

EUROPEAN PARLIAMENT

# Working Documents

1981 - 1982

3 June 1981

DOCUMENT 1-256/81

## Report

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

**on the restructuring of economic and monetary policies in connection  
with the Council decision of 30 May 1980**

**Rapporteur: Mr G. GIAVAZZI**

124



On 11 July 1980 a draft motion for a resolution (Doc. 1-319/80) on the restructuring of economic and monetary policies in connection with the Council ~~conclusions of 30 May 1980, tabled by Mr DIANA and others pursuant to~~ Article 25 of the Rules of Procedure was referred to the Committee on Economic and Monetary Affairs as the Committee responsible and to the Committees on Agriculture, Budgets and Regional Policy and Regional Planning for their opinions.

The Committees on Agriculture and Regional Policy and Regional Planning subsequently decided not to draw up opinions on the above motion for a resolution.

The Committee on Economic and Monetary Affairs appointed Mr GIAVAZZI as rapporteur at its meeting on 23 September 1980.

The Committee considered the draft report at its meetings of 14-15 April 1981 and of 13-14 May 1981.

At its meeting of 22 May 1981 the Committee adopted the motion for a resolution by 11 votes in favour with four abstentions.

Present: Mr de Ferranti, acting Chairman; Mr Giavazzi, rapporteur; Mrs Baduel Glorioso, Mr Beumer, Mr Bonaccini, Mr Carossino (deputising for Mr Piquet), Miss Forster, Mr Franz, Mr I. Friedrich, Mr Hopper, Mr Leonardi, Mr Markozanis, Mr Nyborg, Mr Orlandi (deputising for Mr Ruffolo), Mr Walter.

The opinion of ~~the~~ Committee on Budgets will be published separately

CONTENTS

	<u>Page</u>
A    MOTION FOR A RESOLUTION .....	5
B    EXPLANATORY STATEMENT .....	10
Annex I : Working document by Mr Giavazzi .....	20
Annex II: Motion for a resolution tabled by Mr DIANA (Doc. 1-319/80) .....	38

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 the restructuring of economic and monetary policies in connection with the Council decision of 30 May 1980

The European Parliament,

- having regard to the mandate given by the Council to the Commission on 30 May 1980,
  - having regard to the motion for a resolution on the restructuring of economic and monetary policies in connection with the Council **conclusions of 30 May 1980** (Doc. 1-319/80),
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Budgets (Doc. 1-256/81),
1. Stresses that all the aspects and implications of the opportunity provided to the Commission by the mandate conferred upon it should be fully exploited, in particular in the situation of **extreme** difficulty facing the Community;
  2. **Points to the need for careful review of the decision-making processes of Community bodies, in order to improve the present poor ratio of effort expended to results and to eliminate the impediments to the proper exercise of their activities, the main purpose being to transform the Community into a place where decisions are taken in good time rather than one where decisions are put off by endless discussions;**
  3. **Hopes that once the mandate is fulfilled the Parliament and the Council will take timely and decisive action to follow up these initiatives and provisions which reflect the very problems which inspired the granting of the mandate in the first place;**
  4. **Believes that it is necessary that in view of the nature and importance of the subjects covered by the mandate Parliament should be effectively involved, according to due process, in the activities undertaken on the basis of that mandate;**

A - Analysis and interpretation of the mandate

5. Draws particular attention to the fact that both the wording of the mandate and the objectives which it sets can only be correctly interpreted as an invitation to put forward proposals relating to the overall restructuring of Community policies rather than simply correcting individual national positions in purely budgetary terms but nevertheless stresses that there is also a need to find a budgetary solution to prevent unacceptable situations arising in the immediate future;

6. Points out, on the other hand, that a restrictive interpretation would only have the effect of further delaying steps to solve the problems which were among the main reasons for the granting of the mandate; and this in the meantime would further aggravate the present lack of cohesion within the Community and weakening of its position abroad;
7. Notes, consequently, that the execution of this mandate must be concerned particularly with finding policies and measures both within and outside the budget framework, which will make it possible to improve the efficiency and competitiveness of the Community through a genuine 'qualitative leap' aimed at achieving the objectives of greater development, balance and stability set by the Treaties (Treaty of Rome, Article 2);

