

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

No 7 — July 1981

Supplement A

Recent economic trends

Stronger trend in activity. — As was expected on the basis of the Community's business survey the trend in industrial production turned slightly upwards in April. The rise in unemployment continued at almost the same rate as previously while the rise in consumer prices slowed down. The level of interest rates was unchanged between May and June and the ECU depreciated further against the dollar and the yen.

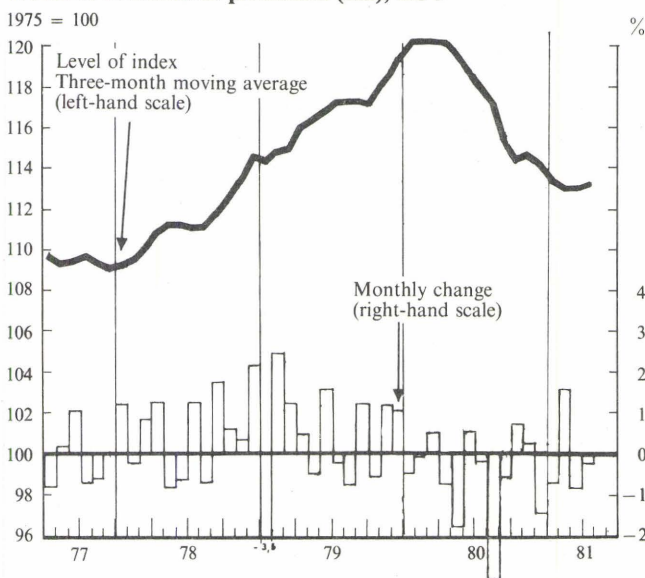
(The Commission on 1 July adopted a Communication to the Council on the Economic and Social Situation in the Community of which an earlier version had been approved by the European Council. A reprint of this Communication is inserted in the present number of Supplement A.)

Slight upturn in the trend of industrial production. — The index of industrial production in the Community, seasonally adjusted, fell by 0,2% in April following a decline of 0,8% in March (revised figure). These two negative figures, however, do not fully offset the big rise (1,7%) in February and the underlying trend of industrial production, as measured by the three-monthly moving average, turned up slightly after two months of stability. A certain strengthening of output was to be expected in view of the improvement of production expectations in recent months shown in the Community's business surveys (see Supplement B). Conclusions with respect to the speed and profile of recovery in industrial activity are however still difficult to draw: the month-to-month fluctuations in the index of industrial production of individual Member States remained relatively large in recent months.

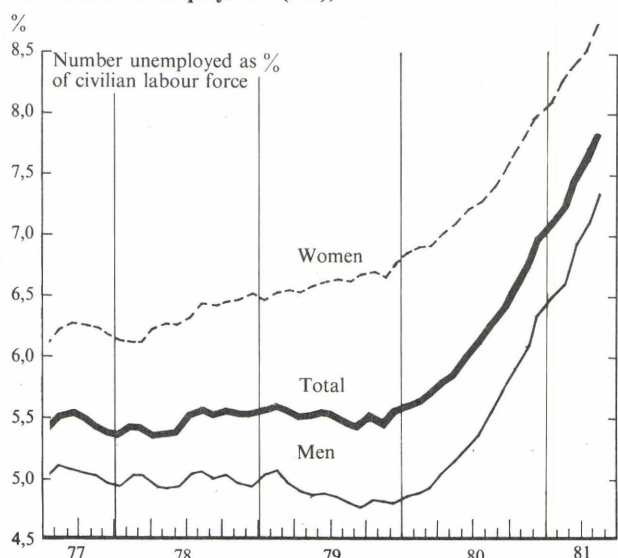
Unemployment still rising. — The rate of unemployment in the Community seasonally adjusted rose by a further 0,2 percentage points to reach 7,8% of the active population, corresponding to around 8,7 million persons. The rate of unemployment remained unchanged between April and May in Ireland and Luxembourg whereas all other Member States experienced a continued increase with the rate in the United Kingdom now above the 10% mark. For the Community as a whole the number of unemployed in May was 35,1% higher than a year earlier with particularly large rises having occurred in the United Kingdom, Netherlands and Denmark.

Slowdown in inflation. — After a month-to-month rise of 1,5% in April, the consumer price index for the Community slowed in May to 0,8%. The underlying increase, estimated by the change over six months, seasonally adjusted, also dipped somewhat, to 12,3%. This development can be attributed principally to turnarounds in the monthly rates in France and in Greece, where the figures for previous months included increases due to the liberalization of price controls, in the United Kingdom, where adjustments in controlled charges and indirect taxes were substantial in March and April and in Ireland where budgetary changes in February have now dropped from the quarterly figure. In the Federal Republic of Germany a clearer picture now seems to be emerging of a downward trend in the monthly rate of increase. In the Belgian index a fall of 0,1% was recorded, a decline attributable to the selective price freeze and short-run developments in food prices. Belgian consumer prices have thus declined for two consecutive months but preliminary figures for June suggest some pick-up, which will be amplified in July by the changes in indirect taxes recently decided upon. In Denmark, Luxembourg and Italy some upward movements are indicated in the May figures.

GRAPH 1: Industrial production (s.a.), EC 9



GRAPH 2: Unemployment (s.a.), EC 9



External trade: slower improvement. — The final results for the trade balance of the Community in February indicate (contrary to provisional estimates) some increase in the deficit on the January level. The three-month moving average shows, however, a continuation, although at a slower pace, of the adjustment process begun in September 1980. The absence of data for the United Kingdom in the months after February prevent the calculation of trade balance for the Community. Results for individual Member States show a continued reduction in the first five months of the year in the French trade deficit (s.a.) and a marked aggravation in the Danish and Italian deficits. The Federal Republic of Germany on the other hand registered in April its highest surplus for two years, which by itself was enough to compensate for the deficits in the other Member States.

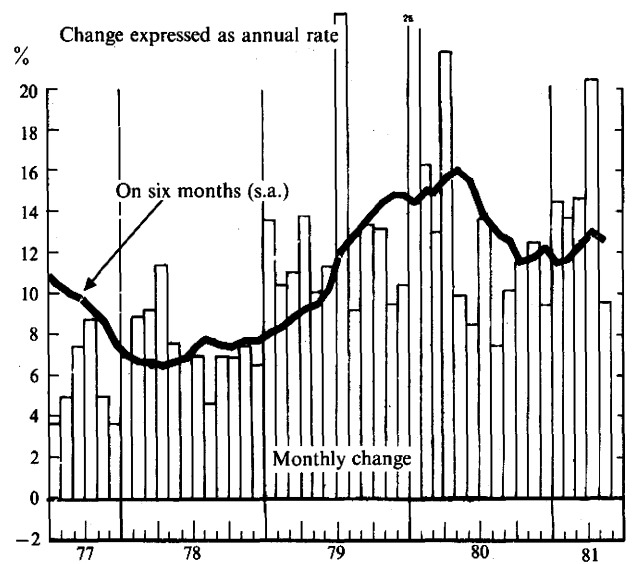
Slowdown in money supply growth in first quarter. — The trend towards a more moderate growth of the money supply was clearly in evidence in the first quarter, particularly in the Federal Republic of Germany, the United Kingdom, France and Italy. In the latter two countries the balance of payments deficit contributed to the slowdown. The monthly growth rate of the money stock in the Community was thus recorded at 0.7% in February and 0.4% in March, the March figure being the lowest since April 1980. Money supply growth picked up in April, particularly in the Federal Republic of Germany. In the United Kingdom the statistics for April and May, which also show significant growth of the money supply, have been influenced by the civil service strike.

Stabilization of interest rates. — Short-term interest rates on the whole stabilized in June at the level of the previous month (15.3% on average for the Community). In four Member States, the Federal Republic of Germany, France, Ireland and the Netherlands, money market rates fell slightly, while there was a slight rise in the United Kingdom and a big rise in Denmark. Data currently available on the long-term interest rate trends in May indicate that for the most part they followed the rise in short-term rates, the biggest movement (2.3 points) occurring in France. According to provisional indications, long-term rates remained stable in June, except in the United Kingdom where there was some rise.

