending either, since they chose to reduce their spending on investment in stocks and fixed assets, as turnover and capacity utilisation rates dropped.
39. The public sector was limited in the amount of additional spending it could undertake because of the difficulties of financing such borrowings without adding to inflation.
40. There were also limits to additional spending on imports of goods and services for, given the weakness of investment this meant in effect using capital inflows, in other words borrowings, to finance current consumption. There was a general unwillingness to go far along that road; and there were particular problems in countries such as the United Kingdom, Ireland and Italy who already had both balance of payments and structural problems.

Reactions to the problems

41. The Community and the Member States were slow to react to these facts, and to adapt to the external and internal changes that had brought them about. This was partly because the extent of the change was not clear, but there also seems to have been an unwillingness to accept the need to adapt.

At the same time, the Community should acknowledge that the avoidance of protectionist measures by countries with particularly serious regional problems, has meant a marked degree of austerity.

42. In the past, the Community has consistently achieved a high rate of growth by being dynamic, and innovative. Such growth implies change, however, and such change requires consensus if it is to take place. Over the past three to four years there has not always been such a consensus, or the machinery to apply one, or the necessary supporting policies.

The Challenge for the Community

43. The Community is facing a series of difficulties, and our position is exposed. Our standards of living are very high relative to much of the world, but parts of our industrial structures are older and less flexible than those of some of our competitors.

44. In effect, we have no choice. Accepting these difficulties passively might seem an easy option, at least in the short run. But in a competitive world it would mean a declining role for the Community, a lowering of sights for real incomes and growth, and a putting back of our social objectives and programmes. It is therefore not an option that we should pursue.

45. The only way is to react as we have in the past :

- . recognise our changed situation
- . resolve to overcome difficulties
- . accept that we need much greater social consensus in order to bring about the internal change and permit the innovation that is needed in order that the Community can progress
- . undertake to use and develop national and Community policies and mechanisms for this purpose.

Conditions for Social Consensus

46. The achievement of a situation in which there is a willingness to change established practices is not simple. It implies more than the provision of retraining or mobility grants for workers displaced. It implies the full involvement of the Social Partners and Governments in creating an environment in which all parties are confident that the acceptance of change will bring benefits for all, that initiative will be rewarded, and that those directly affected by the negative aspects of change do not bear the full brunt of the necessary readjustments.

47. This requires a more open approach to the discussion of economic and social objectives and the means by which they can be achieved, as well as the fuller use of existing machinery of consultation and negotiation. This could ensure, not that differences of view or of interest can be made to disappear - that would be utopian. Rather it means a recognition of conflicts of interest but, at the same time, an acceptance that these conflicts can and will be resolved in a positive way.

PRINCIPLES FOR ACTION

48. In the context of this positive approach, the Commission has set out its views on those principles for action for which it considers there should be common agreement. Adherence to these principles can help ensure that we move towards our medium term objectives.

Policies to be avoided

49. The experience of the 1930's showed that protectionism and beggar-my-neighbour policies must be avoided. The protectionist option is an illusion. On one hand, the strong dependence of the Member States on imports of raw materials and energy makes such an approach inconceivable. Moreover, given the important role of the Community in world trade, such policies would invite swift retaliation and ultimately reduce the real incomes of everybody, including their initiators. It is not a way of protecting existing standards of living.
50. It has been a major contribution of the Community in the current recession to be able to resist protectionist tendencies. The Community must continue to be opposed in principle to trade barriers and market sharing arrangements which act as trade barriers, since these reduce long run potential for growth. The Community is likewise opposed to exchange rate manipulations which are akin to competitive devaluations.
51. This does not exclude the use of trade barriers against dumping or unfair trading practices, or the use of temporary arrangements with our trade partners if justified in special circumstances. But these are exceptions to the general policy guidelines and to be used only in order to re-establish a longer term open market.
52. We must avoid measures which are mutually offsetting at the national or Community level. These effects can easily occur where each crisis provokes fresh measures, and where the abolition of existing measures is resisted by all who benefit from them. It can occur too at the Community level. National programmes to help declining industries will be mutually offsetting if the firms concerned compete mainly with their Community partners.

