

FOR IMMEDIATE RELEASE**MARJOLIN FORECASTS 4.5 PER CENT INCREASE IN EEC GROSS PRODUCT FOR 1966**

WASHINGTON, D.C., January 18, 1966 --Robert Marjolin, Vice-President of the Commission of the European Economic Community, predicted today that the Community's gross product would increase by 4.5 per cent in 1966 as compared to a 4 per cent rise in 1965.

In his annual statement on the EEC's economic situation to the European Parliament in Strasbourg, France, Mr. Marjolin stressed that cooperation among the member states on a Community basis was necessary to slow down the rise of prices and costs which occurred in 1965 and to prevent a dangerous expansion of demand in those countries where an increase of economic activity is expected. Otherwise, he warned, the excellent prospects for future economic growth in the Community would be jeopardized.

Following is a summary of Mr. Marjolin's remarks.

EEC from 1958 to 1965

Mr. Marjolin pointed out that since 1958 the Community had achieved very rapid progress in production and an appreciable rise in living standards. Its gross product at current prices rose from about \$165 billion in 1958 to approximately \$305 billion in 1965 which, while allowing for the price rise, represents a considerable increase in volume of 44 per cent. Over the same period, the GNP increased about 35 per cent in the United States and 29 per cent in the United Kingdom.

One of the major factors behind this rapid expansion was the rise in productivity between 1960 and 1965 of about 4.5 per cent in Germany, France, and Italy and approximately 3 per cent in the Netherlands and Belgium with an increasing momentum in the latter country. No figures were yet available for Luxembourg.

The movement of workers to those sectors with the highest level of productivity was one of the chief causes of the productivity rise throughout the economy. According to the most recent estimates the working population in agriculture fell by 22 per cent between 1958 and 1965 whereas in industry and

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services it increased by 13 per cent and 15 per cent, respectively. The improvement of productivity in each branch of activity was related directly to the scope of capital investments for modernization.

If the rise of directly productive investment is too weak -- as was the case in France and, more recently, Italy - it could have grave consequences for long-term growth. It may be necessary to stimulate industrial investment in certain countries to maintain the advances in production and productivity which the Community has achieved since 1958. Such investment is one of the major problems necessitating a Community medium-term economic policy.

Private per capita consumption in the Community in 1965 was up one-third over 1958, an average annual increase of 4.2 per cent. This figure reflects a considerable rise in the standard of living over the past seven years. On the other hand, since ~~1958~~¹⁹⁶⁰ consumer prices have risen by 24 per cent in Italy, 20 per cent in the Netherlands, 19 per cent in France, 16 per cent in Germany and 15 per cent in Belgium. Mr. Marjolin pointed out that "although this development originated in the private sector of the economy...public finances in general have not contributed that element of balance needed by the economy which should normally be applied in the context of any short-term economic policy worthy of the name."

The lesson to be drawn from the price increases, Mr. Marjolin said, is the unavoidable necessity to pursue an effective anti-cyclical budget policy, accompanied by an appropriate monetary policy. Effective coordination of short term economic policies in the Community is necessary to prevent that inflationary effects transmitted from one country to another create an overall inflationary situation in the Community.

Economic Trends in 1965

The steep rise in prices which had taken place in the preceding years continued into 1965. In several Community countries the pace of the upward movement slowed somewhat and in France this trend was, as in 1964, distinctly slower than in previous years. But apart from this exception, the increase in the general level of prices became excessive throughout the Community. According to consumer price indices derived from national accounts, the year's increases were 4.5 per cent in the Netherlands and Italy, 4 per cent in Luxembourg, 3.5 per cent in Belgium and Germany, and 2.5 per cent in France. In Germany and the Netherlands, the main cause of price increases was the too rapid growth of overall demand in relation to the possibility of expanding production.

"It may be wondered, moreover," said Mr. Marjolin, "if in the past we have not underestimated the period during which increases in costs continue to influence

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selling prices, even when the general economic disequilibria have waned or even disappeared entirely. This reflection is prompted by the price situation in 1965 in countries other than the Federal Republic of Germany and the Netherlands, where the growth of demand slowed down or was in the main modest, leaving quite an appreciable margin of unused production resources. There is no doubt that in all these countries, except for some sectors perhaps, the increase in prices was due to higher costs. It is also interesting to note that among all the Community countries, the one where the campaign against an exaggerated expansion was begun the earliest - I refer to France - experienced the smallest increase in prices."

Outlook for 1966

Mr. Marjolin predicted that the countries which had already experienced a slowing of economic activity could expect a recovery or acceleration in 1966 and that this recovery has already begun in the majority of member states. In the Netherlands the rapid growth of production continues, owing to the firm trend of demand and to an appreciable increase in the working population. In Germany a less lively expansion of overall demand is expected, and in several branches of industry insufficient capacity will continue to act as a brake on production growth, particularly in the early months of the year.

The growth rate of GNP is expected to increase in France from 2.7 per cent last year to 4.5 per cent in 1966, in Italy from 3 to 4.5 per cent, in Belgium from 3 to 3.5 per cent, in the Netherlands from 5 to 5.5 per cent, and in Luxembourg from 1.5 to 2.5 per cent. A slight drop in GNP growth is predicted for Germany, from 5 per cent in 1965 to approximately 4 per cent this year. The overall gross product in the Community will rise 4.5 per cent in 1966 as compared to 4 per cent in 1965.

Mr. Marjolin said that economic recovery will probably not be accompanied by excessive price increases in those countries which underwent a slowdown in expansion last year and which have built up surplus production capacity. But this conclusion is by no means certain owing to the delayed action of inflation and to habits contracted in periods of inflation. In those countries where surplus capacities do not exist, the task of preventing large price increases will be more difficult. The extent of the inflation problem will depend upon the economic policies pursued by the member states in 1966 and upon the degree of cooperation they obtain from management and labor.

Economic Policy Problems in 1966

The foreseeable trend indicates that economic growth, employment, and the balance of payments will not be major problems in 1966. The main concern

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continues to be a return to price and cost stability or at least a decline in the rate of increases of recent years.

The imbalance between overall demand and domestic supply will probably persist in Germany and the Netherlands, and these countries will have to limit the expansion of demand by applying more restrictive budgetary and monetary policies, which they have already begun to some extent. In Belgium, the economic outlook depends on public expenditures, and the Belgian government has expressed its intent to hold down the increase in public spending and to limit expenditures to actual appropriations. Difficulties may occur, however, in financing the budgetary deficit. Increases in public expenditure in Luxembourg have been very rapid, and a severe reduction in spending or a sharp rise in revenues is desirable.

Budgetary policy in France corresponds to the present needs of the economy, but instruments of fiscal policy may be necessary to stimulate private capital spending if the recovery of investment remains inadequate. In addition, the retention of price controls is advisable, although Mr. Marjolin recommended the abolition of price freezing.

In Italy, the present policy of increasing public expenditures should be continued, within reasonable limits, and the structure of these expenditures should be changed. Whereas priority should be given to measures which directly or indirectly stimulate investments, actual planned authorizations for capital expenditures in 1966 are lower than in 1965, and planned appropriations for consumption and transfer expenditures in 1966 show a considerable increase.

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