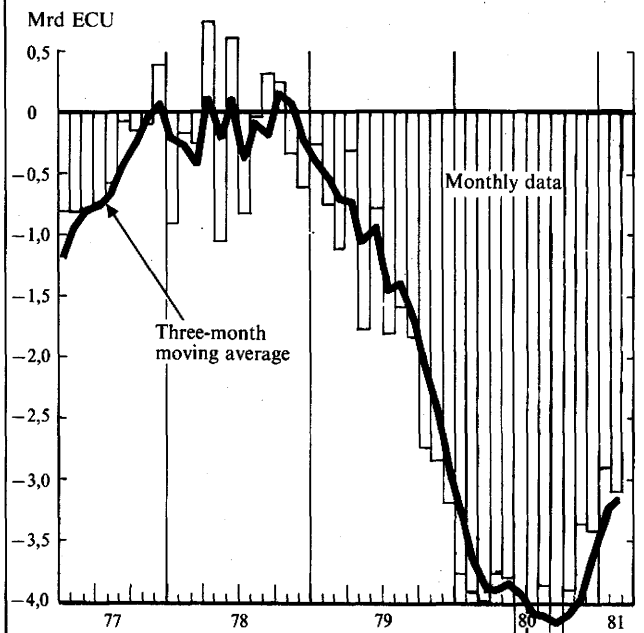
Further decline in the ECU. — Community currencies fell again in June against the major third currencies. The ECU therefore lost 3.7% against the dollar and 2.2% against the yen in June compared with the previous month. Among the Community currencies, sterling lost some ground, falling 1.7% against the ECU and 5.3% against the dollar during the month. The currencies participating in the EMS exchange rate agreement, in their mutual development, showed a greater degree of stability in June than in May. During June the German mark was the strongest currency and the Belgian franc the weakest. The French franc, after recovering somewhat after the rise in interest rates on the French money market, fluctuated unevenly around its central rate.

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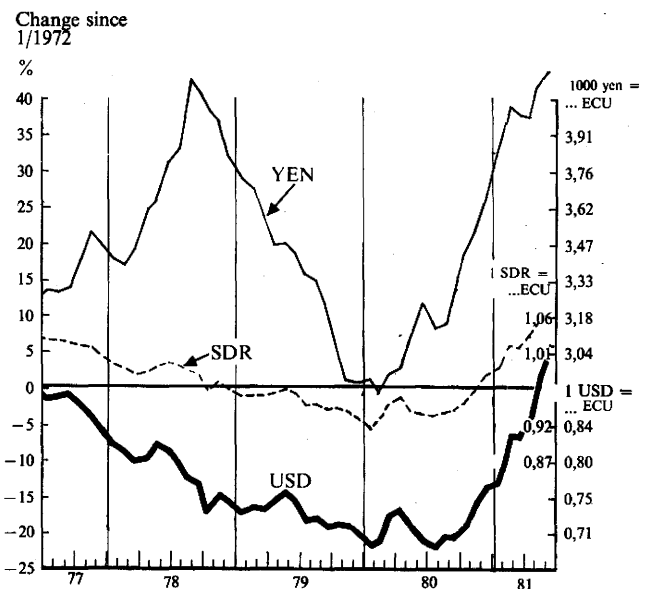
GRAPH 3: Consumer prices EC 9



GRAPH 4: Trade balance (s.a.), EC 9



GRAPH 5: Value of USD, yen and SDR in ECUs



Results of the 1979 labour force sample survey

A slowdown of the rise in the participation rate for women, a decline in part-time employment, and a rise in the duration of unemployment are the main features of developments from 1977 to 1979 highlighted by the Community's two-yearly labour force sample survey which will shortly become available from EUROSTAT for 1979.

Between 1977 and 1979 the labour force (persons with a main occupation and unemployed in the Community rose from 41,2% to 41,6% of total population. This rise in the overall *labour force participation rate* was, however, wholly attributable to changes in the composition of the population.

Calculated in proportion to the population aged 14 years and above, the labour force in fact shows a small decline, from 51,7% in 1977 to 51,3% in 1979.

The male labour force as % of the number of males aged 14 years and above fell from 69,6% in 1977 to 68,5% in 1979 (about the same decline as over the previous two-year period) whereas the female participation rate rose only from 35,3% in 1977 to 35,7% in 1979 (a much smaller rise than earlier). The participation rate for the age group 60 and above continued to fall at the same rate as previously for both males and females whereas the participation rate for persons in the age group 55 to 59 showed a large decline, from 59,7% to 57,4%.

The withdrawal of older persons from the labour force is also reflected in the composition of *unemployment*: while the global rate of unemployment remained unchanged (at 4,2%) according to the labour force sample survey,⁽¹⁾ the proportion of unemployed in the age group 60 and above showed a marked decline from 1977 to 1979. Moreover,

the length of unemployment seems to have increased, as suggested by the rise in the number of persons unemployed for 12 months and more from 33% of the total in 1977 to 37% in 1979.

Within the group of persons with a main occupation the number of persons working *parttime* fell slightly from 1977 to 1979 presumably because of a certain improvement of the employment situation (from 1973 to 1975 part-time employment rose sharply and stayed approximately unchanged in 1977).

The rate of *structural change in employment* slowed down somewhat with the share of services in the total rising only 0,9 point from 1977 to 1979 against a rise of 2,2 points over the previous two-year period. The proportion of the labour force working in *industry* fell from 40,5% in 1977 to 40,2% in 1979 which is much less than the 1,8% drop seen in the previous two years. However, the decline in agriculture employment, from 7,3% in 1977 to 6,7% in 1979, proceeded at the same rate as in the previous two years.

The average number of hours worked during the reference week by persons with a full-time occupation declined from 43,1 in 1977 to 42,6 in 1979. For the employees (thus excluding the self-employed) the average number for 1979 was 39,0 for the total of full and part-time occupations, of which the average number in agriculture was 43,2, in industry 40,2 and in services 37,8.

⁽¹⁾ Due to differences in definition and statistical coverage the level of unemployment according to the labour force sample survey (4,2% in 1979) is lower than the level shown in current statistics on registered unemployment (5,5% in April/May 1979). The two statistics, however, show the same overall development over the period under consideration.

