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Report

drawn up on behalf of the Committee on Economic
and Monetary Affairs

on medium and long-term economic prospects in the
Community

Rapporteur: Mr R. DELOROZOY

PE 88.782/fin.
Or. Fr.

By letter of 1 February 1980, the Committee on Economic and Monetary Affairs requested authorization to draw up a report on medium and long-term economic prospects in the Community.

By letter of 26 November 1980, the committee was authorized to report on this subject. The Committee on Regional Policy and Regional Planning and the Committee on Social Affairs and Employment were asked for opinions but decided not to do so.

On 25 November 1980, the Committee on Economic and Monetary Affairs appointed Mr DELOROZOY rapporteur.

On 16 June 1982, the motion for a resolution on the impact of relations with the Third World on the economy of the Community (Doc. 1-366/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Development and Cooperation and the Committee on External Economic Relations for opinions. The Committee on External Economic Relations decided not to deliver an opinion on the matter. On 22 September 1982, the Committee on Economic and Monetary Affairs decided to include the motion in the own-initiative report.

On 11 October 1982, the motion for a resolution on the urgent need to adopt a Community industrial policy (Doc. 1-633/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Social Affairs and Employment for an opinion. The Committee on Social Affairs and Employment decided not to deliver an opinion on the matter.

On 13 January 1983, the motion for a resolution on a study of the growth of demand in the 1980s both within the Community and worldwide (Doc. 1-1127/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Development and Cooperation and the Committee on External Economic Relations for opinions. The Committee on External Economic Relations decided not to deliver an opinion on the matter. On 25 January 1983, the Committee on Economic and Monetary Affairs decided to include the motion for a resolution as a whole.

The following took part in the vote: Mr MOREAU, chairman; Mr DELOROZOY, rapporteur; Mr BEAZLEY, Mr von BISMARCK, Mrs DESQUCHES, Mr FRANZ, Mr HERMAN, Mr LEONARDI, Mr NORDMANN, Mrs THEOBALD-PAOLI, Mr RQGALLA and Mr WELSH.

The opinion of the Committee on Development and Cooperation is attached.

This report was submitted on 27 February 1984.

The deadline for tabling amendments to this report is indicated in the draft agenda for the sitting at which it will be debated.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on medium and long-term economic prospects in the Community

The European Parliament,

- A. having regard to the many important papers, studies and reports on various aspects of the economic crisis which have been produced in recent years by, inter alia, the OECD, the IMF, the World Bank and the Commission of the Communities,
- B. having regard to the various reports on the short or medium-term economic situation, financial and sectoral problems, the internal market and the employment situation, which Parliament has adopted in the course of its present term,
- C. having regard to the report by Mr ALBERT and Mr BALL entitled 'Towards European Economic Recovery in the 1980s' and the work in hand in the Special Committee on European Economic Recovery,
- D. having regard to the motion for a resolution on the impact of relations with the Third World on the economy of the Community (1),
- E. having regard to the motion for a resolution on the urgent need to adopt a Community industrial policy (2),
- F. having regard to the motion for a resolution on a study of the growth of demand in the 1980s both within the Community and worldwide (3),
- G. having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Development and Cooperation (Doc. 1-1490/83),

(1) Doc. 1-366/82

(2) Doc. 1-633/82

(3) Doc. 1-1127/82

1. Notes that the many studies now available clearly show that the world economic crisis affecting most of the industrialized countries and the Community in particular has arisen primarily from the growing inability of economic and social structures to adapt to future needs;
2. Points out that, notwithstanding changes in production capacities and far-reaching changes both in the situation of individual countries and in the industrialized countries' relations with each other and with the Third World, economic, social, cultural, psychological and even political structures have failed to evolve in a satisfactory manner, particularly in the Community;
3. Considers that the need to adapt to economic and technological change is often misunderstood and poorly acknowledged, as a result of a failure to provide all sections of the community with adequate information and training and a deficiency in the educational system;

Notes that much of the blame for this lies with the governments and the social partners, who have all too often misjudged future requirements and the scope for Community action;

