

European Communities

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## Report

drawn up on behalf of the Temporary Special Committee  
on European Economic Recovery

on the 'PLAN FOR EUROPEAN ECONOMIC RECOVERY'

Rapporteur: Mr F. HERMAN

Part A : Motion for a resolution  
and 'Plan for European Economic Recovery'

PE 88.794/fin./A  
Or.Fr.



Following the submission to the European Parliament of the report drawn up by Mr M. Albert and Professor R.J. Ball entitled 'Towards European Economic Recovery in the 1980s', Parliament decided on 15 September 1983 to create a temporary special committee of 42 members to draw up a report on European Economic Recovery.

This committee held its constituent meeting on 26 October 1983 and elected Mr J. Moreau chairman, Mr Deleau vice-chairman and Mr Herman rapporteur.

The committee met on 26 October 1983, 16 November 1983, 14 and 15 December 1983, 17 January 1984, 25 and 26 January 1984, 30 and 31 January 1984, 15 and 16 February 1984, 20 and 21 February 1984 and 29 February and 1 March 1984.

On 1 March 1984 the committee adopted the draft report as a whole by 19 votes to 11 with 4 abstentions.

The following took part in the vote: Mr Jacques Moreau, chairman, Mr Herman, rapporteur, Mr von Bismarck, Mr Blaney (deputizing for Mr Gendebien), Mr Bonaccini, Mr Brok, Sir Fred Catherwood, Mr Chanterie, Mr Dalsass, Mr De Gucht, Mrs Desouches, Mr Giavazzi, Mr Glinne, Mrs Gredal (deputizing for Mr Dido), Mr Halligan, Mrs van den Heuvel (deputizing for Mr Heinemann), Mr Hutton, Mr Jonker, Mr Lezzi, Mrs Nielsen, Mr Papantoniou, Mr Petersen (deputizing for Mr Linkohr), Mr Pflimlin, Mr Prout, Mr Radoux, Mr Rogalla, Mr Konrad Schön (deputizing for Mrs Walz), Mr Sherlock (deputizing for Mr Curry), Mr Simmonds (deputizing for Mr Patterson), Mr Stella (deputizing for Mrs Cassanmagnago Cerretti), Mrs Theobald-Paoli, Mr Van Rompuy, Mr Vernimmen and Mr Welsh.

The technical notes on the 'Programme for European Economic Recovery' form an annex to Part A and are published separately, as is the Explanatory Statement (Part B).

This report was tabled on 9 March 1984.

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

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Annex to Part A : Technical notes (separate document)

Part B : Explanatory Statement (separate document)

A

The Temporary Special Committee on European Economic Recovery hereby submits to the European Parliament the following motion for a resolution and the attached 'Programme for European Economic Recovery';

MOTION FOR A RESOLUTION

on a programme for European economic recovery

The European Parliament,

- having regard to the report submitted to the European Parliament by Mr M. Albert and Professor R. J. Ball entitled 'Towards European Economic Recovery in the 1980s', whose analyses and diagnosis it fully endorses,
- having regard to the report of the Temporary Special Committee on European Economic Recovery (Doc. 1-1552/83 ),
- whereas, because of its duration and magnitude, the crisis affecting the economies of the Community Member States is of exceptional severity and is exacerbated by persistent structural disequilibria,
- aware that the effects of this crisis on the employment situation and standards of living seriously threaten to disrupt both the social consensus within the Member States and their economic solidarity, the consequences of which would be disastrous for the survival of our democratic systems,
- convinced of the necessity and feasibility of coping with this crisis by means of a rapid, vigorous and collective programme of recovery, conducted jointly by the Community and the Member States,

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1. Notes that, shaken by the collapse of the international monetary system (Bretton Woods) and two consecutive oil crises, the governments of the Member States, which were already striving to correct various domestic monetary and budgetary imbalances, responded in an uncoordinated fashion and, sacrificing the future to the present, failed to make the adjustments needed to sustain growth and employment at the right time. Despite zero growth, purchasing power continued to rise and social welfare provisions were extended and improved. For a time these could be financed from the fall in profits, taxation, borrowing and inflation, in varying proportions depending on the time and the country concerned. In this way, the governments left the way open for three of the main underlying causes of sustained economic decline to become established, namely:

- the decline in the competitiveness of undertakings, resulting in particular from the rigidity of wage costs, high financial and fiscal costs and inadequate research and innovation,
- the slowdown in productive investments, particularly in the new technology sectors, and
- the substantial size of public finance deficits, resulting in particular from the need to compensate the rising numbers of the unemployed and from the cost of a high level of social welfare benefits available to all;