TABLE: Key figures from the labour force sample surveys

	Total			Men			Women		
	1975	1977	1979	1975	1977	1979	1975	1977	1979
Labour force (restricted concept ⁽¹⁾) as % of total population	40,8	41,2	41,6	54,9	54,7	54,7	27,5	28,5	29,3
Labour force (restricted concept) ⁽¹⁾ as % of population aged 14 years and above, total	51,8	51,7	51,3	70,8	69,6	68,5	34,5	35,3	35,7
of which: age group 14 - 24	44,9	44,0	43,4	49,2	47,7	47,1	40,7	40,3	39,8
25 - 49	71,5	72,5	73,3	97,0	95,5	95,2	47,0	49,3	51,3
50 - 54	66,9	66,9	67,1	92,5	91,8	91,4	43,9	43,9	43,9
55 - 59	59,0	59,6	57,4	85,4	84,2	81,4	36,2	38,0	36,7
60 - 64	38,7	35,5	33,6	62,1	56,8	53,6	19,2	17,8	16,8
65 - 69	13,9	12,3	9,9	21,9	19,2	15,5	7,5	6,9	5,4
70 +	3,8	3,5	2,7	6,6	6,1	4,5	2,0	1,9	1,6
Number of unemployed as % of labour force	3,7	4,2	4,2	3,3	3,5	3,4	4,4	5,3	5,6
of which (%): age group - 25	38,2	41,4	42,2	35,6	36,6	37,4	41,8	47,2	47,3
25 - 44	39,3	37,3	38,3	39,2	38,4	38,7	39,3	36,0	37,9
45 - 60	17,2	17,2	17,1	17,4	19,2	20,2	16,6	14,8	13,8
60 -	5,4	4,0	2,3	7,8	5,9	3,6	2,2	1,9	0,9
Distribution of unemployed according to duration (months) (%)									
- 1	16,1	11,6	10,5	14,4	11,5	10,5	18,3	11,9	10,4
1 - 2	20,4	15,5	13,5	20,9	15,8	14,2	19,8	15,1	12,8
3 - 5	21,6	17,9	16,0	22,7	18,3	16,8	20,1	17,4	15,2
6 - 11	23,5	22,4	22,6	22,6	20,6	21,5	24,6	24,5	23,8
12 -	18,4	32,6	37,4	19,3	33,8	36,9	17,2	31,1	37,9
Non-active persons with an occasional occupation or seeking paid employment as % of the population aged 14 years and above ⁽²⁾	1,8	2,7	2,4	1,3	2,1	1,8	2,4	3,4	2,9
Persons working part-time as % of persons with a main occupation	9,4	9,4	9,1	1,9	1,6	1,3	23,6	23,7	23,0
% of persons with a main occupation working in:									
- agriculture	7,9	7,3	6,7	8,2	7,8	7,1	7,2	6,6	6,0
- industry	42,3	40,5	40,2	49,8	48,1	48,0	28,1	26,7	26,2
- services	49,8	52,1	53,0	42,0	44,1	44,8	64,8	66,7	67,8
Average number of hours worked during the reference week:									
Persons with a main occupation:	41,3	41,1	40,7	43,9	43,8	43,4	36,4	36,0	35,8
- of which full time	43,3	43,1	42,6	44,2	44,1	43,6	41,0	40,7	40,2
- of which parttime	22,1	21,1	21,4	25,4	23,6	24,6	21,6	20,8	21,1

⁽¹⁾ Persons with a main occupation and unemployed persons.

⁽²⁾ Approximate estimates.

Source: Eurostat, labour force sample surveys 1975, 1977 and 1979 and estimates of Commission services.

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Supplement A - No 7

Economic briefs

July 1981

The economic and social situation in the Community

(Communication of 1 July 1981 from the Commission to the Council in accordance with Article 3 of the Convergence Decision of 18 February 1974)

Short-term developments and prospects. — Since the last examination of the economic situation (in March) there have been some signs of improvement in the European business cycle and an easing of world oil market pressures; but also worrying movements in interest and exchange rates across the Atlantic and much too limited progress in fundamental aspects of economic policy and performance in Europe. Production in the Community probably reached its low point in the early months of this year. The immediate outlook is subject to conflicting influences. The business cycle is showing signs of moving into the recovery stage, with some strengthening of export and private consumption demand. Community business surveys show this. But the balance of the changing trend as between a halt to the recession and a beginning of the upturn is still difficult to discern. For 1981 as a whole the Commission expects a fall of about $\frac{1}{2}\%$ in GDP volume, with an improving second half of the year leading to positive growth in 1982 perhaps slightly in excess of 2%. This would be barely sufficient to stop the rise in unemployment in the course of next year. For the time being unemployment is still rising sharply and has reached 7,7% of the labour force.

A negative influence has been the higher interest rates, and the general international monetary instability. Since the beginning of this year short-term interest rates have been forced up on average in the Community by over 3 points (to 15% for three-month inter-bank rates), restoring approximate parity with United States rates. Nevertheless even greater movements have been seen in exchange rates, with the ECU now having depreciated 21% against the US dollar and 24% against the yen in 12 months.

In time this depreciation should lead to substantial European gains in world export markets. Moreover, the Community's large balance-of-payments current-account deficit (nearly USD 40 000 million in 1981, compared to a modest surplus in the United States, and a modest deficit in Japan) leaves no doubt about the need in Europe for a substantial adjustment. Some progress in reducing this deficit is likely in 1982, but a multi-year strategy adjustment in investment and world trading performance is basically necessary.

The depreciation of the ECU means that Europe is currently experiencing a wave of import price increases as severe as last year when oil prices were the main cause. This is seriously retarding progress in reducing inflation. The average consumer price rise is now expected to be $11\frac{1}{2}\%$ in 1981 (up 1 point since the forecasts before the European Council's meeting in March, with the divergence between countries now ranging from 5,8% to 24%) and could well be still as high as $10\frac{1}{2}\%$ in 1982. As in the case of the oil price rise, it is vital to ensure that this unavoidable deterioration in the terms of trade does not have repercussions which lead to an increase in domestic inflation. This reinforces the importance of certain Member States to adjust extremely comprehensive and fast-acting income indexation mechanisms. As stated at the European Council's meeting in March, these mechanisms are in contradiction with the main aim of creating a zone of monetary stability in Europe.

The effects of the recession on public budgets is seen in an upward revision of the expected deficit of the general government accounts for 1981 from 4,0 to 4,3% of GDP for the Community as a whole (compared to 3,6% in 1980). For some countries, a stabilizing effect from the budget should be accepted, and indeed welcomed, for example in the Federal Republic of Germany where there are already signs that stronger exports will soon take over as the main support to economic activity. In France, which alone among Community countries actually experienced a small budget surplus in 1980, some limited deficit in 1981 should not encounter financing problems if kept within prudent proportions. In several other countries, however, measures to restrict current public expenditure and deficits are overdue. Each year's delay increases the future burden of adjustment. Double-digit deficits as a share of GDP are not stable propositions, yet this is the order of magnitude of the Belgian deficit and nearly so in Italy; Denmark's deficit also appears to be increasing alarmingly, while that of Ireland, already 15% of GDP, has recently been increased by substantial subsidies to households for food and housing items.

Medium-term challenges. — The Council will shortly have to consider a medium-term economic policy programme for the period 1981 to 1985. Preparatory work by experts has been completed (in the Economic Policy Committee), and on this basis the Commission plans to submit a draft programme to the Council before the summer recess.

Projections for a five-year period are notoriously difficult to make, and those done by the Commission for 1981-85—on the basis of present policies and historical economic behaviour—remain open to surprises for better or for worse. Subject to these important reserves, and assuming a moderate economic recovery from now to 1982, the projections suggest an annual average rate of growth in the Community as a whole of $2\frac{1}{2}\%$ in the four years 1982 to 1985 (1,9% for the five years 1981-85), which compares with around 2,2% for the years 1974 to 1980, and a trend of $4\frac{1}{2}\%$ in the preceding decade. Assuming a 5% growth in world trade the present large balance-of-payments current-account deficit could well be reduced very substantially by 1985 even with some renewed, but gradual, increases in the real price of oil. Progress in reducing public sector deficits seems likely to be more modest; the rate of inflation might on average decelerate to about $7\frac{1}{2}\%$ compared to the present 11%. The modest rate of real growth means that there is likely to be approximate stability in the total employment level. Combined with the exceptionally fast demographic expansion of the labour force (nearly 1% per year for the whole quinquennium), unemployment is quite likely—on the basis of spontaneous trends—to continue to rise still from the present average level of 7,7%.

Of course, these trends are not immutable. Policy can, and in several respects should, change. Economic behaviour can change, and must be encouraged in the right direction. The uncertainties are not all negative risks. For example, we may manage to achieve faster progress in energy adjustment than expected, and we may underrate the capacity of the economy more generally to adjust for the better, once given the right signals, steadily over a number of years.