4. Notes that, despite the repeated recommendations of Parliament and the action taken by the Commission, the Council of Ministers and the European Councils have usually been content to issue declarations of intent, being incapable of properly implementing measures to advance the work of the Community;
5. Believes that, in view of the work now in progress within the Special Committee on European Economic Recovery and of the numerous reports of the European Parliament which have already been adopted, it should confine itself here to a number of observations on currently discernible trends, the inescapable difficulties associated with present economic developments and likely prospects;

- Trends

6. Notes that the recovery of growth in the United States has been stronger than experts anticipated, notwithstanding the unprecedented size of American budget, balance of payments and trade balance deficits and the movement of the dollar;

7. Stresses that the economic recovery is now apparent in most Community countries to varying degrees, depending on how well the conditions for tighter control over their economic balances (inflation, budget deficits, growth of the money supply, etc.) are being met;
8. Points out that the reduction of unemployment remains a priority objective, but that it cannot possibly be achieved unless the revival lasts longer, and is more extensive, than current forecasts suggest. Among the conditions necessary to achieve this end, mention should be made of the need for greater competitiveness, innovation and technological initiative, the long-term solution of energy problems, the resumption of productive investment and a new awareness of both sides of industry of economic and social realities;
9. Stresses that:
 - instead of adopting an inward-looking stance, the Community should grasp the opportunity afforded by the changes in the international division of labour;
 - the scale of economic growth in the Community in the 1980s will depend on its ability to adapt and stand up to increased international competition without resorting to protectionism;
10. Also stresses that such a radical transformation of the European economy as is required will call for changes and adjustments - on which consultations will be essential - in matters such as social security conditions and contributions, the adjustment of working hours and vocational training;

- Difficulties

11. Reaffirms that, while differences of approach are not to be ruled out, it is essential for the Member States to seek a long-term Community solution to the energy problems, bearing in mind that the availability of supplies cannot be guaranteed and that price trends between now and 1990 are unpredictable;

12. Stresses that the central objectives of the common agricultural policy must be to strengthen the export mechanisms and to reduce the dependence on external supplies, especially of certain agri-foodstuffs or tropical products;
13. Reaffirms that the Community's first duty is to unify its internal market by rapidly eliminating technical and administrative barriers to trade, frontier formalities and fiscal obstacles, and to help undertakings to become integrated into a Community legal, fiscal, social, monetary and financial environment which is conducive to their development;
14. Points out that, under the existing economic and social conditions, it is essential for the Community to open up its market to the fullest possible extent and without further delay and to promote innovation, creativity and competition, on condition that Community preference is developed on that market;
15. Points out that it is imperative for the economic recovery of the Community for the initial work on financial and monetary integration, which is essential to the stability of the market and hence to the revival of investment, to be pursued with determination;

With that in mind, stresses the need for the Community progressively to consolidate the EMS by using the existing mechanisms to encourage the private and public use of the ECU. The ECU should become a Community currency for use between the member countries and, subsequently, in dealings with third countries;

Also stresses the need for simultaneous action aimed at closer coordination of the Member States' economic, monetary and budgetary policies, without which the EMS will be nothing more than an instrument for recording exchange fluctuations, powerless to help bring about greater economic convergence and to establish a monetary stability zone, which is essential for the reconstruction of the international monetary system;

16. Stresses, finally, in view of the rapid pace of current change, the intensity of international competition, the diversity of the strategies adopted, the widening discrepancies in economic growth and the prospect of further enlargement, the need to adopt new and more effective procedures at the institutional level, so that the Commission's scope for making proposals, the decision-taking power of the Council and the role of the European Parliament can be more clearly affirmed than they are today;

- Prospects

17. Is aware, having identified the broad trends and the difficulties to be faced, that the making of medium and long-term forecasts has, in view of the countless variables to be considered and the possibility of events taking an entirely unexpected course, today become a very complex and hazardous task;

18. Considers it essential, however, to take due account of the results of the economic projections so far made as part of the Commission's medium-term planning operations;