2. Further notes that, instead of seeking a multiplier effect for their action at European level, the governments have given precedence to the application of national policies and instruments. Increased support for the sectors in difficulty, the tightening of frontier controls and greater protection for the national public markets have gradually whittled away the advantages afforded by the common market in terms of specialization, economies of scale and the optimum allocation of the factors of production. Together with the instability of exchange rates and the fragmented nature of research, these policies have been a major obstacle to the expansion of the new technologies and have discouraged investment by European undertakings in the growth sectors;

3. Points out that the national policies pursued - without sufficient coordination - with a view to reducing unemployment have failed to improve employment prospects. Expansionist policies aimed at reviving demand have not produced the results hoped for. Monetary stability and sounder budgetary policies have redressed some macroeconomic balances and thereby restored the conditions necessary for a measure of growth - but they have not yet had the effect of cutting back unemployment;
4. Notes that these divergent national policies have in part cancelled each other out. Furthermore, they have impeded the economic, monetary and financial integration of Europe, increased its dependence and its vulnerability to external shocks, hindered efforts to adjust to the new international context and compromised our chances of realizing the enormous assets of an economic and industrial area comprising 270 million inhabitants, with a GNP of 2,500,000 million ECU and commanding 20% of world trade;
5. Believes that policies for reviving demand cannot have any lasting impact so long as the structural obstructive factors - a high rate of inflation, the compartmentalization of the markets, the instability of exchange rates, loss of ground in technological development, high taxation, the rigidities of the labour market and the capital market, the high cost of social welfare provisions and the over-indebtedness of the public authorities - have not been removed or attenuated.
6. Considers that the recent improvement in economic performance and the strong American recovery now taking place will not alone suffice to restore lasting buoyant growth in Europe and to arrest its relative economic decline; that Europe is not in a position to pursue a policy similar to that of the United States, whose external difficulties, especially with its balance of payments, are proportionately less as the dollar, in the absence of any substitute, continues to consolidate its position as a world currency; that, even if it were able to do so, Europe should not adopt a policy which pays such scant regard to its external repercussions and is based on such extravagant disequilibria;



7. Believes that growth will not by itself resolve the problem of unemployment within a reasonable time span unless rates which cannot reasonably be expected in the present circumstances are achieved; that, in consequence, there will be a need for accompanying measures to permit more flexible work arrangements: flexible planning of working hours, a reduction in the number of hours worked, provided that this does not increase production costs, more vocational training facilities, retraining of workers, and an easing of recruitment and dismissal procedures, etc;
8. Takes the view that the results achieved by certain foreign countries in the fight against unemployment tend to show that the employment problem is not insoluble; that a bold policy of recovery - provided that it is clearly explained and wins general public approval - would not only maintain but raise the level of employment; that there is, however, no miraculous, swift and painless remedy for the employment crisis: only a package of rigorous, lasting and unspectacular measures, directed to achieving the same end and doggedly applied, can lead us onto the road to recovery;
9. Believes that the success of any joint effort aimed at reinforcing economic strength in the medium and long terms will essentially depend on the extent to which, on each occasion, a social consensus on the steps to be taken can be achieved; and that it is therefore of great importance that the Council adopt Parliament's recommendations relating to encouraging cooperation between management and labour and increased worker shareholdings in the capital of their undertakings;
10. Considers that a suitable programme of economic recovery could immediately be prepared on the basis of the countless studies and proposals submitted, and that the relevant powers provided for by the EEC Treaty would enable it to be implemented with all due speed; notes, however, that the present deadlock within the Council prevents it from undertaking a task of this kind;

11. Is acutely aware that if a policy of economic recovery is to succeed, the ability of the European institutions - and particularly the Council of Ministers - to take decisions must be restored or strengthened along the lines recommended by Parliament in its draft Treaty establishing the European Union;
12. Takes upon itself the task of proposing to the Council a 'Plan for European Economic Recovery', which is attached to this resolution and which envisages:
  - (a) the rapid implementation of a series of Community measures designed to ensure decisive progress in opening up and making optimum use of the European economic area and to give an initial boost to the recovery of productive investment, leading on to action to stimulate real demand backed up by an easing of the burden of taxation,
  - (b) the launching of a concerted and coordinated medium-term action programme covering the budgetary, monetary and incomes policies of the Member States and aimed at encouraging a lasting and non-inflationary recovery founded on the restoration of the main macro economic balances and on the dynamism of the European economy,
  - (c) the adoption by the Community and the Member States of a package of accompanying measures designed to ensure that the recovery programme has a lasting impact, and
  - (d) the elaboration of several programmes for international cooperation both with the industrialized countries and with the developing countries;
13. Instructs its President to submit this 'Programme for European Economic Recovery' to the European Council and to negotiate with it, in the context of the Stuttgart declaration on relations with the European Parliament, the measures needed to promote its implementation, thereby enabling it to discharge an historical responsibility, the political endorsement of which will be given by the citizens of Europe themselves during the June 1984 elections;
14. Also instructs its President to ensure that sufficient copies of this report are distributed to the national parliaments, the mass media and the public at large.