But the fundamental message is that the Community cannot hope that a new cyclical recovery—itsself fragile and uncertain—will lead the economy back automatically into a satisfactory trajectory assuring a substantial and durable improvement in employment prospects. It is not a question of waiting with a little more patience for trends to improve. The European economy needs still to embark on deep and lasting changes in public policy and in the economic performance of the social partners and households before we can hope for a much better economic future; i.e. to assure the development of the competitive capacity of our economies and their aptitude to respond to the opportunities of growing markets. Investment and savings must be increased. Consumption, employment costs and current public expenditure must be moderated. Investment and employment in energy production and saving in particular must be a massive priority as also the development of industries based on new technologies. Present investment trends in the Community are not yet on a par with that seen in the United States and Japan. The Community can and should provide a financial boost to this priority (in this connection proposals for a renovation of the New Community Instrument for investment financing are before the Council, awaiting decision).

While abundantly debated, these issues are still not being sufficiently acted upon in many Member States. If this state of affairs persists the risks are for a relapse of the Community into serious financial and monetary instability and thence into great losses. For the Community as a whole this could mean eroding the achievements even of the common market as well as of the European Monetary System, and for individual Member States there would be the prospects of the large economic and social costs that always ultimately result from excessively delayed economic adjustment. A longer period of delayed adjustment and slow growth would also endanger the social and political balance in our countries and undermine the degree of social consensus so far achieved. Current developments demonstrate the necessity for a stable framework for international economic relations. The Community should therefore intensify its policy of cooperation with third countries, especially establishing increased monetary and financial cooperation between industrialized countries, also with a view to aiding the economic situation of developing countries.

Conclusions. — The Commission suggests the following assessment and policy orientations:

(i) It may be that the recession has now passed its low point in Europe, and that the chances for a moderate recovery are fairly good. However, great risks surround this uncertain and fragile improvement. With the short-term easing of the oil market, the main risks at present lie in the management of economic policy within the Community and internationally. The Social Partners also have an important role.

(ii) Within the Community, particular risks follow from the failure so far of several Member States to progress with urgently required public finance and income stabilization measures. These failures weaken the cohesion of the European Monetary System. The Commission recommends to these countries accelerated programmes of economic adjustment. On the other hand, the Federal Republic of Germany, where a strong export recovery seems now assured, should not unduly precipitate the desirable medium-term reduction of its public deficits. In general, all Member States must aim at balance in the use of monetary and budgetary policies, and desist from discriminatory measures in either domain that threaten the basic economic principles of the Community; the prospects for export-led recovery can only be based on keeping open markets for trade.

(iii) The large depreciation of the ECU against the dollar and yen over the past months means that the Community has a new opportunity to improve its share in world markets, and increase investment and employment. But the inflationary impact of the depreciation must be contained, and this is a further reason why adjustments must urgently be made in indexation practices in some Member States, and expectations for real income gains be still lowered more generally for the time being.

(iv) Internationally, moreover, the volatility of interest and exchange rates is of major concern; indeed it represents a serious threat to Europe's incipient economic recovery, notably because of the great fluctuations in costs and in the continuing uncertainties that the enterprise sector has to face. The Community should pursue these issues in depth in discussions with the other major monetary powers. The Community, the United States and Japan basically share the same monetary-policy objectives and there is much to be done, including in the Community (as mentioned with regard to budgets and incomes) to relieve the strain on monetary policies. However, the United States should also bear in mind the significant international consequences of

different choices that are open to it in the framing and execution of its budgetary and monetary policies. The main policy stance of the major industrial countries does affect the functioning of the world economy and should, therefore, be discussed in the forthcoming international meetings.

(v) The medium-term outlook reinforces the need for the accentuation of adjustment policies in many Member States, and persistence throughout the Community in efforts to promote investment in energy saving and production and in new industrial capacity, and to moderate labour costs (including both incomes and social-security levies).

(vi) Unemployment and inflation are problems which should be tackled jointly, as generally agreed recently by the Joint Council of Ministers of Employment and Social Affairs and of Financial Affairs. An improvement in the overall economic situation, and hence in employment, implies persistent actions and efforts in a wide area of social and economic policies over several years and specific urgent actions to combat the high unemployment of young people. The efficiency of national policies can be strengthened by a stronger degree of coordination and cooperation between Member States and could also be assisted through reinforced actions at Community level.

Meeting of the Council (Economic and Financial Affairs), Brussels, 6 July 1981

The Council carried out its second quarterly review of the economic situation within the Community, as provided for in Article 3 of the 'Convergence' Decision of 18 February 1974.

The Council then recorded its agreement on the ... conclusions proposed by the Commission (reproduced in paragraphs (i) to (vi) above).

TABLE 1: Main economic aggregates, 1979-81

	1979	1980	1981		1979	1980	1981
	GDP volume, % change				Private consumption deflator, % change		
B	2,4	1,1	-0,6		3,5	6,3	7,2
DK	3,5	-0,8	0,1		9,5	11,0	10,0
D	4,6	1,9	-0,6		3,9	5,4	5,8
GR	3,8	1,7	1,5		17,7	23,7	23,3
F	3,2	1,8	0,5		10,5	13,5	13,0
IRL	1,9	0,9	1,9		12,2	18,2	17,5
I	5,0	4,0	-0,2		14,9	20,3	21,0
L	3,6	0,4	-3,1		5,8	6,3	7,5
NL	2,2	0,9	-0,6		4,6	6,9	7,3
UK	1,3	-1,4	-2,2		12,2	15,5	11,2
EC	3,5	1,4	-0,4		8,9	11,7	11,5
	Unemployment rate, % of civilian labour force				Current account of balance of payments % GDP		
B	8,6	9,3	11,0		- 2,9	- 5,7	- 7,3
DK	5,3	6,2	8,2		- 4,6	- 3,8	- 3,8
D	3,4	3,4	4,6		- 0,7	- 1,7	- 1,9
GR ¹	(2,2)	(2,9)	(3,2)		- 2,9	- 2,4	- 2,6
F	6,1	6,5	7,7		+ 0,1	- 1,4	- 1,6
IRL	7,9	8,2	9,7		- 10,1	- 8,6	- 14,2
I	7,6	8,1	8,4		+ 1,6	- 2,5	- 2,3
L	0,7	0,7	1,1		+ 28,7	+ 22,8	+ 20,8
NL	4,2	5,0	7,2		- 1,4	- 1,5	+ 0,7
UK	5,4	6,9	10,5		- 0,9	+ 1,2	+ 0,6
EC	5,5	6,1	7,7		- 0,5	- 1,4	- 1,7
	General government net lending (+) or borrowing (-), % GDP				Money supply, % change end of year		
B	- 7,2	- 9,3	- 11,0	(M2H)	6,0	2,8	3,9
DK	- 3,1	- 5,4	- 8,6	(M2)	9,9	10,9	8,1
D	- 3,0	- 3,5	- 4,0	(M3)	6,0	6,2	5,4
GR	:	:	:	(M3)	18,4	25,2	22,4
F	- 0,8	+ 0,4	- 1,6	(M2)	14,4	9,7	12,5
IRL	- 11,9	- 13,2	- 15,2	(M3)	19,0	16,9	12,2
I	- 9,4	- 7,8	- 8,5	(M2)	20,3	12,0	11,0
L	+ 0,1	- 1,4	- 2,5	:	:	:	:
NL	- 2,0	- 2,8	- 3,3	(M2)	7,6	3,6	6,2
UK	- 3,3	- 3,7	- 2,3	(£M3)	12,7	18,6	8,5
EC	- 3,6	- 3,6	- 4,3		11,9	10,2	8,8

¹ Not comparable with other countries.

Source: Commission services, based on information available up to early June 1981.

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(Communication of 1 July 1981 from the Commission to the Council in accordance with Article 3 of the Convergence Decision of 18 February 1974)

Short-term developments and prospects. — Since the last examination of the economic situation (in March) there have been some signs of improvement in the European business cycle and an easing of world oil market pressures; but also worrying movements in interest and exchange rates across the Atlantic and much too limited progress in fundamental aspects of economic policy and performance in Europe. Production in the Community probably reached its low point in the early months of this year. The immediate outlook is subject to conflicting influences. The business cycle is showing signs of moving into the recovery stage, with some strengthening of export and private consumption demand. Community business surveys show this. But the balance of the changing trend as between a halt to the recession and a beginning of the upturn is still difficult to discern. For 1981 as a whole the Commission expects a fall of about ½% in GDP volume, with an improving second half of the year leading to positive growth in 1982 perhaps slightly in excess of 2%. This would be barely sufficient to stop the rise in unemployment in the course of next year. For the time being unemployment is still rising sharply and has reached 7,7% of the labour force.