B - Policies which could be followed to meet the requirements of the mandate

8. While recognizing the existence of real difficulties inherent in the historical process of formation of the Community and in its structures, stresses the fact - frequently mentioned in the past - that the continuous absence of a process of greater convergence of the structures and the economies of the Community prevents it making real progress as a Community towards the above-mentioned objectives of greater balance and stability;
9. Believes that progress in this direction cannot be achieved unless greater importance is given to the principle of 'internal and external' solidarity understood as a shared commitment to progress towards a more efficient complete Community, in the common interest; and believes furthermore that to this end the measures to be taken should be timed in such a way and should have such an effective impact on public opinion and the power to correct existing structures and arrangements that they signal a new stage for the Community - although progress will necessarily have to be made in stages;
10. The following objectives must be pursued: better implementation of existing policies; a rational development of common policies; a restructuring and strengthening of the Community budget; close attention to the timing and synchronization of intervention so as to prevent unacceptable situations arising for individual Member States;
11. As regards better implementation of existing policies  
Believes:
  - (a) that it is essential that these policies be applied in their entirety and that the delays which still exist in the passing of legislation for their implementation should be eliminated; that the main obstacles placed by states in the way of the implementation of Community directives should be removed; and that individual measures should be implemented correctly,

- (b) that within individual policies those elements which tend to accentuate rather than reduce disparities and imbalances between regions and sectors should be corrected in order to ensure that these policies contribute to greater convergence of the economies, and to facilitate the process of enlargement of the Community;
- (c) that as regards the review of the machinery and respect for the principles of the common agricultural policy - stipulated in the mandate - particular attention should be paid to overcoming the structural imbalances which still exist between the various types of agriculture and to the need to make the machinery of the policy compatible with variations in the rates of inflation and fluctuations - albeit within the limits of the EMS - in exchange rates within the Community,
- (d) that greater stress should now be laid on the process of harmonization of the various policies through a general framework to be laid down by Community rules;

12. As regards the rational development of common policies:

- (a) believes that policy decisions should be made particularly in the light of the ability of individual policies to meet common requirements; to provide balance in the economic and social situation of the Community and of the individual Member States; to direct the economies of the Member States to Community ends; to make the response to competition from foreign economies a matter for the Community; to make the Community pursue an external economic policy of appropriate weight and quality,
- (b) indicates the following key points for development to be pursued within the framework, and subject to the criteria, set out in points (c) and (d) below:
  - social policy; energy and research policy; industrial policy; transport policy; regional policy,
- (c) believes that these policies can be particularly effective if they are set within a framework of:
  - concertation of national economic policies,
  - strengthening the internal market,
  - adequate development of common external policies,
  - the development of monetary policy and the strengthening and extension of the EMS,

- (d) believes it nevertheless essential to the development of these policies that they be viewed from a global, Community point of view; that the means allocated be suitable and adequate; that there be a concentration of efforts and that the decisions and programmes be centred on the Community; that the approach to imbalances in structures be designed to correct them rather than merely palliate their effects, that the timing of action be related to the requirements in individual sectors, that particular sensitivity should be shown to the social problems in the Community, that careful consideration be given to employment policy especially for young people, and that these policies should be judged on their ability to correct regional imbalances;

13. As regards the Community budget:

- (a) stresses the fact that this resolution is designed to point out only some of the requirements to be met by the budget, without going into the details of how the budget itself is to be restructured or what shape it should take,
- (b) hopes nevertheless that the size and structure of the budget will measure up - albeit progressively and in a realistic, pragmatic way - to the need for practical implementation of suitable overall Community policy rather than vice versa,
- (c) believes that changes in the structure and size of the budget to adapt it to real needs must be carried out sufficiently rapidly, while keeping agricultural spending under control and strengthening the development of other policies which may act as a counterbalance...
- (d) believes that greater control of agricultural spending - without compromising a suitably adapted agricultural policy - and the increase in own resources subject to the above-mentioned control, are essential if the structure and size of the budget are to be adjusted in the desired manner provided that at the same time Community policies are developed in the context of both an overall plan for restoring structural balance and a transfer of a number of tasks and charges from the Member States to the Community,
- (e) feels that even bearing in mind the satisfactory results already achieved it will be particularly desirable for the policy of Community loans to be strengthened - including interest rate reductions for investments directed towards structural balance and avoiding inter-state measures not in keeping with Community projects; there should also be a strengthening of the link between aid from the Community budget and the obligation to follow the Community economic policy objectives on the part of those receiving aid, in order to maximize the effect of the Community budget,



(f) reaffirms its previous indications of the need for annual budgets to be situated within multiannual programmes which make it possible to take greater account of the large-scale development needs of the Community;