## PROGRAMME FOR EUROPEAN ECONOMIC RECOVERY

### Introduction

1. The Institutions and the Member States of the Community hereby adopt this 'Programme for European Economic Recovery', which consists of a series of interdependent short and medium-term measures, to be implemented at both Community and national level and subsequently extended on the basis of appropriate international consultations.
  
2. The purpose of this programme is to initiate and follow through, by a joint and concerted effort, a lasting recovery of the European economy so that, while taking advantage of the recent upturn of the world economy, Europe is genuinely able to exploit its economic potential to the full.
  
3. The measures to be adopted hinge on the following four broad objectives:
  - (a) the strengthening of certain Community policies, with particular emphasis on action to revive productive investment,
  
  - (b) implementation by the Member States of a joint short and medium-term economic action programme,
  
  - (c) the adoption, by the Community and the Member States, of various accompanying measures, and
  
  - (d) the elaboration of several international cooperation schemes (1).

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(1) An explanation of the measures to be adopted, together with the appropriate technical references, are to be found in the annex to this Plan.

## I. STRENGTHENING COMMUNITY MEASURES

### Consolidation of the internal market

4. The establishment of a customs union has not entirely decompartmentalized the national markets. Countless non-tariff barriers continue to be an impediment to the free movement of goods and the freedom to provide services.

Energetic steps will have to be taken to harmonize technical standards and regulations, simplify and progressively abolish intra-Community frontier controls, gradually remove the restrictions on the provision of services (insurance, road and air transport), establish a Community trade marks law, create a European standards association, and concentrate in each sector on the most acceptable existing national standards, open up the public markets (particularly in the telecommunications, energy, space technology and defence equipment sectors), and strengthen competition policy, partly by means of tighter controls over state aid, but also by adapting the policy to the new requirements of industrial cooperation.

Parliament demands that priority should be given to a five-year programme for the elimination of technical barriers and frontier controls.

### Integration of the capital markets

5. The Community's enormous saving capacity (approximately 400,000 million ECU), which outstrips that of the United States, is not entirely exploited for the benefit of European productive investment.

A sizeable proportion of these savings is used to finance the Eurocurrency markets and is invested elsewhere than in Europe. A larger share should be channelled into productive investment, particularly in the form of risk capital.

Measures aimed at integrating the capital markets should:

- abolish the restrictions on European residents in respect of purchases, sales, mortgage transactions and, in general, any other transaction involving financial assets denominated in ECUs,



The progress made in bringing national monetary policies closer together and the spectacular growth in the private use of the ECU fully justify, and even necessitate, a strengthening of the EMS. In this context, it is essential that the United Kingdom join the exchange rate mechanism of the EMS as soon as possible.

The European Parliament calls for rapid adoption by the Council of the Commission's proposals on the need to strengthen the exchange mechanisms and on the creation, acceptability and convertibility of the ECU, such as they were taken up and amended by Parliament (see Herman report, PE 87.798).

Mobilizing Community resources in favour of priority policies

7. In addition to the resources made available by a better integration of the capital market, the Community's financial and budgetary instruments must be deployed in the following manner:

- (a) The Community budget must gradually be made to provide more effective support for the achievement of industrial, energy, transport, research, development and regional policy objectives and, in general, for the promotion of productive investment.

To the extent that the overall burden of taxation is not affected, the Community's own resources must be increased by stages and to a considerable degree.

- (b) In order to stimulate recovery without placing an intolerable strain on the national budgets or increasing their indebtedness, lending by the Community should be raised to 20,000 million ECU over three years. Priority should be given to financing productive investment in the energy sector, advanced technologies, the small and medium-sized undertakings, including cooperatives, and telecommunications and transport infrastructures. With a view to extending and diversifying its operations, the European Investment Bank should expand its grouped loan operations in collaboration with the national credit institutions and progressively engage in the supply of risk capital by acquiring a minority and temporary interest in undertakings. In view of the high

level of interest rates, more emphasis should be placed on the subsidization of credit charges in the priority sectors specified in this plan; subsidies should be allocated in accordance with the procedures already tested with ECSC loans.