A negative influence has been the higher interest rates, and the general international monetary instability. Since the beginning of this year short-term interest rates have been forced up on average in the Community by over 3 points (to 15% for three-month inter-bank rates), restoring approximate parity with United States rates. Nevertheless even greater movements have been seen in exchange rates, with the ECU now having depreciated 21% against the US dollar and 24% against the yen in 12 months.

In time this depreciation should lead to substantial European gains in world export markets. Moreover, the Community's large balance-of-payments current-account deficit (nearly USD 40 000 million in 1981, compared to a modest surplus in the United States, and a modest deficit in Japan) leaves no doubt about the need in Europe for a substantial adjustment. Some progress in reducing this deficit is likely in 1982, but a multi-year strategy adjustment in investment and world trading performance is basically necessary.

The depreciation of the ECU means that Europe is currently experiencing a wave of import price increases as severe as last year when oil prices were the main cause. This is seriously retarding progress in reducing inflation. The average consumer price rise is now expected to be 11½% in 1981 (up 1 point since the forecasts before the European Council's meeting in March, with the divergence between countries now ranging from 5,8% to 24%) and could well be still as high as 10½% in 1982. As in the case of the oil price rise, it is vital to ensure that this unavoidable deterioration in the terms of trade does not have repercussions which lead to an increase in domestic inflation. This reinforces the importance of certain Member States to adjust extremely comprehensive and fast-acting income indexation mechanisms. As stated at the European Council's meeting in March, these mechanisms are in contradiction with the main aim of creating a zone of monetary stability in Europe.

The effects of the recession on public budgets is seen in an upward revision of the expected deficit of the general government accounts for 1981 from 4,0 to 4,3% of GDP for the Community as a whole (compared to 3,6% in 1980). For some countries, a stabilizing effect from the budget should be accepted, and indeed welcomed, for example in the Federal Republic of Germany where there are already signs that stronger exports will soon take over as the main support to economic activity. In France, which alone among Community countries actually experienced a small budget surplus in 1980, some limited deficit in 1981 should not encounter financing problems if kept within prudent proportions. In several other countries, however, measures to restrict current public expenditure and deficits are overdue. Each year's delay increases the future burden of adjustment. Double-digit deficits as a share of GDP are not stable propositions, yet this is the order of magnitude of the Belgian deficit and nearly so in Italy; Denmark's deficit also appears to be increasing alarmingly, while that of Ireland, already 15% of GDP, has recently been increased by substantial subsidies to households for food and housing items.

Medium-term challenges. — The Council will shortly have to consider a medium-term economic policy programme for the period 1981 to 1985. Preparatory work by experts has been completed (in the Economic Policy Committee), and on this basis the Commission plans to submit a draft programme to the Council before the summer recess.

Projections for a five-year period are notoriously difficult to make, and those done by the Commission for 1981-85—on the basis of present policies and historical economic behaviour—remain open to surprises for better or for worse. Subject to these important reserves, and assuming a moderate economic recovery from now to 1982, the projections suggest an annual average rate of growth in the Community as a whole of 2½% in the four years 1982 to 1985 (1,9% for the five years 1981-85), which compares with around 2,2% for the years 1974 to 1980, and a trend of 4½% in the preceding decade. Assuming a 5% growth in world trade the present large balance-of-payments current-account deficit could well be reduced very substantially by 1985 even with some renewed, but gradual, increases in the real price of oil. Progress in reducing public sector deficits seems likely to be more modest; the rate of inflation might on average decelerate to about 7½% compared to the present 11%. The modest rate of real growth means that there is likely to be approximate stability in the total employment level. Combined with the exceptionally fast demographic expansion of the labour force (nearly 1% per year for the whole quinquennium), unemployment is quite likely—on the basis of spontaneous trends—to continue to rise still from the present average level of 7,7%.

Of course, these trends are not immutable. Policy can, and in several respects should, change. Economic behaviour can change, and must be encouraged in the right direction. The uncertainties are not all negative risks. For example, we may manage to achieve faster progress in energy adjustment than expected, and we may underrate the capacity of the economy more generally to adjust for the better, once given the right signals, steadily over a number of years.

But the fundamental message is that the Community cannot hope that a new cyclical recovery—itsself fragile and uncertain—will lead the economy back automatically into a satisfactory trajectory assuring a substantial and durable improvement in employment prospects. It is not a question of waiting with a little more patience for trends to improve. The European economy needs still to embark on deep and lasting changes in public policy and in the economic performance of the social partners and households before we can hope for a much better economic future; i.e. to assure the development of the competitive capacity of our economies and their aptitude to respond to the opportunities of growing markets. Investment and savings must be increased. Consumption, employment costs and current public expenditure must be moderated. Investment and employment in energy production and saving in particular must be a massive priority as also the development of industries based on new technologies. Present investment trends in the Community are not yet on a par with that seen in the United States and Japan. The Community can and should provide a financial boost to this priority (in this connection proposals for a renovation of the New Community Instrument for investment financing are before the Council, awaiting decision).

While abundantly debated, these issues are still not being sufficiently acted upon in many Member States. If this state of affairs persists the risks are for a relapse of the Community into serious financial and monetary instability and thence into great losses. For the Community as a whole this could mean eroding the achievements even of the common market as well as of the European Monetary System, and for individual Member States there would be the prospects of the large economic and social costs that always ultimately result from excessively delayed economic adjustment. A longer period of delayed adjustment and slow growth would also endanger the social and political balance in our countries and undermine the degree of social consensus so far achieved. Current developments demonstrate the necessity for a stable framework for international economic relations. The Community should therefore intensify its policy of cooperation with third countries, especially establishing increased monetary and financial cooperation between industrialized countries, also with a view to aiding the economic situation of developing countries.

Conclusions. — The Commission suggests the following assessment and policy orientations:

(i) It may be that the recession has now passed its low point in Europe, and that the chances for a moderate recovery are fairly good. However, great risks surround this uncertain and fragile improvement. With the short-term easing of the oil market, the main risks at present lie in the management of economic policy within the Community and internationally. The Social Partners also have an important role.

(ii) Within the Community, particular risks follow from the failure so far of several Member States to progress with urgently required public finance and income stabilization measures. These failures weaken the cohesion of the European Monetary System. The Commission recommends to these countries accelerated programmes of economic adjustment. On the other hand, the Federal Republic of Germany, where a strong export recovery seems now assured, should not unduly precipitate the desirable medium-term reduction of its public deficits. In general, all Member States must aim at balance in the use of monetary and budgetary policies, and desist from discriminatory measures in either domain that threaten the basic economic principles of the Community; the prospects for export-led recovery can only be based on keeping open markets for trade.

(iii) The large depreciation of the ECU against the dollar and yen over the past months means that the Community has a new opportunity to improve its share in world markets, and increase investment and employment. But the inflationary impact of the depreciation must be contained, and this is a further reason why adjustments must urgently be made in indexation practices in some Member States, and expectations for real income gains be still lowered more generally for the time being.

(iv) Internationally, moreover, the volatility of interest and exchange rates is of major concern; indeed it represents a serious threat to Europe's incipient economic recovery, notably because of the great fluctuations in costs and in the continuing uncertainties that the enterprise sector has to face. The Community should pursue these issues in depth in discussions with the other major monetary powers. The Community, the United States and Japan basically share the same monetary-policy objectives and there is much to be done, including in the Community (as mentioned with regard to budgets and incomes) to relieve the strain on monetary policies. However, the United States should also bear in mind the significant international consequences of

different choices that are open to it in the framing and execution of its budgetary and monetary policies. The main policy stance of the major industrial countries does affect the functioning of the world economy and should, therefore, be discussed in the forthcoming international meetings.