14. As regards the timing and synchronization of intervention so as to prevent unacceptable situations arising for individual Member States:

- (a) believes that a careful analysis of the question of timing in Community intervention is decisive; continuing delays in the various corrective measures and measures to restore balance and in particular in reviving Community solidarity aggravate rather than prevent 'unacceptable' situations for individual Member States,
- (b) believes it necessary that Community measures be carefully synchronized and that their success in restoring balance be analysed,
- (c) believes lastly that the provisions taken to intervene in individual cases of Member States in the Community should have at least the following characteristics: they should be conditional (that is to say strictly linked to the purpose for which they were adopted); they should be temporary (with clearly and strictly determined expiry dates); that they should be compensated (that is to say that their subsequent effects or that other simultaneous provisions should strengthen Community cohesion at least to the same extent that the special case has weakened it);

15. Instructs its President to forward this resolution together with the report to the Council and the Commission.

EXPLANATORY STATEMENTThe mandate of 30 May 1980: analysis, interpretation and difficulties of application(I) Analysis of the mandate

1. The mandate given by the Council to the Commission is based on the express statement that 'the Community is pledged to resolve the problem of the imbalances between the Member States by means of structural changes'.
2. This task must be performed on the basis of four rules:
  - 'the examination ... (of) the development of Community policies';
  - it must not call into question the common financial responsibility for these policies which are financed from the Community's own resources;
  - it must not call into question the basic principles of the common agricultural policy;
  - the examination must aim 'to prevent the recurrence of unacceptable situations' for any Member State.
3. The whole mandate must be carried out taking into account, besides, the conclusions adopted by the Council (in its composition of Ministers of Economic Affairs and Finance) at its meeting on 11 February 1980 which included reference to the 1% VAT own resources ceiling.

(II) Interpretation of the mandate

4. The wording of the mandate has suffered from the attempt to reconcile aims which are difficult to combine in a single policy. This characteristic may be explained by the fact that the mandate is the result of a compromise reached with great difficulty but it is one which certainly does not help clarify the instructions contained in the mandate or assist in carrying it out most effectively.
5. Nevertheless, the mandate must be interpreted unambiguously if it is to be meaningful and effective.

The mandate can not be interpreted restrictively as merely a search for one or more budgetary techniques to resolve the imbalances between the Member States which have occurred with regard to their respective contributions to the Community budget, but rather as a request to submit proposals concerning, instead, the overall restructuring of Community policies.

6. This kind of interpretation springs above all from the actual wording of the mandate

This wording:

- stipulates that solutions must be found by means of 'structural changes' only;
- stipulates in addition that the examination must concern the 'development' of Community policies;
- makes the whole purpose of the mandate not to create unacceptable situations for any Member State (not just to restore the balance as regards the contributions of the Member States).

It would be very difficult to achieve these aims by applying a restrictive interpretation of the mandate itself.

7. Any restrictive interpretation would make the mandate totally ineffective

It is an established fact that the inadequate progress of the Community towards the necessary greater convergence of the economies:

- gives rise to the continued existence of the concept of a fair return;
- hinders the development of concertation and thus of monetary union;
- impedes the expansion of the Community (owing to the serious consequences which may be the result of this for some Member States);
- hampers the development of common external policies (commercial or other).

Interpreted restrictively the proposal for 'structural changes' would not be effective in putting an end to this situation, which prevents the attainment of the objectives of development, balance and stability enshrined in the Treaties (Article 2 of the Treaty of Rome). On the other hand, the need for a 'qualitative leap' is clear (though appropriately phased and adjusted to needs which are realistically interpreted).

8. The situation in the Community does not allow of delays in the implementation of corrective measures

The tendency for the disparities and inconsistencies between the objectives of national economic policies to increase, the simultaneous weakening in the application of Community policies and the fact that negotiations take place between Member States rather than on a Community level, all bring about an increase in the process of internal disintegration in the Community and the weakening of its contractual power and its political weight in relation to the countries outside it.

It is likely that this delicate and worrying situation will worsen with time if the Community does not take it upon itself to put into effect measures which are appropriate, effective and timely.

