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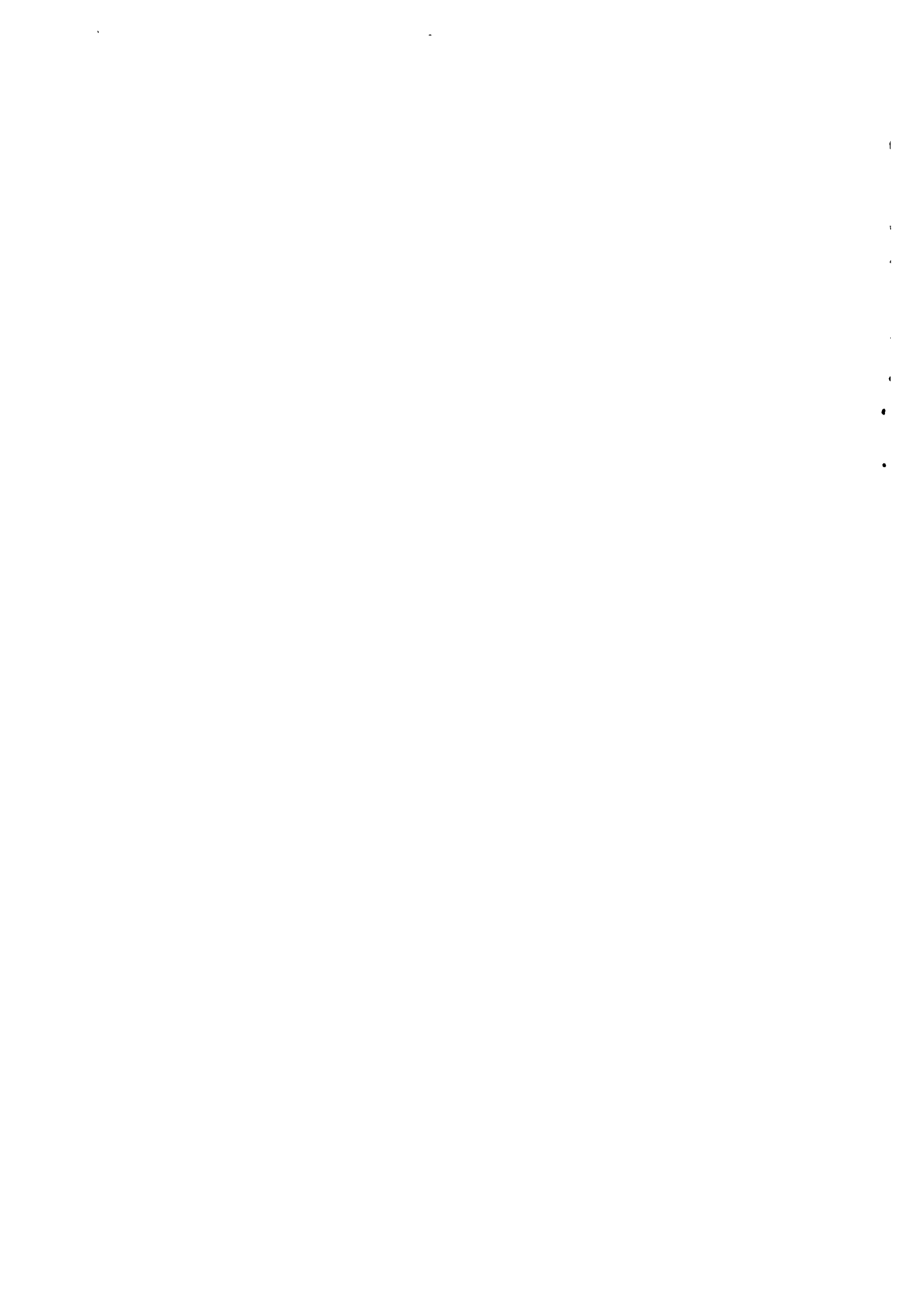
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REPORT

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

on the competitiveness of Community industry

Rapporteur: Mr S LEONARDI



At its March 1980 part-session the European Parliament referred the motion for a resolution (Doc. 1-820/79/rev.) on the competitiveness of the Community economy, tabled pursuant to Rule 25 of the Rules of Procedure, to the Committee on Economic and Monetary Affairs as the committee responsible.