(v) The medium-term outlook reinforces the need for the accentuation of adjustment policies in many Member States, and persistence throughout the Community in efforts to promote investment in energy saving and production and in new industrial capacity, and to moderate labour costs (including both incomes and social-security levies).

(vi) Unemployment and inflation are problems which should be tackled jointly, as generally agreed recently by the Joint Council of Ministers of Employment and Social Affairs and of Financial Affairs. An improvement in the overall economic situation, and hence in employment, implies persistent actions and efforts in a wide area of social and economic policies over several years and specific urgent actions to combat the high unemployment of young people. The efficiency of national policies can be strengthened by a stronger degree of coordination and cooperation between Member States and could also be assisted through reinforced actions at Community level.

Meeting of the Council (Economic and Financial Affairs), Brussels, 6 July 1981

The Council carried out its second quarterly review of the economic situation within the Community, as provided for in Article 3 of the 'Convergence' Decision of 18 February 1974.

The Council then recorded its agreement on the ... conclusions proposed by the Commission (reproduced in paragraphs (i) to (vi) above).

TABLE 1: Main economic aggregates, 1979-81

	1979	1980	1981	1979	1980	1981	
GDP volume, % change			Private consumption deflator, % change				
B	2,4	1,1	-0,6	3,5	6,3	7,2	
DK	3,5	-0,8	0,1	9,5	11,0	10,0	
D	4,6	1,9	-0,6	3,9	5,4	5,8	
GR	3,8	1,7	1,5	17,7	23,7	23,3	
F	3,2	1,8	0,5	10,5	13,5	13,0	
IRL	1,9	0,9	1,9	12,2	18,2	17,5	
I	5,0	4,0	-0,2	14,9	20,3	21,0	
L	3,6	0,4	-3,1	5,8	6,3	7,5	
NL	2,2	0,9	-0,6	4,6	6,9	7,3	
UK	1,3	-1,4	-2,2	12,2	15,5	11,2	
EC	3,5	1,4	-0,4	8,9	11,7	11,5	
Unemployment rate, % of civilian labour force			Current account of balance of payments % GDP				
B	8,6	9,3	11,0	- 2,9	- 5,7	- 7,3	
DK	5,3	6,2	8,2	- 4,6	- 3,8	- 3,8	
D	3,4	3,4	4,6	- 0,7	- 1,7	- 1,9	
GR ¹	(2,2)	(2,9)	(3,2)	- 2,9	- 2,4	- 2,6	
F	6,1	6,5	7,7	+ 0,1	- 1,4	- 1,6	
IRL	7,9	8,2	9,7	-10,1	- 8,6	-14,2	
I	7,6	8,1	8,4	+ 1,6	- 2,5	- 2,3	
L	0,7	0,7	1,1	+28,7	+22,8	+20,8	
NL	4,2	5,0	7,2	- 1,4	- 1,5	+ 0,7	
UK	5,4	6,9	10,5	- 0,9	+ 1,2	+ 0,6	
EC	5,5	6,1	7,7	- 0,5	- 1,4	- 1,7	
General government net lending (+) or borrowing (-), % GDP			Money supply, % change end of year				
B	- 7,2	- 9,3	-11,0	(M2H)	6,0	2,8	3,9
DK	- 3,1	- 5,4	- 8,6	(M2)	9,9	10,9	8,1
D	- 3,0	- 3,5	- 4,0	(M3)	6,0	6,2	5,4
GR	:	:	:	(M3)	18,4	25,2	22,4
F	- 0,8	+ 0,4	- 1,6	(M2)	14,4	9,7	12,5
IRL	-11,9	-13,2	-15,2	(M3)	19,0	16,9	12,2
I	- 9,4	- 7,8	- 8,5	(M2)	20,3	12,0	11,0
L	+ 0,1	- 1,4	- 2,5	:	:	:	:
NL	- 2,0	- 2,8	- 3,3	(M2)	7,6	3,6	6,2
UK	- 3,3	- 3,7	- 2,3	(£M3)	12,7	18,6	8,5
EC	- 3,6	- 3,6	- 4,3		11,9	10,2	8,8

¹ Not comparable with other countries.

Source: Commission services, based on information available up to early June 1981.

TABLE 1: Industrial production¹ - Percentage change on preceding period (s.a.)

	1976	1977	1978	1979	1980	1980				1981	1980			1981				Change over 12 months % ²
						I	II	III	IV	I	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	
B	8.1	0.4	2.4	4.5	-0.4	3.5	-2.9	-3.2	-3.1	3.3	1.0	0	-7.0	11.4	-3.6	-0.7	-2.9	-5.8
DK	9.3	0.8	2.3	3.6	0.2	-0.2	-4.1	-1.3	-1.6	2.9	0.5	-6.0	6.7	-0.5	1.4	0.4	-0.3	0.9
D	7.4	2.8	2.0	5.5	-0.1	0.9	-2.7	-1.8	-0.9	0.9	0.9	-0.9	-1.9	1.9	4.7	-2.6	0	-3.5
GR	10.5	2.0	7.6	6.1	0.3	0.2	1.3	-0.9	-0.9	:	-4.2	1.5	1.9	:	:	:	:	2.7
F	9.7	1.6	1.6	4.7	-0.7	0.5	-2.2	0.8	-2.3	-4.4	1.6	-3.8	5.6	-6.8	-1.6	4.1	-1.6	-4.9
IRL	8.8	9.2	8.1	6.1	-1.7	1.8	-0.6	-5.1	-1.9	:	0.3	1.5	-1.1	2.5	4.3	:	:	-0.9
I	11.6	0	2.1	6.7	5.0	4.1	-2.7	-7.6	5.3	0.6	1.3	4.2	-6.0	-1.1	7.4	-0.8	-0.5	4.6
L	3.8	0.5	3.2	3.4	-3.3	1.8	-2.4	-7.5	-1.3	-4.9	2.3	1.9	-6.2	-3.9	4.0	0.2	-4.6	-16.2
NL	8.0	0	0.9	2.8	-0.2	3.6	-3.4	-3.9	3.7	0.3	4.8	3.6	-1.8	0	2.7	-4.3	0	-2.5
UK	2.7	4.7	3.1	3.7	-7.0	-2.5	-3.0	-3.0	-2.3	-1.4	0.4	-0.7	-0.8	-1.1	0.9	-0.1	0.4	-5.8
EC 9	7.4	2.4	2.3	4.8	-0.7	0.6	-1.4	-2.8	-1.2	-0.9	0.7	0.2	-1.7	-0.9	1.7	-0.8	(-0.2)	(-5.0)
USA	10.2	6.5	5.7	4.4	-3.5	0	-5.2	-1.7	4.9	(1.8)	1.9	1.7	1.0	0.5	-0.2	0.5	(0.1)	(2.8)
JAP	11.1	4.1	6.2	8.3	7.1	4.1	0.1	-2.3	1.6	(2.9)	0.8	-1.5	2.3	0.5	0.6	-0.7	(0.3)	(0.3)

TABLE 2: Unemployment rate - Number of unemployed as percentage of civilian labour force (s.a.)