Approves, in this respect, the Commission's proposal to equip itself with more effective analytical instruments incorporating new criteria, prior to drawing up the sixth medium-term programme;

19. Reaffirms that the Commission's medium-term planning must not simply be a forecasting exercise; as the Commission demonstrated in the fifth programme, it must also constitute a political act which, once it has been approved by the Council, commits the Community to exercising better control over economic developments and to deploying all the means at its disposal;

20. In view of the obvious disparities in the economic growth rates of the Member States and the differences of approach - a permanent feature of the history of all societies - questions the validity of a systematic attempt to achieve total harmonization, an objective which all too often leads to paralysis and a plethora of rules and regulations;

21. Considers that the next few years will be decisive in determining the future of the EEC:

- its need to be able to meet the challenges of the future will compel the Community, in the absence of total convergence, to seek to take majority decisions;
- a new vitality on the part of Europe will mean restoring a climate of confidence, reducing the excessive bureaucracy that stifles initiative and reviving a willingness to take risks and accept responsibility;
- European economic recovery will not be real and durable until the governments and social partners have accepted the need for Community procedures and new strategies, taking account of the constraints forced upon Europe by international competition;

22. Instructs its President to forward this resolution to the Council and Commission and to the governments of the Member States.

EXPLANATORY STATEMENT

1. Do we need a report by the European Parliament on the medium-term economic prospects for Europe, for 1984-1990?

In a period of rapid change, where short-term forecasts are frequently proved wrong, can a credible longer-term projection be drawn up?

2. The author of this report does not feel bound to answer these questions, which he of course asked himself, before attempting to provide food for thought in a style differing from that of past reports with their emphasis on figures.

3. We must first bear in mind the wealth of major work that has been carried out in recent years in the form of studies, research and reports by various economic research bodies. To quote only a few, there have been the OECD, the European Monetary Fund, the World Bank and the Commission of the European Communities, not forgetting the work of the European Parliament and the report of Messrs ALBERT and BALL on economic recovery in the 1980s.

4. These expert papers have contributed a wealth of analysis of the causes of the decline in economic growth in most industrialized countries and especially in the EEC. Their opinions concur that the crisis is worldwide, that it has hit Europe hard and the damage has gone deep, and, moreover, that this crisis, far from being the result of a cyclical economic downturn, is more of a structural crisis, a crisis of economic, social and even political structures which are proving less and less able to cope with the future.

The crisis has arrived after 25 years of economic growth during which there has been radical political change on a world scale, a shift in the international division of labour involving a redistribution of production capacity, and a transformation of the situations and relations between the industrialized countries, and between the latter and the countries of the Third World.

5. Scientific, technical and technological progress has brought more change to man and his surroundings over the last 25 years than there has been for centuries, while existing structures have remained excessively rigid; none of these changes, which have been of unprecedented extent and speed, have been understood or accepted by the majority of people for lack of adequate information at all levels of society.
6. In most countries the education system has failed to adapt itself quickly enough to changing cultural and educational needs, to help bring awareness of the need for change and change attitudes to cope with new problems.
7. We must also realize that development differs widely from one country to another and from one part of the world to another, by virtue of the differing strategies countries have adopted to produce simultaneous change in all aspects of life, consumption, habitat, cities, etc., and to take account of new social and cultural phenomena. Budgetary, fiscal and financial policies vary, as do economic and social options.
8. Our governments in Europe share the responsibility for this situation for, as Michel ALBERT put it, 'many governments are tempted to have people believe that in order to improve the economic situation of a country it is necessary to rely on them and to mistrust everything that comes from abroad,' while in fact what should be done is to persuade the people of Europe of the efficiency the EEC can create by pooling efforts and applying the EEC multiplier effect to our resources. To be fair we should add that the two sides of industry have done equally little to encourage a change of heart.
9. In this climate of crisis, in which public attitudes are often oblivious of the future, the European Parliament, throughout its present term, has pressed on with its work of analysing developments in the economic situation and making proposals.
10. For the most part it has done so on the basis of documents submitted for its consideration by the Commission or on the initiative of individual Members, in particular under the aegis of its Committee on Economic and Monetary Affairs:

(a) -Economic situation

- von BISMARCK report on the economic development of the Community in the first half of 1980 and the implementation of the Council's decision on convergence (Doc. 1-288/80)
- DELOROZOY report on the adoption of the annual report on the economic situation in the Community and laying down the economic policy guidelines for 1982 (Doc. 1-681/81)
- HERMAN report on the 5th medium-term economic policy programme (Doc. 1-687/81)
- DELOROZOY report on economic trends in the Community during the first half of 1982 and the application of the Council decision on convergence (Doc. 1-421/82)
- RUFFOLO report on the adoption of the annual report on the economic situation in the Community and establishing economic policy guidelines for 1983 (Doc. 1-822/82)
- BONACCINI report on economic trends in the Community during the first half of 1983 and the application of the Council decision on convergence (Doc. 1-474/83)

(b) Financial problems

- RUFFOLO report on the EMS as an aspect of the international monetary system (Doc. 1-63/80)
- RHYS WILLIAMS report on the creation of a European capital market (PE 86.131)¹
- DESOUCHES report on investment policy (PE 86.682)¹

¹ Report adopted by the Committee on Economic and Monetary Affairs, but not yet by Parliament in plenary

- HALLIGAN report on financial integration (PE 86.720)¹
- HERMAN report on the EMS (PE 87.798)¹
- HOPPER report on the international financial institutions (PE 87.989)¹

(c) Sectoral policy

- NICHOLSON/FORSTER report on Community aid for restructuring or conversion investments in the shipbuilding and man-made fibres industry (Doc. 1-623/79)
- BONACCINI report on the European automobile industry (Doc. 1-673/80)
- LEONARDI report on the Commission proposal on microelectronic technology (Doc. 1-137/81)
- DELOROZOY report on industrial cooperation between the Member States (Doc. 1-157/81)
- FRIEDRICH report on restructuring policy for the steel industry (Doc. 1-167/81)
- LEONARDI report on the competitiveness of Community industry (Doc. 1-1335/82)¹
- BEAZLEY report on the European petrochemical industry (Doc. 1-1108/83)¹
- WAGNER report on combating the crisis in the European steel industry (Doc. 1-238/83)

(d) Internal market

- von WOGAU report on the 1981 programme for the achievement of the customs union (Doc. 1-241/81)
- von WOGAU report on the 1982 programme for the achievement of the customs union (Doc. 1-642/82)
- MOREAU and von WOGAU report on the achievement of a real internal market (PE 88.472)

¹ Report adopted by the Committee on Economic and Monetary Affairs, but not yet by Parliament in plenary

(e) Employment

- CERAVOLO report on the reduction of working time (Doc. 1-71/83)
- SALISCH report on unemployment among young people (Doc. 1-86/83)
- PAPAEFSTRATIOU report on the employment situation in the European Community (Doc. 1-87/83)

11. We have to be fair to the Commission; it has gone on trying to obtain decisions from Councils of Ministers and special Councils, from Councils of governments to Summits of heads of State, under the successive six-monthly presidencies, to move ahead with Community action, but without sufficient success or clarity of purpose. There is still a wide gap between declarations of intent at the conclusion of Council or Summit meetings and the behaviour of governments and authorities in the Member States.

12. Over a number of months in 1983 the figures, arguments and priorities were given a further airing at the preparatory meetings for the Athens Summit in December. We know the outcome, and the small hope of change in the near future despite the urgency of the matter.

13. Then why go over the ground covered in existing reports in an attempt to outline the prospects for development in the EEC for 1980 - 1990, especially as they will probably be repeated in the work of the special committee on European economic recovery?

14. At present, growth seems to have resumed at a higher rate in the US than the OECD experts expected, and is occurring in most EEC countries to various degrees, according to whether the Member States by their policies have managed to achieve better control over inflation and their budgetary and monetary deficits and prepare themselves for recovery.