Policies to be adopted

53. A number of principles and policies need to be followed in various spheres.
54. The basic economic policies have to differ between countries because of their divergence in performance and in their starting positions. Where the balance of payments is weak and where the rate of inflation is high, the principal aim must be to curtail cost increases and shift resources to exports and competition with imports. Where the balance of payment is strong and inflation relatively low, capital exports need to be encouraged, and domestic demand kept at a high level, without re-kindling inflation.
55. Apart from the development of internal demand, it is essential that those countries who can do so - including OPEC countries - increase aid efforts and capital exports in order to help deficit countries, notably non-oil producing developing countries, to maintain their import capacity, and thereby realise their development and employment objectives. Such an approach is particularly appropriate, given the outward looking nature of the Community and its commitment to, and dependence on, a high level of world trade.
56. In all Member States there is an urgent need to re-establish the previous and higher level of investment if there is to be an acceptably high rate of economic growth. This is particularly so in view of the new investment needs associated with policies to reduce dependence on imported energy and diminish the extent of pollution. There is also a need to ensure that a sufficient pipeline of public sector investment projects exists and can be put into operation.
57. In all member countries, the profitability of investment has declined in the period 1973-76 and average rates of return can hardly be considered attractive. A fuller utilisation of existing capacity will certainly improve this situation, as it did to some extent in 1976, but this may not be sufficient to generate investment and jobs on the scale required.
58. This is equally true for small and medium size companies which account for more than half of Community production. The capacity of these firms to create jobs should not be underestimated and their capacity to invest could be encouraged by financial arrangements to give them the same possibilities as larger groups.

The need for coherent internal and external policies

59. It is increasingly clear that internal and external policies followed by the principle world trading partners are inter-acting. This calls for greater concertation between economic policies at the international level, to dampen the shocks from major discontinuities such as restrictive measures, and to ensure orderly adjustment. It implies the search for greater coherence between internal policies - growth, investment, employment - and external policies - commercial, monetary, invisible trade, international investment. The Community, for its part, is following this policy.
60. It is in this light that the Commission has proposed its action programme for restructuring the European steel industry. This sector suffers from all the problems raised above, namely a low level of investments, the problems of restructuring and under-utilization of capacity, and the inappropriateness of piece-meal action. The need for coordination has been shown, as much between various national policies as between different sectoral or regional instruments. The Community has a special responsibility with regard to steel but, without pre-judging the means, the experience here could be relevant to other sectors.

Employment

61. In the fight against unemployment, the emphasis should be put on the re-establishment of healthy economic growth. However, in the absence of a sufficiently high rate of growth and in view of the difficulty for a quick restoration of full employment, various measures which could aid or stimulate employment more directly must not be excluded from consideration.
62. Meanwhile, "classical methods" of aiding employment must be continued and, where necessary, strengthened. These include :
- . improvement of job placement services and vocational guidance
 - . improvement of the transition from school to work
 - . improvement of vocational training facilities and the encouragement of retraining
 - . promotion of aids to support geographical and occupational mobility in the context of re-adjustment programmes.

Youth and Women

63. Member States clearly wish to be able to ensure that all young people are able to find a job appropriate to their abilities, but, as the Commission pointed out at the Standing Committee on Employment in December 1976, the present difficulties of the

young result principally from two factors. Firstly, poor employment conditions act particularly against new entrants to the labour market, and, secondly, there is a gap between the education and training provision and the requirements of the economy.

64. For this latter reason, the Commission places emphasis on the need for an adequate vocational preparation for young people, and it hopes that its recent Recommendation will result in the expansion of appropriate training opportunities.
65. Specific measures are also needed to provide jobs, however, and most Member States are trying to develop appropriate schemes despite the many practical problems.
66. A fundamental change is occurring in the Community towards an equal sharing of tasks and responsibilities between men and women. There is a need to improve job prospects for women in line with this. There is also the need to tackle discriminatory legislation and practices under the European Directive on Equal Treatment, and to ensure that efforts are maintained despite current employment difficulties.
67. Both areas require additional efforts at Community level. However, Community action is limited in scope and requires the full commitment of Member States and Social Partners if it is to bear fruit. It is on this basis that the Commission is preparing its suggestions to the European Council on these matters.