	1976	1977	1978	1979	1980	1980				1981	1980		1981				Change over 12 months % ²	
						I	II	III	IV	I	Nov.	Dec.	Jan.	Feb.	March	April		May
B	6.8	7.8	8.4	8.7	9.4	8.8	9.0	9.5	10.0	10.6	10.0	10.2	10.4	10.6	10.8	11.0	11.2	27.5
DK	4.7	5.8	6.5	5.3	6.2	5.0	5.5	6.1	7.3	8.0	7.3	7.5	8.0	8.0	8.0	8.5	8.7	55.2
D	4.1	4.0	3.9	3.4	3.4	3.1	3.2	3.5	3.8	4.2	3.8	4.0	4.1	4.1	4.3	4.4	4.6	44.7
F	4.3	4.8	5.2	6.0	6.4	6.3	6.3	6.3	6.6	7.1	6.6	6.8	7.0	7.1	7.2	7.4	7.5	21.9
IRL	9.4	9.2	8.4	7.4	8.3	7.1	7.7	8.6	9.4	9.9	9.4	9.7	9.8	9.9	10.1	10.2	10.2	32.1
I	5.6	6.4	7.1	7.5	8.0	7.8	8.0	8.0	8.1	8.2	8.2	8.2	8.2	8.3	8.4	8.4	8.5	7.8
L	0.3	0.5	0.7	0.7	0.7	0.7	0.6	0.7	0.8	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	54.6
NL	4.3	4.1	4.1	4.1	4.8	4.1	4.3	4.9	5.6	6.2	5.6	5.8	6.1	6.2	6.6	6.7	6.9	63.6
UK	5.3	5.7	5.7	5.3	6.9	5.6	6.2	7.1	8.3	9.4	8.3	8.7	9.1	9.4	9.7	10.0	10.3	69.9
EC 9	4.9	5.3	5.5	5.5	6.2	5.6	5.9	6.2	6.8	7.3	6.8	7.0	7.1	7.3	7.5	7.6	7.8	35.1
USA	7.7	7.0	6.0	5.8	7.1	6.2	7.3	7.5	7.5	7.3	7.5	7.4	7.4	7.3	7.3	7.3	7.6	(2.8)
JAP	2.0	2.0	2.2	2.1	2.0	1.9	2.0	2.0	2.2	2.2	2.2	2.2	2.1	2.2	2.2	2.3	2.4	21.1

TABLE 3: Consumer price index - Percentage change on preceding period

	1976	1977	1978	1979	1980	1980				1981	1980		1981				Change over 12 months % ²	
						I	II	III	IV	I	Nov.	Dec.	Jan.	Feb.	March	April		May
B	9.2	7.1	4.5	4.5	6.6	2.4	0.8	1.8	2.2	2.2	1.0	0.3	0.8	0.9	0.6	-0.1	-0.1	7.0
DK	9.0	11.1	10.1	9.6	12.4	2.5	3.1	2.9	1.9	2.6	0.9	0.4	0.6	1.0	2.0	1.2	1.6	12.0
D	4.3	3.7	2.7	4.1	5.5	1.9	1.8	0.7	0.8	2.2	0.6	0.6	0.8	0.8	0.7	0.6	0.5	5.6
GR	13.3	12.2	12.5	19.0	24.9	7.0	7.0	1.8	7.8	7.3	3.4	3.2	2.4	0.9	2.4	2.0	1.2	24.3
F	9.6	9.5	9.3	10.7	13.6	3.8	3.1	3.2	2.8	3.1	0.7	0.9	1.2	0.9	1.1	1.4	0.7	12.7
IRL	17.9	13.7	7.7	13.2	18.2	3.8	7.4	2.9	3.1	6.2	(1.0)	(2.1)	(2.0)	(2.0)	(1.3)	(1.3)	(1.3)	17.1
I	16.8	17.0	12.2	14.8	21.2	6.5	3.9	4.3	5.3	5.2	2.1	1.2	1.9	1.9	1.4	1.3	(1.4)	(20.5)
L	9.8	6.7	3.1	4.5	6.3	1.7	1.6	1.0	1.9	2.4	0.9	1.1	0.8	0.6	0.8	0.6	0.8	7.6
NL	9.0	6.4	4.2	4.3	(7.0)	1.8	2.5	1.1	1.4	1.5	0.3	0.1	0.7	0.6	0.9	1.0	0.5	6.5
UK	16.5	15.9	8.3	13.4	18.0	4.7	5.8	2.1	1.9	2.4	0.8	0.6	0.6	0.9	1.5	2.9	0.6	11.7
EC 9	10.8	10.5	7.5	9.9	13.9	4.0	3.6	2.5	2.6	3.1	1.0	0.8	1.2	1.0	1.2	1.5	(0.8)	(12.1)
USA	5.8	6.5	7.6	11.5	13.5	3.9	3.6	1.9	2.6	2.6	0.9	0.9	0.7	1.0	0.6	0.7	(0.7)	(9.8)
JAP	9.3	8.1	3.8	3.6	8.0	2.2	3.2	1.2	1.0	(1.1)	0.2	-0.6	1.2	0.1	0.6	0.8	(1.0)	(5.2)

TABLE 4: Wholesale price index - Percentage change on preceding period

	1976	1977	1978	1979	1980	1980				1981	1980		1981				Change over 12 months % ²	
						I	II	III	IV	I	Nov.	Dec.	Jan.	Feb.	March	April		May
B	7.1	2.4	-1.9	6.3	5.8	3.4	-0.5	-0.1	2.5	2.6	1.3	0.3	1.1	0.8	0.8	1.2	1.1	8.5
DK	8.2	7.9	4.4	8.9	16.7	6.3	3.6	1.2	2.9	4.4	1.1	1.4	1.4	1.3	1.4	1.9	:	13.7
D	5.8	1.8	-0.8	6.9	8.0	3.9	1.7	-0.2	0.8	3.8	1.4	1.4	0.9	1.3	1.7	0.6	0.1	7.1
F ⁶	10.1	6.5	4.6	11.8	:	:	:	:	:	:	:	:	:	:	:	:	:	13.1
IRL	19.6	17.2	8.9	12.2	:	4.7	3.5	0.7	2.7	:	1.3	1.4	:	:	:	:	:	13.2
I	22.9	17.4	8.4	15.5	20.1	6.6	3.5	2.3	3.8	4.9	2.2	1.4	1.6	1.6	1.6	1.7	:	16.2
NL ⁶	6.9	5.4	1.3	2.7	8.2	4.3	1.4	1.1	0.7	:	0.5	0.5	3.1	0.7	:	:	:	7.8
UK	16.4	19.2	10.5	12.1	16.3	5.2	4.0	2.4	1.1	2.9	0.4	0.2	1.4	1.0	1.3	1.4	0.6	10.1
EC 9 ⁷	12.0	9.3	4.4	10.3	:	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	4.6	6.1	7.8	12.6	14.0	4.6	2.0	3.1	2.1	2.4	0.5	0.7	0.8	0.8	1.3	0.8	(0.4)	(10.5)
JAP	5.5	1.9	-2.5	7.3	17.8	6.5	4.8	0.7	-0.7	-0.7	-0.1	-0.2	-0.5	-0.2	0	0.5	(0.8)	(0.5)