15. Unfortunately, trends in the labour market are still a source of concern. They provide confirmation, if confirmation were needed, of the amount at stake for the EEC, with which its organs are familiar, and which has been set out in working documents and expert papers drawn up by the Commission, such as the draft fifth medium-term economic policy programme of September 1981.

16. One of the prime needs is for long-term mastery of energy problems where, taking into account the uncertainties of the times, a strategy requires the coordination of national energy policies. However, we should not rule out all diversity of approach to the problem by the various Member States, on the basis of their natural resources and existing investment, which their partners should no longer ignore.
17. In view of the geographical imbalance of energy sources and the strong probability of a substantial rise in prices between 1984 and 1990, the security of supply of raw materials is a problem to be approached at Community level and in dialogue with the producer countries.
18. The Community is one of the world's largest agricultural producers, self-sufficient in most essential basic products and even exporting some, but is also the largest importer of certain agri-foodstuffs; it is also dependent on the outside world for other types of tropical product (tea, coffee, cocoa, fruit, vegetable oils and fats) and certain commodities in which home production is inadequate to meet its needs, such as timber, leather and skins. If the EEC wishes to retain its share of the world market, it must reorganize itself, strengthen the export machinery of the CAP and exercise better control over imports.
19. Over the next few years the realignment of international economic and monetary relations is bound to impose constraints, the extent of which needs to be assessed, together with the possibility of new trade outlets. This realistic approach to the future would justify a review of certain agreements such as the GATT, and the Lomé agreements, which should also take into account the vital interests of the new Europe and the development of markets.
20. The increasing industrialization of the countries of Eastern Europe, the Middle East and the Third World will undoubtedly continue and accelerate, aided by the other industrialized countries which, in a climate of relatively free trade, will find new outlets, as well as ways of intensifying competition by setting up production units there.
21. This trend will accelerate change in the international division of labour and will affect the competitiveness of the industrialized countries. In this harsher competitive climate, greater importance could accrue to the more

technology-intensive industries. This would offer the EEC an opportunity if its industries succeeded in moving into sophisticated technology on a wide scale (robotics, computerization, miniaturization). Advanced technology of this kind should improve working conditions. Production lines and lack of training are still features of our industrial methods; in future the aim should be to tailor jobs more to the individual worker, making the best use of his know-how, hence the urgent need for thorough and specific forms of training so that we may play a part in this foreseeable development.

22. The Community is particularly affected by developments in its international environment over the next ten years, not only because of the needs of its own market and its dependence on the outside world for inputs and outlets, but also because of monetary and financial influences on the economies of its Member States.

23. Its potential for economic growth in the eighties will depend largely on its ability to adapt to fierce international competition without recourse to protectionism, and to take the new opportunities offered by change in the international division of labour.

24. Production will, however, have to be increasingly efficient; action by the Commission will have to give priority to developing Community legal, fiscal, social, monetary and financial facilities for cooperation between undertakings, and technical standards. These schemes should take into account the specific problems facing the SMUs.

25. Europe is still a huge market, in which Community preference can and should prevail, but international competition in the eighties will make the achievements of this goal dependent on each Member State's willingness to open up its domestic market, with no restrictions and no vestiges of protectionist policies, however disguised. But it will not be enough to eliminate protectionism. The Community market must also be intensified by the introduction of new products; stimulation and creativity are lasting requirements for a dynamic economy and society. A unified European market will then genuinely emerge. Technical, administrative, legal and fiscal obstacles and barriers to the free movement of capital must be removed as soon as possible, as present economic and social circumstances no longer allow long transitional periods.

26. There must also be greater international monetary stability, to be achieved by the development of the European Monetary System.

27. On this point, Parliament is convinced of the need to widen the EMS and to encourage the use of the ECU as a currency, first between Member States and then in dealings with other countries, but realizes the difficulties of doing so while the Member States still put up with monetary and financial imbalances, which encourage inflation and weaken the EMS through excessively frequent realignment of rates.