At its meeting of 20 March 1980 the Committee on Economic and Monetary Affairs appointed Mr Leonardi rapporteur.

The committee discussed the subject at its meetings of 21-22 May 1981, 9-10 June 1981, 26 January 1982, 27-28 April 1982 and 13 July 1982. Two hearings were held, one on 30 March 1982 and the second on 19 October 1982. Draft resolutions were considered on 23-24 November 1982 and 24-25 January 1983 and a resolution was adopted on 23 February 1983 by a unanimous vote with two abstentions.

The following took part in the vote:

Mr HOOPER (first vice-Chairman and acting chairman); Mr MACARIO (second vice-Chairman); Mr LEONARDI (rapporteur); Mr BEAZLEY, Mr von BISMARCK, Mr BONACCINI, Mr CABORN, Mrs DESOUCHES, Mr GIAVAZZI, Mr KAZAZIS (deputizing for Mr Collomb), Sir Brandon RHYS-WILLIAMS, Mr WAGNER, Mr WEDEKIND (deputizing for Mr Schnitker), Mr WELSH and Mr von WOGAU.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	12
Definition.....	12
Possible causes or reasons	19
The possible consequences	28
Possible lines of action	32
- Development of the internal market	33
- Progress towards monetary union and in capital formation...	37
- Problems of education and training	39
- Competition policy	39
- Reform of the institutions	40
- Proposals for the Commission	40
Concluding remarks	41
 ANNEX Motion for a resolution tabled by Mr Leonardi and Mr Bonaccini on the competitiveness of the Community economy (Doc. 1-820/79/rev.)	42

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 competitiveness of Community industry

The European Parliament,

- having regard to the motion for a resolution on the competitiveness of the Community economy (Doc. 1-820/79/rev.),
 - having regard to the Commission's document on the competitiveness of European Community industry,
 - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 1-1335/82)
1. Notes that the competitiveness of the Community economy gives rise to concern for a number of reasons:
- the failure to establish a genuine internal market at European level, unlike the major industrial competitors, who can rely on a single market;
 - the fact that as far as public procurement is concerned, national markets are effectively closed;
 - the apparent and continuing inability of certain member countries to increase the total value of their exports of manufactured products and of services, to a degree sufficient to offset the higher costs of raw materials and in particular of oil;
 - the continued low levels of investment within the Community compared, say, with Japan, particularly in the manufacturing industry;

- the relative lack of specialization of Community industry in advanced technologies, and the Community's continued heavy reliance, especially in employment terms, on industries where competition from third countries is likely to be most acute, or where the prospects for future growth are poor;
 - the weaknesses in the process of technology transfer within the Community which have led, for instance, to a totally inadequate response to the challenge of developing the technologies of the future, such as the new information technologies, where in many aspects both Japan and the United States are ahead of the Community;
 - the overly defensive attitude to change that is often apparent within the Community, where investments are frequently used to maintain obsolete and economically unproductive undertakings instead of being directed towards restructuring and conversion schemes;
 - the fragmentary nature of Community action in the industrial and energy policy fields and in the research and development sector;
2. Considers that these indications of the Community's inability to adapt adequately to vital changes that have been taking place in the world economy must be publicised as widely as possible;
 3. Considers that the concept of Community competitiveness must be brought to the forefront of Community policy-making considerations;
 4. Considers that, if the countries of the Community are not able to compete adequately with the rest of the world, then not only our standard of living but also our whole way of life is in danger;
 5. Is convinced that competitiveness can be assessed in both quantitative and qualitative terms from the results obtained on the market as compared with those obtained by competing third countries. Such results depend in turn on such factors as:

- the degree of industrial specialization;
- trends in productivity;
- comparative wage costs;
- comparative costs of social security payments;
- the degree of energy and raw material dependence, and costs;
- the degree of factor mobility (labour, capital) and the major bottlenecks encountered;
- industrial production growth rates;
- comparative exchange rates;
- growth in the EEC's external trade;
- industrial investment levels;
- comparative company profitability and financial structures;

6. Considers, therefore, that the Commission should carry out a systematic and regular review of the state of Community competitiveness.