To enable the citizens of Europe to contribute directly to the recovery effort and to increase the savings ratio to fund expansion, the European Investment Bank should issue 'European Recovery Bonds' through agencies in each Member State selling them directly to the general public.

The financial resources thus mobilized must be earmarked for the policies specified below.

Creation of a European industry and research area

6. Measures under this heading should focus on the following:

(a) The need to improve the legal and fiscal environment of companies

It is necessary to adopt as soon as possible the draft directive on the European 'groupement d'intérêt économique', to expedite the work on the statute for the European company and to ensure that the arbitration procedure to eliminate double taxation is adopted in cases where the apportionment of profits among associated companies is corrected. There is also an urgent need to standardize legislation on liability for defective products, the use of the capital markets, company taxation and intellectual property such as inventions and 'software'. The European Parliament endorses the Commission's recommendations concerning fiscal measures to stimulate investment, and calls for the rapid adoption of the directive on merger control.

(b) The new technologies

Parliament strongly supports the Commission's communications, proposals and recommendations concerning the Community's industrial strategy, particularly where they relate to telecommunications, biotechnology and the information technologies.

It calls for the rapid adoption and implementation of the Commission's recommendation on the opening up of the public telecommunications markets.

The application and further improvement of microtechnology offer European industry a unique opportunity to meet the challenge of international competition in the mass production sectors through the development and supply of new products and services which are capable of flexible adaptation to differing demands.

Specialization in products of this kind would promote small production structures through which it would be possible to take full advantage of cooperation on the broadest possible scale.

If rapid progress is to be made in this area, use of the Community's promotional instruments must be coordinated, in line with the common objectives which require that investment be channelled into new products, especially with a view to:

- the protection and rehabilitation of the environment,
- the promotion of innovation in the energy sector, and
- improvements in the dissemination of new technologies to assist small and medium-sized undertakings.

The attainment of these common objectives will necessitate measures:

- to facilitate cooperation on an equal footing at Community level,
- to encourage, where appropriate, the development of common marketing organizations, and
- to foster vocational training and retraining, taking special account of technological and organizational changes in the field of industrial production.



(c) Assistance for small and medium-sized undertakings

Financial, administrative and technical measures should be taken in order to improve the environment in which these enterprises operate. The European Parliament has endorsed the Commission's proposals for making venture capital available to small and medium-sized enterprises on generous terms. Initiatives such as the European Innovation Loan and European Cooperation Grouping should be developed to provide interest rebates for mixed loans and finance for small businesses along the lines established by the ECSC. Rapid action is necessary to achieve a proper balance between investment in the market and non-market sectors so that scarce resources can flow towards job-creating enterprise. It also expects the Commission to produce without delay the proposals adumbrated in Parliament's report on small and medium-sized undertakings (OJ NO. C 66, 15 March 1982).

(a) Sectors and regions which are in difficulty and disadvantaged

If, in the interests of closer convergence - from which all will benefit - the Member States accept the need for greater discipline and a more coordinated approach, then, by implication, collective action must be stepped up to assist regions and sectors which are in difficulty and disadvantaged. Policies to promote economic convergence and reduce regional disparities must therefore be pursued actively. Such collective action should not aim to preserve sectors which have no economic future, but should concentrate exclusively on conversion and redeployment schemes. Parliament supports an increase in, and more effective deployment of, the Regional and Social structural Funds according to the guidelines laid down in its reports of November 1983.

(e) Transport and communications infrastructures

Transport and communications infrastructures were designed to meet national requirements. The creation of a genuine common market demands that these national structures should be integrated. It is essential that the delays occasioned by frontier formalities should be eliminated for all modes of transport and all systems of communication.

### Accompanying social measures

9. In view of the far-reaching industrial changes which adjustment to the new technologies will require, special measures will be needed to facilitate the social rehabilitation, guidance and training of the workers affected. These measures will have to be implemented by the European Social Fund, in accordance with the criteria established by the European Parliament.

It is usually the case that, if the social and political consensus is to be maintained through difficult periods of adjustment, the social policy to be pursued must rely heavily on appropriate intervention by the Member States and the social partners. The principles on which social policy must be based are set out in point III.

### Energy policy

10. Advantage must be taken of the temporary respite afforded by the settling of the oil markets to further reduce the dependence on external sources of supply. An energy policy at Community level should be directed towards the need for conservation of energy and raw materials and an extended use of renewable energy sources relieving pressure on the EEC's energy balance. Moreover, the research programme and the demonstration projects must be pursued in accordance with the criteria proposed by the Commission.