(III) Difficulties to be overcome in fulfilling the mandate as indicated above

Considerable difficulties of various kinds are encountered in fulfilling the mandate in the manner indicated above. These stem from factors which are both internal and external to the Community, in other words:

9. Difficulties which are due to the situation in and structure of the Community

These difficulties may be factors of a political nature - such as the current delicate state of international relations, or of a more strictly socio-economic nature, such as the slump which the international economic cycle is going through and the growing complexity of economic relations between Europe, the United States and Japan.<sup>1</sup>

10. Difficulties caused by the situation in and the structure of the Community

These difficulties may also be caused by factors of a mainly political nature, such as the differences in the political outlook of the various Member States with regard to the extent and limits of Community action, or of an institutional nature, such as the disagreements concerning the powers of the Community institutions and their unsatisfactory functioning, or of an economic nature, such as the inability of Community measures (also, but not only, owing to an insufficient budget) to direct the economies of the Member States towards the attainment of the objectives which the Community has set itself.

Policies which could be followed to meet the requirements of the mandate

(I) General considerations

11. Careful examination of the various considerations and proposals relating to the objective of the mandate (or connected with it) put forward either by the Committee on Economic and Monetary Affairs, or by other committees within the institutions, or committees set up for individual issues, or else by the Parliament, will provide information valuable for the purpose of carrying out the mandate.

In the working document annexed (see also footnote 1 and Annex A) extensive reference is made to these proposals.<sup>2</sup>

<sup>1</sup> See in this connection recently the Communication from the Commission to the Council on the economic and social situation in the Community (COM(81) 95 final of 11 March 1981)

<sup>2</sup> In the working document (Annex A) reference is made to the issues dealt with most recently by the Committee on Economic and Monetary Affairs connected with the subject of the mandate; in addition, various proposals on these subjects submitted by degrees at different times and in different forms are referred to briefly, in particular the Marjolin Report, the MacDougall Report, the De Ferranti proposal on resources transfer based on job flow, proposals for a tax on energy imports from countries outside the Community; financial equalization between the Member States within the framework of the Community budget referred to in the resolution of the Parliament of 15 November 1979 (Official Journal No. C 309, p.34), proposals for new own resources, referred to recently in the resolution of the Parliament of 9 April 1981 (the Spinelli resolution), proposals for the strengthening of the Community loan policies, the proposal for a fund for industrial innovation (the Delarozoy report), the proposal for a European Development Organization (Ruffolo), the proposal for a revolving fund, primarily for the benefit of Mediterranean countries, and proposals relating to measures concerning the infrastructure, and so forth.

Having said this, several ideas are put forward without intending to go into the merits of specific solutions coming within particular spheres of responsibility.

12. In the search for policies to achieve the objectives of the mandate it is necessary to bear in mind the fact that progress towards more balanced development between the Member States must take into account a particularly complex state of affairs. This situation reveals itself in a potentially divisive rather than cohesive trend amongst the regions of the Community, chiefly owing to historical reasons, different socio-economic circumstances and great variations in structure and regional planning.

The effect of the rules of the common market on structurally diverse situations makes the relative differences worse, even if there is a general basic improvement, where those rules are applied without being accompanied by a global Community-inspired policy or by the full and positive application of the common provisions to each activity as a whole (at least those which are economic).

13. The corrective to this situation can only be to apply the principle of Community solidarity correctly and realistically understood provided that there is the belief that progress towards a more complete Community is irreversible and in the common interest.

14. This situation cannot fail to bring about a need for time-limits for implementation related on the one hand to the difficulties to be overcome in harmonizing and adjusting structures and attitudes which are still so profoundly different and on the other to the need to avoid in the interim imbalances which may jeopardize, rather than facilitate, the final improvement.

15. Community measures must therefore accelerate and not delay the process of transforming the structures to achieve greater balance. They must have sufficient impact on the formation of public opinion to correct gradually the existing natural differences in attitude. Finally, they must take into account the need for structural changes to correct far-reachingly the state of several regions of the Community which are particularly at a disadvantage, since without that correction it is useless to hope for balanced and lasting general development.

In connection with these general considerations it seems appropriate to mention the following points:

(II) Better implementation of existing policies

16. The first point is the need for existing policies to be fully applied,

eliminating the delays, which are still considerable, in the adoption of the necessary legislation for their implementation, removing the chief obstacles to the implementation of existing directives, and carrying out properly the individual tasks (to this end the following are relevant: the re-examination, with a view to its correction, of the relationship between the decision-making bodies in the Community, the elimination of technical barriers, a more effective and flexible customs policy and greater transparency, etc).