Underlines, moreover, the importance of carrying out this review in global rather than in merely sectoral or national terms because:

- there are a number of factors such as exchange rate fluctuations, the low level of investment and falling productivity which are common to many sectors;
- an overly sectoral approach makes it more likely that problem areas will be looked at in isolation and makes it more difficult to establish an order of Community priorities;
- a global approach will give a clearer idea of the necessary adjustments from industries in decline to those of the future;

7. Welcomes the Commission's report on the competitiveness of European industry as a useful first step in defining problems of competitiveness and in examining some of the factors involved.

Calls, however, for a more rigorous follow-up to this study; agrees with the Commission's recommendations that the analysis of relevant trade data should be put on a permanent basis and that analyses of the evolving industrial strategies of the Community's competitors should be more systematically carried out in the future; hopes, moreover, that there will be an improvement in the quality of the relevant industrial statistics at national level.

Requests a further study of the competitive situation in the increasingly important services sector, without which a proper examination of Community competitiveness cannot be fairly made;

8. Affirms that responsibility for improving competitiveness rests primarily with companies through continual action to pare costs, increase productivity and raise quality, public authorities having a complementary role to play in ensuring conditions conducive to the efficient conduct of business;
9. Holds that the future buoyancy of business activity depends on sufficient profits being made for reinvestment and on a cost containment policy;
10. Draws attention to the great scope for increasing competitiveness by raising productivity, as measured by the level of output per person employed, through investment in modern technology, acquisition of new skills and adoption of more effective work practices;
11. Draws attention, above all, to the need for decisive progress to be made towards the establishment of a proper internal market in order that the scale and potential of the Community market may be used to the fullest advantage.

Points out that if a true Community-wide market were created, Community industry would have a larger home base than its major industrial competitors, the United States and Japan, and much greater commercial weight than at present on the world market.

Places particular emphasis

- first, on the need not just to dismantle existing barriers between Community countries, but also to prevent the creation of new ones;
- second, on the need to open up public markets (which would have a major impact in sectors such as telecommunications); and
- to harmonize standards applicable to new techniques and products;

12. Calls again, as it has on numerous occasions, for the development of a proper Community industrial strategy, based on an integrated approach and encompassing the whole range of Community instruments and policies;
13. Considers that a range of measures could be introduced which would enjoy broad support and enhance Community competitiveness.

Besides those mentioned above in the context of the internal market, these measures include:

- increased Community support for vocational training aimed at providing new and needed skills;
- increased research and development efforts at Community level and at the level of the Member States of the EEC, and increased publicity for the results of such efforts, in order to accelerate their practical application throughout the Community;
- greatly accelerated progress towards developing an appropriate framework of European company law. Points out in this context that European industry is still characterized by national firms which, although having subsidiaries in other countries, lack a genuine European dimension. Further points out that firms located outside the Community often have such a European dimension;

- enhanced cooperation between European firms in fields where Community industry is more fragmented than the industries of its competitors. Recalls here its previous demands for Community competition policy to be interpreted in such a way as to take account of world-wide competition, which may entail in certain cases taking a more favourable view of mergers or agreements between firms wishing to strengthen their competitive position;

14. Points out also that adjustments will have to be encouraged from sectors and subsectors in which the Community is likely to be increasingly uncompetitive to those in which it has a better chance of competing successfully on a longer-term basis.

Believes that this does not merely entail concentration on a few 'high' technologies, or abandonment of the so-called traditional sectors, which have to be made competitive. Points out that adjustments and restructuring will be necessary not just between sectors, but within them as well;

15. Considers that the adoption of new common policies, notably in the fields of energy, transport and telecommunications, would also provide a better framework for the improvement of Community competitiveness. Believes also that more effective and better co-ordinated use of Community borrowing and lending instruments and provision of greater scope for the use of the ECU would help raise competitiveness, supplementing national efforts to promote productive investment, particularly that of a European dimension.
16. Emphasises that the European Monetary System has an important part to play in improving competitiveness through the reduction of exchange rate fluctuations, a major element of uncertainty in trade and payments between Member States;