### Research

11. Insufficient coordination and integration have diminished the effectiveness and severely restricted the industrial development of the considerable amount of research undertaken at national level. It is essential for the Commission to encourage the coordination at European level of pre-competitive research in the new growth sectors, in collaboration with national undertakings and the competent national authorities. Financial resources must be better allocated with a view to encouraging sector specialization.

### Common agricultural policy

12. Subject to compliance with the basic principles of the common agricultural policy and with a view to preserving as many jobs as possible in the sector, greater efforts must be made to reduce surpluses by adapting or switching production to products better suited to market requirements. The reallocation of the factors of production which this entails will be facilitated by the decompartmentalization of the markets, abolition of monetary compensatory amounts and application of the principle of product specialization. A longer-term trade policy will be needed to support the exportation of products which have become more competitive.

### Environmental policy

13. A return to higher growth rates is bound to revive fears and misgivings about damage to the environment. Much of this damage may not be avoided unless there is an expansion of the appropriate Community measures, which are invariably less expensive, especially if they are of the preventive kind. The development of a Community environmental policy should be part of a strategy for industrial innovation in the fields of waste recovery, and the elimination of air and water pollution. As the environmental protection industry is already one of the leading growth sectors, its further development should be supported and appropriate funding must be made available. The proposals relating to the transportation of toxic waste and the elimination of lead in petrol should be adopted without delay and steps should be taken to deal with the problem of acid rain.

## II. COORDINATION OF NATIONAL ECONOMIC POLICIES

14. The convergence of economic policies enhances their effectiveness. This has been confirmed by experience, reasoned argument and simulation exercises using econometric models. For any given result, the individual inputs required will be less when their effects are combined.

In order to achieve as much growth as is compatible with the gradual elimination of the structural disequilibria which have built up since the crisis, each Member State should undertake to pursue - to the extent that it has not already done so, and for some time ahead - the following policies. In this, it should be adequately supported by the Commission.

#### Monetary policies

15. High rates of inflation represent an obstacle to the revival of economic activity. Member countries where such rates persist should therefore pursue their efforts for economic and financial stabilization by bringing structural budget deficits under control, containing monetary and credit expansion and limiting the rise in nominal incomes.

Efforts to reduce inflation must be continued in those states in which it has not yet been brought down to a satisfactory level. The growth of the money supply must be cut back to a level compatible with an inflation target of less than 4% in Europe (the USA has achieved a rate of 4% and Japan a rate of 2.5%).

Not only is this essential for greater convergence within the EMS, the consolidation of the EMS and maintaining the exchange value of the ECU and a balance of payments equilibrium, it is also a precondition for the lowering of exchange rates and the recovery of industrial investment.

Those Member States which have achieved this objective are urged to use such margin for manoeuvre as they possess to encourage expansion by reducing the cost of credit and the rates of taxation on industrial profits and household incomes.

#### Budgetary policy

16. One of the key objectives must be to reduce structural budget deficits and to stabilize them at a low level. This is all the more important in those countries whose public debt has become unacceptably large.

Public expenditure should be restructured in such a way that investment expenditure conducive to the growth of productive capacity is given precedence over consumption and transfers expenditure.

Taxation should be designed to encourage - or to penalize less severely - investment, the accumulation of risk capital and business activity in general, while fiscal levies as a whole should be held at existing levels, if not reduced, with a view to stimulating demand.

### Policy on incomes

17. Provision should be made for further measures to promote recovery if the United States decides to reduce its structural budget deficit. Fiscal tightening in the USA, although absolutely essential for the longer-term sustainability of the US and world recovery, will exert, in the short term, a deflationary influence on the rest of the industrialized world mainly through the slowdown in US economic growth and the dollar devaluation that could follow a reduction in US rates of interest.

16. The social partners should endeavour to ensure that the growth of incomes is compatible with economic recovery. This will entail:

- in several countries, decelerating the rate of growth of money wages to enable financial policies to have a real expansionist effect,
- holding real wage costs at a level which will enable companies to substantially increase their profits, which in turn will act as a spur to investment and lead to the creation of jobs; in some cases, this will entail a temporary downward adjustment of wages,
- a reduction in the indirect wage component in preference to the available income component,
- greater wage flexibility through collective bargaining with a view to establishing a better balance on the labour market, and the development of practices to ensure a closer link between remuneration and company performance and to encourage worker participation in the financing of investment,