Inflation

68. A rapid reduction in inflation is unlikely to be achieved since the inflationary pressures already in the system will take time to work themselves out. Expectations of a lower rate of inflation can become self-fulfilling, however, if they result in a moderation of both nominal wage increases and monetary expansion. It is desirable that any new initiatives re-inforce this downward trend in inflation.
69. Inflationary pressures severely limit the extent to which measures financed by budget deficits can be used to stimulate aggregate spending. If inflation rates within the Community remain far apart, currency appreciations and depreciations are likely to continue. In the short run this poses problems for the Common Agricultural Policy, inter alia; in the longer run, it constitutes an obstacle to further economic and monetary integration. This re-inforce the argument for further efforts to reduce inflation.

Incomes, prices and related policies

70. Efforts should be maintained to keep the growth of money incomes and the level of prices in line with objective economic criteria, and with the monetary and fiscal policies being followed.

71. Action should be continued in order to promote workers' asset ownership and their participation in company decision-making. Increased profitability of enterprises should be reflected in the creation of additional employment, either directly by the recruitment of new labour or indirectly through additional investment which creates jobs in the same or other sectors.

Community financial instruments

72. Progress towards these targets could be advanced by a better utilization of the Community's financial instruments, namely the Social Fund, the Regional Fund, FEOGA, ECSC and the European Investment Bank.
73. The Commission is working for a better coordination of these instruments so as to maximize the contributions that Community money can make to raising the level of employment. This coordination implies not only a better use of limited financial resources, but the greater coordination and convergence of structural policies in the Community.
74. The use of these instruments should take greater account of the present difficulties and prospects. The Commission is concerned in particular that the Social and Regional Funds should aim at developing new jobs and activities, including aiding small and medium size firms, and the services which support them.
75. The proposals for the reform of the Social Fund which the Commission has presented go along these lines, notably by putting the accent on regional priorities and new actions. The same applies to the proposals to be presented soon for the Regional Fund. These put the emphasis on a more appropriate classification of regional priorities, on the diversification of beneficiaries, and forms of the interventions.
76. As a technique of intervention, particular importance should be attached to interest subsidies for these ensure that the capital committed is much in excess of the Community's resources. This technique is already used in the case of ECSC loans, and could be used also in the case of the Regional Fund.
77. In any case, an effect of the crisis has been to prevent the Community's budgetary revenue from growing sufficiently to meet all the calls on it. That is why the Commission is examining the possibility of increased Community financing by raising a loan. This could finance an intensification of structural policies without affecting either the rate of inflation or the size of the Community's budget. Such a policy could form part of a selective stimulus to investment.

CONCLUSIONS

91. Last June, the Conference Partners set themselves a series of targets on growth, inflation and employment. Major effects have been made towards their achievement, but progress has been limited. The economic situation over the past year has not been favourable - the upturn in activity since 1975 has been slow to develop and inflation and unemployment levels have remained high.
 92. The problems are more serious than they had seemed, but they can be solved. To do this, we must re-affirm our determination to overcome them, our willingness to seek and sustain the necessary consensus, and our ability to undertake the appropriate actions. We must seek to overcome our difficulties by the acceptance of change, and by the adoption of policies to facilitate change.
 93. The protectionist option is an illusion for the Community - it is not a way of protecting or expanding our standards of living.
 94. Where possible, countries should seek to stimulate demand without re-kindling inflation. Restraint on all incomes must continue, whilst higher levels of investment need to be urgently re-established. Employment policies must be strengthened and more direct actions considered. Priority must be given to tackling the problems of restructuring certain sectors or regions, and to the difficulties of certain groups of workers (especially young and women). In addition, special attention should be paid to the possibilities offered by small and medium sized firms. Above all, Governments and Social Partners must work to create an environment in which all parties are confident that an acceptance of change will bring benefits for all.
 95. The Community, for its part, will work for the maintenance of coherence in its internal and external policies particularly as concerns the effects on employment, and will pursue its efforts to relate Community actions to the most pressing needs.
 96. In addition, however, there are problems we face for which we have no clear answers. These are the open questions where we must seek the means by which we can discuss and resolve them.
 97. None of the parties present at the Conference hold alone the key to actions. Member States and the Community, employers and workers are, each in their own way, responsible for some of these instruments. By putting together these responsibilities, the Community can achieve the objectives of growth, stability and full employment.
 98. It is in this spirit that the Commission will be working before, during and after the Conference.
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