17. Points out that the process of increasing Community competitiveness is also closely linked to the question of adapting to the changes that must be made if the challenge from third countries is to be met positively rather than defensively, and that this calls for the encouragement of a positive attitude towards the introduction of the new information technologies;
18. Recognizes, however, that there is no simplistic 'model' of development such as the Japanese model, that can be closely imitated. Instead, the citizens of the Community must be encouraged to elaborate a model of development which reflects and makes the most of the traditions and distinctive features of our societies, encompassing not just the economic issues, but also questions of a political and cultural nature;
19. Also recognizes that, at times, difficult trade-offs will have to be made between differing Community objectives.

Considers, in this connection, that since social charges and certain production costs are generally high, they may have an adverse effect on the level of the Community's competitiveness, and that, for instance, proposals to maintain and strengthen European systems of social security, reorganize working and protect the environment, should be subject to cost-benefit analysis, due account being taken of the possible consequences for competitiveness;

Is convinced, however, that it would be wrong to dwell exclusively on such negative aspects, although the impact of wage costs on consumption and productivity levels should also be borne in mind;

20. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

1. In this explanatory statement, we shall confine ourselves to an appraisal of the main considerations which prompted us to put forward the various proposals in the motion for a resolution.

For a more exhaustive discussion of our subject, on which a great deal has been written, we would refer the reader first and foremost to the document entitled 'The competitiveness of European Community industry', which the Commission was good enough to draw up at the request of this Parliament, and to the various studies produced by Parliament's own research and documentation services. We also attach a few statistical data which we consider to be of particular importance.

Definition

2. Competitiveness is a highly complex phenomenon. Reasonably valid conclusions on the subject can be reached only by a continuous process of analysis and synthesis.

3. The most serious pitfall is to assume that all problems can be solved by the investigation of individual causes or aspects of the situation, such as labour costs, entrepreneurial capacity, terms of trade, and so on. In this report, we shall endeavour as far as possible to avoid this pitfall.

4. To that end, we shall confine ourselves, in the first instance, to the industrial sector, which is still the most crucial sector for the economies of our countries and which, in 1980, accounted for approximately three-quarters of all EEC exports.

5. Attention should be drawn to the growing importance of services which cater for domestic needs. By their very nature, many of these, e.g. education and medical aid, are to a large extent protected from, or at least 'not exposed' to, external competition.

6. We shall take as a definition of competitiveness simply the ability to face up to international competition. We shall then measure competitiveness, at least in the first instance, by the final performance of industrial products on the market.

We shall also try to examine the problem chiefly in terms of the Community as a whole.

7. We are well aware that this approach is rather theoretical, but nevertheless in various important ways the Community, as a customs union, is united vis-à-vis the outside world. On average, more than half the Member States' external trade is conducted within the Community customs area. However, the differences between the Member States are still so substantial that the temptation is often to consider the overall Community figures as the aggregate of the figures for individual countries rather than the combined figures for a single unit.

8. We wish to examine the results of industrial competitiveness mainly at Community level because the Community is the 'dimension' within which we operate institutionally as the European Parliament. We shall examine 'competitiveness' with the express purpose of ascertaining the effects which belonging to the Community, i.e. assuming the Community 'dimension', can have had or could have on individual Member States.

We shall then try to identify and to examine what the Member States have in common, or could have in common, with a view to determining, and improving on, their present competitiveness vis-à-vis the outside world.

9. One of the objectives of this report is to establish whether or not the differences between the Member States are such as to rule out the possibility of joint action to improve the position of individual States vis-à-vis the outside world.

10. We believe, precisely because the situation is serious and there are substantial differences between the Member States, that we must endeavour to face up to the problems first and foremost as a Community, reversing the so-called realistic trend - in our view quite futile - which consists in concentrating heavily and at times exclusively on national, not to say local,

difficulties. These will be better understood and easier to solve if we try to see them in an external context, in terms of the competitive capacity of the Community as a whole in relation to third countries.

At present, the United States and Japan are our chief competitors, but the newly industrializing countries (NIC) are rapidly closing the gap and will have to be watched very carefully.