17. The second point should be to reconsider those aspects of individual Community policies which at present tend to accentuate rather than to lessen the disparities between the various regions of the Community. In this connection the basic principles of the mechanisms governing the Common Agricultural Policy must clearly be carefully reviewed, as required by the mandate. This must be done with special attention to the objective of overcoming the structural imbalances between the various types of agriculture. Particular attention should be paid to those mechanisms which should make the Common Agricultural Policy compatible with the variations in the rates of inflation and the fluctuations in exchange rates which, although now controlled and concerted to a greater extent within the European Monetary System, still persist in the Community.

18. The third point is the further extension of Community provisions, which should be as general and flexible as possible but binding as to the essentials within which the individual policies of the Member States may be set and find a common reference point (in particular on the issues of harmonization of legislation and taxation, freedom of movement, the equivalence of professional qualifications, etc.).

(III) The rational development of common policies

19. It seems necessary to start with a brief look at some general criteria which should govern the choice of such policies, in other words:

- their ability to meet common needs upon which the development of the Community as a whole depends;
- their stabilizing effect on the economic and social situation in the Community;
- their effectiveness in directing the economic policies of the Member States towards Community objectives;
- their settled purpose to make up the time lost by the Community in relation to the economies of the large regions outside the Community and to defend the competitiveness of the Community;
- their influence in enabling the Community to pursue an external economic policy which is of weight and quality to match its intrinsic potential.

## 20. Individual policies

### (a) energy and research policies

The importance and priority of these policies has been stated many times. As there is clearly agreement on their role it is only necessary to put them into effect by making available the necessary funds and effectively co-ordinating national policies within a Community concept of the problems and requirements.

### (b) regional and social policy

By means of appropriate restructuring, these policies should be able to compensate for existing imbalances due chiefly to the different effects of the application of the rules of the common market to different situations by placing sufficient funds at their disposal and by directing their course increasingly to the correction of the different structural situations. For this purpose it seems appropriate to concentrate efforts more intensely and to centre the decisions and spending programmes on the Community.

### (c) industrial policy

This should be achieved by the following means: the creation of a common policy for the protection of general interests, the taking of steps at a Community level where they can be more usefully performed at that level, rather than nationally or between the Member States (especially in the field of advanced technology), the elimination of local or sectoral barriers to the improved performance of common activities, the encouragement of means to provide incentives for the reconversion of specific undertakings and for job mobility, without creating situations which will distort free competition, the fixing of a common standard of treatment for sectors in conjunctural difficulties and, as a whole, the paying of special attention to the problems of employment and to the need to maintain the competitiveness of the Community structures of production.

### (d) employment policy

Any progress in Community action will also bring about lasting improvements in the employment situation; however, a specific policy must be devised more effectively with regard to the unemployment of young people which is a common problem in various forms in many European countries - its causes and solutions are interrelated and complex, reaching beyond the labour market and affecting particularly educational policies and hence schools, universities and occupational training.

### (e) transport policy

This sector, besides being expressly mentioned in the Treaties (Article 3 of the Treaty of Rome), is particularly suitable for action to co-ordinate national policies and for cautious but effective measures to change progressively territorial situations which form a particular obstacle to greater Community equilibrium.

(f) concertation of national economic policies

This should be carried out by developing a common model for medium-term national plans which is to be taken on the one hand as the basis and on the other as the implementation of the Community plan and which, though remaining extremely flexible and sensitive to the different circumstances and requirements, avoids divisive trends and practices which may jeopardize the approach to greater general equilibrium.

21. The development of common external policies

These should be able to meet the request for such policies which is put to the Community, at times to a greater extent than expected, and which it can now satisfy.

The implementation of these policies, in the commercial and in the wider sense, may have a two-fold effect, both that of strengthening the political willingness of the Member States to work out a Community role and that of developing the joint administration of resources, solving problems of the Community as such and those of the countries outside it.

22. The development of the common monetary policy: strengthening and completion of the European Monetary System

It must be stressed that greater convergence of the economies is a requirement for, rather than a result of, the strengthening and completion of the European Monetary System for Community purposes.

Progress in this convergence is however also essential to actual survival of the European Monetary System (and cannot be postponed).

Decisions of an essentially political nature must be taken in this context to strengthen and complete it, taking into account the necessary technical timing but also the dangers inherent in delay, particularly when such delays slow down steps which it would be possible to put into effect speedily.

One of the chief problems to be faced from this point of view is, as is well-known, the concertation of policies in relation to the dollar. The need for progressive and planned elimination of the main obstacles to the free movement of capital is closely linked to the development of the European Monetary System and a more complete and effective common monetary policy. This should also be carried out in implementation of the principles enshrined in the Treaties.