TABLE 5: Gross hourly wages in industry⁸ - Percentage change

	On preceding period										On corresponding quarter of preceding year									
	1976	1977	1978	1979	1980	1979				1980				1981	1979				1981	
						IV	I	II	III	IV	I	II	III		IV	I	II	III		IV
B	13.6	10.1	6.6	6.7	8.7	2.5	1.8	3.4	1.6	2.0	2.3	8.0	7.3	8.9	9.6	9.1	9.7			
DK	11.7	9.1	12.0	12.0	11.4	3.3	2.7	2.7	1.4	1.4	:	13.5	14.8	12.6	10.5	8.5	:			
D	6.4	7.1	5.3	5.7	6.6	0.1	0.4	4.1	2.7	0.1	0.2	5.5	4.9	6.6	7.4	7.4	7.3			
F	15.1	14.7	12.3	12.2	15.7	2.3	5.2	3.9	4.3	3.6	:	12.2	13.7	14.1	16.6	18.1	:			
IRL	18.9	16.7	14.6	15.1	20.3	7.7	3.2	6.4	4.7	1.0	:	17.8	18.5	23.2	23.8	16.1	:			
I	20.8	26.7	20.6	14.8	21.0	2.4	6.6	5.1	6.8	3.7	6.4	17.2	18.7	18.5	22.6	24.1	23.5			
L	13.9	10.4	7.7	4.0	:	-1.2	4.2	4.0	:	:	:	4.6	5.2	5.8	:	:	:			
NL	11.3	7.9	8.3	6.5	6.8	0.7	4.2	0.8	0	0.9	1.7	6.5	8.2	7.3	5.8	6.0	3.4			
UK	16.7	9.4	12.5	14.4	18.4	1.5	3.1	6.2	5.8	2.6	1.8	16.3	18.7	18.6	17.5	18.8	17.3			
EC 9	13.6	12.3	11.4	11.3	(14.0)	1.6	3.5	4.7	(4.7)	(2.2)	:	12.3	13.5	14.0	(15.2)	(15.5)	:			
USA	7.9	9.2	8.6	8.4	8.7	2.2	1.8	1.9	2.8	3.5	(2.1)	7.8	7.4	8.0	8.9	10.3	(10.6)			
JAP	12.3	8.5	5.9	7.4	8.1	1.0	2.1	2.7	1.8	0.7	0.7	8.0	7.9	8.8	8.3	7.5	6.1			

Source: For the Community countries: Eurostat, unless otherwise stated; for the United States and Japan: national sources.

Major economic policy measures — June 1981

Community (EC)

11.6 The Joint Council of Ministers for Economic, Financial and Social Affairs expressed its unanimous concern over the development of unemployment. It considered that a coherent policy to combat inflation and unemployment demanded the highest priority.

29 and 30.6 The European Council studied in depth the economic and social situation in the Community. The European Council, having reviewed the work of the Joint Council, accepted in particular that the highest priority needed to be accorded to coordinated action, including the pursuit of structural adjustment, to combat unemployment and inflation.

Belgium (B)

28.5 The Banque Nationale lowered the discount rate from 14 to 13% and the rate for advances on current account from 16 to 15%. These rates thus returned to their end-of-March level.

28.5 A ministerial decree extended until the end of July the selective price freeze introduced at the beginning of May.

5.6 The Government decided on several measures to reduce firms' wage costs ('Maribel' operation). It brought in an amendment to the draft law programme to reduce employers' social security contributions, subject to certain conditions, from 20,96 to 14,79%. This reduction would cost BFR 30 000 million in a full year. To balance this, VAT and excise duties were to be raised (on petrol, diesel, fuel, cigarettes, spirits, beer, etc.). In addition, the special luxury tax on a number of products (jewellery, furs, perfumes, hunting weapons) was to be increased and other products were to be brought within its scope (yachts, television and radio sets, hi-fi systems, recorders, record players, etc.). According to the Minister for Finance, these tax measures will have the effect of increasing the consumer price index by less than 1%.

18.6 The Banque Nationale lowered in six stages the interest rates on very short-term Treasury certificates, thereby reducing the one-month rate from 16,75 to 14,50%.

Denmark (DK)

None.

Federal Republic of Germany (D)

None.

Greece (GR)

4.6 The Greek Monetary Committee took the following decisions:

- interest rates on loans for working capital in trade and industry were cut to 21,5% (down by 2 percentage points);
- interest rates on building loans were reduced by 1 percentage point.

There were also reductions in:

- the interest rate on special bank time deposits, based on the length of the term;
- the interest rates on investment bank certificates (down by 2 percentage points).

These measures, which take effect on 1 June in the case of working capital and on 8 June in the case of the other categories, are designed to promote investment and speed up economic recovery.

France (F)

3.6 The Government adopted a package of social measures:

- the statutory minimum wage (SMIC) was put up by 10%, giving an increase of 6,7% in purchasing power; with effect from 1 June, on the other hand, employers' social security contributions in respect of wages below 1,2 times the amount of the minimum wage were reducing the extra cost by half;
- family allowances were raised by 25% with effect from 1 July;
- the housing allowance was raised by 25% with effect from 1 July and by another 25% with effect from 1 December;
- minimum pensions and allowances to handicapped adults were raised by 20% with effect from 1 July;
- the limit on the percentage of the insured person's contribution to medical expenses was removed;
- these measures are to be partly financed by an exceptional tax on the top 100 000 personal income tax payers, by special taxes on banks and oil companies, and probably by an increase on spirits and tobacco.

10.6 It was decided to create an initial 54 290 jobs in central and local government. To support business investment, a further FF 2 600 million will be made available for lending by the FDES (economic and social development fund). The Government's residential construction measures involve new housing

both for owner occupiers and for tenants and renovating the country's existing stock of rented housing; they also affect individual housing subsidies, rents and assistance for tenants of subsidized housing who are in difficulties. A number of social measures were announced for the benefit of farmers: an increase of 20% in the installation grant to young farmers, an increase in the total amount available for subsidized loans so as to shorten the waiting list for these loans, an uprating of the farmers' pensions and of invalidity pensions.

17.6 To help firms to make the payments due at the end of June and to stimulate investment, it was decided:

- to increase the total amount of subsidized loans from long-term credit institutions to FF 17 000 million (including FF 6 500 million at the high rate of subsidy);
- to hold interest rates at the present levels (12,75% and 14,75%) for businesses that borrow before 30 September;
- to finance from the budget, at a total cost of FF 5 000 million, the building of 100 000 dwellings, the renovation of 25 000 subsidized dwellings and action in favour of industrial investment;
- to provide the *Codefis* (departmental financing committees) with temporary resources enabling them to grant exceptional cash advances up to a limit of FF 500 000 per firm.

New employment measures were introduced in favour of young people starting working life. A sum of FF 6 000 million (instead FF 4 000 million) will be spent on financing the new employment pact, which is intended to transform a maximum number of the temporary jobs planned previously into permanent jobs.

20.6 The banking institutions decided to reduce the commercial discount rate to small and medium-sized industrial firms with an annual turnover of less than FF 50 million by 3% in July and August, with the lowest rate to be maintained at 18,10% (17% base rate, plus 1,10% charges).

29.6 The 'banques populaires' extended the 3% reduction in the commercial discount rate to all business sectors, including small crafts, the distributive trades and services, and will grant exceptional cash advances at a net rate of 15,50%, repayable over 9 months, to small and medium-sized firms in the small crafts sector, industry, the distributive trade and services. Firms already in receipt of the exceptional advances granted by the *Codefis* will not be eligible, however.

29.6 The Banque de France lowered its day-to-day rate of interest from 20% to 19%.

Ireland (IRL)

None.

Italy (I)

30.5 A decree-law was published on 30 May with measures in favour of exporting firms. It concerned in particular firms that export more than 30% of their output or have increased their exports by more than the national average for the industry. The decree-law also provides for an increase in the funds available for export credit.

30.5 Several decree-laws were published to reduce the expenditure of government departments; mainly involved were the operating expenditure of ministries and medical assistance.

6.6 Telephone charges were raised with immediate effect by presidential decree; this measure should bring in between LIT 320 000 million and LIT 325 000 million a year.

Luxembourg (L)

9.6 Under the agreement reached at the Tripartite Conference on the Steel Industry, measures were taken to encourage the mobility of workers in the 'Arbed anti-crisis division'. A worker leaving the steel industry for a new job will now receive a severance bonus equal to 12 times his monthly wage.

19.6 The Government increased debtor interest rates by between 0,5 and 1,75 points and creditor interest rates by between 0,5 and 2 points. The rate on new mortgage loans for subsidized housing rose from 7,75% to 8,25%.

Netherlands (NL)

22.6 The Nederlandsche Bank suspended the 6% limit on the growth of long-term and short-term lending to the private sector in 1981, introduced in December 1980.

23.6 With effect from 6 July, excise duty on petrol was raised by HFL 0,03 a litre.

United Kingdom (UK)

None.

Price (excluding VAT) in Luxembourg

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