We have, however, faced up to the competitive threat from the state-trading countries, including of course China, which have their own, highly individualistic style of operating.

11. A few basic data may be useful as an initial approach to our subject :

If we include intra-Community trade, the EEC's share of world trade in 1980 was about 34%. If we exclude intra-Community trade, this figure falls to around 16%, which is roughly comparable to the combined share of world trade of the external trade of the USA (11%) and Japan (7%).

After excluding intra-Community trade, total exports to third countries in 1979 represented 11.6% of the Community's GNP, while imports accounted for 12.3%. For the same year, the equivalent percentages were 9.1% and 10.3% for the USA and 12.7% and 13.5% for Japan.

It will be seen from these figures that, as regards the percentage value of its exports and imports in relation to GNP, the EEC occupied a position midway between the USA and Japan.

12. It should be noted that, since 1958, the EEC's dependence on the outside world has remained almost stable from one year to the next. Obviously, this situation is very different for Member States considered individually, since their external trade is deemed to include trade with Community partners, which is far greater than their trade with third countries. Japan's dependence on the outside world over the same period has not changed much either. It should be borne in mind, however, that, with its income increasing at twice the rate of that of the EEC, the near absence of change in Japan's dependence on the outside world has been accompanied by a substantial increase in its share of the markets through its establishment of dominant competitive positions in a number of sectors.

13. A rough idea of the performance of EEC industry overall compared with the outside world may be gleaned from the following tables :

DISTRIBUTION OF WORLD EXPORTS OF MANUFACTURED PRODUCTS (SITC 5,6,7 & 8), 1963 - 1979 (%)

EXPORTER	1963	1967	1973	1976	1979
WORLD (excluding intra-EC)	100.0	100.0	100.0	100.0	100.0
EC (excluding intra-EC)	36.4	33.8	25.6	31.5	22.4
USA	22.7	21.0	17.8	18.7	17.9
Japan	7.8	9.9	13.1	15.0	15.3

DISTRIBUTION OF WORLD IMPORTS OF MANUFACTURED PRODUCTS (SITC 5,6,7 & 8), 1963 - 1979 (%)

IMPORTER	1963	1967	1973	1976	1979
WORLD (excluding intra-EC)	100.0	100.0	100.0	100.0	100.0
EC (excluding intra-EC)	15.6	16.1	17.0	17.1	19.5
USA	12.2	16.2	16.7	15.6	16.1
Japan	2.6	3.2	4.2	3.2	3.9

Source : Eurostat

14. Since the hitherto less developed countries are bound to increase their share of world trade, it seems inevitable that the share of more advanced and still dominant countries such as the Community Member States will decline in relative terms. However, the real problem relates less to a drop in the percentage share of world trade of the EEC as a whole - with substantial differences between the States - than to :

- the ratio between exports and imports, on the basis of which we can evaluate the ability of the EEC, whose industries are primarily engaged in the processing of raw materials, to pay for its essential imports through its own efforts;

- the sectoral breakdown of exports, which depends on the Community's productive structure and on the basis of which we can evaluate not just our current competitive performance, but also future trends, given that changes in the productive structure are generally slow to take place.

An analysis of origins (imports) and destinations (exports) would also be useful in this connection;

- intra-Community and extra-Community trade relations, which must be studied with a view to ascertaining how the EEC is faring as a customs union, both in terms of the growth of the internal market and in terms of the uniform approach expected of individual Member States in their trade with non-member countries.

The following figures show the extent to which imports are covered by exports :

Coverage (Exports/Imports)

A. All Products (Total)

	<u>1972</u>	<u>1980</u>
EUR 9	1.00	0.82
USA	0.88	0.85
Japan	1.22	0.93

B. Industrial Products (SITC 5,6,7,8)

	<u>1972</u>	<u>1980</u>
EUR 9	1.93	1.55
USA	0.89	1.09
Japan	3.99	4.23

Source : EUROSTAT & OECD

These figures are not directly comparable, in particular on account of the USA. In addition to the dominant position enjoyed by this country in various other fields, we must also bear in mind the extensive production and trading activities carried on beyond the national frontiers by United States multi-nationals, the value of whose foreign output in 1978 was equal to 222% of the value of all US exports. In the case of Japan this figure was 17%, while for the EEC it varied considerably from one country to another, but was generally less than 50%, the highest figure recorded being for the United Kingdom (more than 100%). Towards the middle of the last decade, approximately 30% of US imports were produced by the foreign subsidiaries of United States companies.