28. At this point, where we are considering and putting forward priorities for action, with which all concerned are perfectly familiar, it is still difficult to forecast what will happen between now and 1990. Of course we could always set out three possible scenarios, high, medium and low, but the time is past when, with existing statistical data, it was enough to make tangential projections to forecast the probable course of events without too much risk of error. Today there are too many parameters, too many totally unforeseeable international events affecting Europe, hidden from us but capable of completely falsifying our forecasts.

29. The Community has implemented five-year medium-term economic policy programmes since 1966. A comparison between projections and results reveals very substantial discrepancies in each of the first four programmes - amounting in some cases to as much as 100%. Moreover, owing primarily to an overestimation of the rate of growth of investment and employment, major corrections have to be made to the projections of the fifth medium-term (1981-1985) programme, which is now being implemented.(1)

These errors in the Community's medium-term programmes do not, however, detract from the usefulness of the exercise. There can be no doubt that the uncertainty which invariably characterizes economic forecasting has been made worse by the extreme unpredictability of international trends in recent years; the same holds true for the behaviour and expectations of economic operators within the Community itself.

The Commission should therefore be given every encouragement in its endeavours to further improve its forecasting methods, and it should also be encouraged to use new parameters, especially in the monetary sphere.

(1) See tables annexed hereto

The failure of medium-term planning in the Community is attributable not only to the inherent shortcomings of the forecasting models and mechanisms used, but also to the inability of the Member States' governments to implement their policies in the light of their own estimates and to apply the Commission's recommendations in a coordinated fashion. This is why it is essential for the Community to accept - as it has already begun to do so since the launching of the fifth programme - that it must not in future deviate from the medium-term planning targets which it has set itself. In other words, the medium-term programme must cease to be an exercise in forward planning which is invariably invalidated by actual developments.

Bearing in mind this requirement, and with the customary reservations, the following estimates are suggested for the period 1986-1990(1):

- rate of growth in the Community around 2.8%;
- inflation down to 5%;
- rate of unemployment 9%;
- budget deficits down from - 3.4% to - 2.5%;
- a slight surplus on the balance of current payments(2).

30. Another cause of uncertainty is that, after a severe world crisis such as we have just experienced, it is not unthinkable that Europe might embark on a process of change, in one of two directions:

31. The recovery in the USA is stronger than was thought likely a few months ago. It seems to be having a more pronounced effect on Europe than forecast. If most of the EEC countries at last put together some of the priority requirements for their economic recovery then, without expecting growth rates as high as in the 60s, they might achieve rates higher than those being forecast at present.

(1) These estimates are an extrapolation on the COMET projections - annual world macroeconomic model used by the Commission (see European Economic Review No. 9, June 1981, p. 176)

(2) See annex

32. On the other hand, if the larger EEC countries cannot respond to a recovery in the rest of the world with the ability to compete and to play an active part in international trade, Europe could plunge into a lasting and especially serious recession.

33. Hypotheses of this nature, which are perfectly possible, compel us to wonder once again whether, in view of its chronic inability to take the necessary strategic decisions, there should not be a reform of the way in which the EEC conducts its common policies.

34. The internal disparities between the economies of the best- and worst-placed Member States are greater now than they were during the first ten years of the Community's existence.

35. The difference in the Member States' ability to adapt is greater than in the past; the achievements of some only serve to accentuate the size of the difficulties facing others. Not for a long time will the ten, and one day the twelve, members of the EEC be in complete harmony, with a sufficient degree of convergence and near-uniformity in the fiscal, economic, monetary, social and administrative fields.

36. But is this as vital as it is so often claimed to be?

Today's Europe has been created with constant disparities through transitional periods that have been allowed to become permanent and affect nearly all new arrangements. However, everyone has benefited from progress made, while systematic efforts to achieve greater convergence are now pushing us further and further away from cooperation. 1984 will be a key period for the EEC's future in relation to the rest of the world.

37. The abuse of the need for unanimity (Luxembourg compromise) on many decisions is now an intolerable obstacle against which Parliament must vigorously protest. Community solidarity must be possible without being confused with a drive for harmonization demanding impossible degrees of uniformity.