15. The report by the Commission (Doc. III/387/82 of 5.3.82) suggests that as far as exports of a range of traditional intermediate products are concerned, the Community is still in a relatively strong position. However, it is these products which are the most exposed to competition from the newly industrializing countries. 'In short, were it not for the good performance of the agri-industry and raw materials exports, the overall performance of the Community's exports would have been much worse. For manufactured products as a whole, the Community lost ground relative to Japanese and United States exports.' (see page 12 of Commission document.)

16. As far as high technology products are concerned, the same Commission document provides the following data on changes in comparative advantage (broadly similar to specialization indices), which reveal a rapid qualitative deterioration of the Community's position on the world markets :

Changes in comparative advantage in exports
of high technology products

Total world manufacturing exports			
	<u>1963</u>	<u>1970</u>	<u>1980</u>
Community (1)	1.02	0.94	0.88
USA	1.29	1.27	1.20
JAPAN	0.56	0.87	1.41
Belgium-Luxembourg	0.67	0.77	0.79
Denmark	0.58	0.60	0.66
Germany	1.21	1.06	0.99
France	1.00	1.06	0.93
Italy	0.84	0.83	0.63
Ireland	0.43	0.67	1.03
Netherlands	1.05	0.83	0.69
U.K.	1.05	0.92	0.94

(1) Including intra-EEC trade

Source: Technological Innovation in European Industry, DG II, January 1982

17. For a number of years, intra-Community trade expanded at a far more dynamic rate than Community trade with third countries, at least, that is, until 1973-1974. Since then there has been a levelling-off of intra-Community trade and, perhaps, a reversal of the trend. Internal trade has given a limited amount of protection to certain industries manufacturing traditional consumer goods (footwear, textiles, clothing, furniture, and so on). However, these have become less competitive on the external markets. This suggests that the process of European integration, which can be roughly gauged by the growth of intra-Community trade in relation to the growth of extra-Community trade, has been brought more or less to a standstill.

18. It may be inferred from this initial appraisal that there has been a loss of competitiveness in the Community as a whole, inasmuch as it is increasingly unable to rely on its processing industries and, hence, on exports of manufactured goods to pay for its imports - not just imports of raw materials but, increasingly, imports of a variety of manufactures, especially high technology goods needed to maintain and develop productive activity as a whole.

The declining positive balance for manufactured products has been accompanied by an ever more frequent and increasingly large overall deficit in the trade balance and even the current payments balance of the EEC as a whole. There are, however, striking differences between member countries and considerable annual fluctuations owing to the powerful influence which the price of a single raw material, oil, has on overall performance which, again, varies substantially.

19. This is an anomalous state of affairs for a structurally manufacturing area which has reached the 'developed' stage and which should promote development and therefore 'actively' influence changes in the international context in which it operates, for which purpose it should have sufficient reserves to finance investment and aid. Hence, it is pointless that the Member States should so frequently resort to economically restrictive policies in an attempt to improve the balance of their external accounts (see 'Changes in industrial structure in the European economies since the oil crisis 1973 - 1978' - Commission of the European Communities - European Economy Special Issue, 1979).

20. The situation might also be summed up by saying that, unlike Japan, the EEC as a whole has been unable over the past decade sufficiently to increase its trade in manufactured products to offset the higher costs of raw materials, particularly oil. Nor has it adopted the measures needed to achieve a balance in respect of services and transfers - unlike the USA which, moreover, has energetically pursued the goal of 'active adjustment' and influenced the development of other countries by transferring part of its industrial capacity abroad.

21. This weakness of the EEC as a productive and trading 'zone' corresponds to weaknesses in many other fields, particularly the monetary field. We have only to think of the loss to its various currencies from not having a stable reference to an external currency (the dollar) at the beginning of the 1970s and of its inability up to now to establish its own monetary 'zone', in other words its own reference system.

Possible causes or reasons

22. In seeking to discover the reasons for our present lack of competitiveness, various explanations immediately spring to mind in connection with imports (penetration of our markets) and exports (penetration of external markets).

23. Broadly speaking, the factors which chiefly influence competitiveness concern prices, quality, times of delivery and payment, guarantee and technical aid terms, etc., which in turn are bound up with the terms of trade, labour, capital and energy costs, entrepreneurial flair in production and trading, the adequate liquidity of firms, transport conditions and prices, advertising capacity, etc. An analysis of the aforementioned documents and of the preliminary studies of the influence of these factors does not always lead to satisfactory conclusions. Nevertheless, particular importance attaches to the terms of trade - at least since the early 1970s - and to the various factors not directly linked to costs and prices, in other words those relating to quality, particularly as regards the more sophisticated products. In addition, considerable importance attaches to production costs, either as they influence prices directly, or indirectly through a firm's profitability and, hence, its ability to invest and improve productivity.

24. Needless to say, if we are to improve our competitiveness, we must seek to influence those factors - as many as 240 according to a 1981 report by the European Management Forum - on which it depends. However, if, as we have been asked, we are to make a political assessment of the facts, we must seek to distance ourselves from individual cases and incidental considerations which, obviously, are differently evaluated by the various interested parties, which makes it difficult, if not impossible, to embark on the kind of joint effort which we now consider to be necessary.

We believe that the right approach must be to look for the fundamental reasons from which all the others originated and which, often gradually, have had a negative impact on our competitive capacity overall.

25. In an exercise of this kind, we believe that there is a particularly obvious connection - allowing, of course, for the time-lag between cause and effect - between our loss of external competitiveness and the cut-back in investments, especially in the industrial sector, and the increasingly 'conservative' nature of the investments that are made. This has provided added protection for a variety of existing undertakings and sectors which are already overcapitalized, e.g. the steel industry, shipbuilding, parts of the chemicals industry, etc. The following table provides a few data on the investment situation. For more detailed analyses, we would refer the reader to the statistics attached and to the studies already quoted.

Manufacturing Investment
(at 1975 prices and exchange rates)

	<u>Community</u>			<u>Japan</u>			<u>United States</u>		
	<u>1970</u>	<u>1975</u>	<u>1979</u>	<u>1970</u>	<u>1975</u>	<u>1979</u>	<u>1970</u>	<u>1975</u>	<u>1979</u>
<u>Total Investment</u>									
- 1,000 million ECU	229	236	263	111	131	170	202	201	255
- % of GDP	24%	22%	21%	35%	32%	33%	18%	16%	17%
<u>Manufacturing Investment</u>									
- % of GDP	5.2%	3.8%	3.0%	9.6%	6.1%	5.2%	2.8%	2.1%	2.6%
- % of total investment	23%	18%	15%	27%	19%	16%	13%	13%	14%
- 1,000 million ECU (approximation)	53	42	39	30	25	27	26	26	36

Sources : US National Accounts EBA-Aggregates
Japan - Economic Planning Agency
EUROSTAT

Per capita investment in ECU

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1979</u>
EC(1)	732	907	914	1 009
JAPAN	500	1 062	1 170	1 464
USA	985	990	1 058	1 158

(1) excluding Greece

Sources : for population : .Eurostat .World Tables from World Bank
.Statistical Abstracts of US 1980

26. The correlation between internal investment activities - the EEC's investment abroad, unlike that of the USA, is relatively modest - and external competitiveness may serve to illustrate what we consider to be its real limitations in an area such as the Community. EEC exports account for 'only' 11% of GNP - even less if we take account of the relatively 'internal' nature of trade with the EFTA countries, with which a free trade agreement has existed for years. External competitiveness depends on the internal development of the 'area'. Clearly, in the case of certain activities and certain countries, extra-Community exports can be of decisive importance, since they are necessary to balance essential imports.

27. In these circumstances, it is clear that we cannot delude ourselves into thinking that a change in the short-term economic outlook could remedy a situation brought about by decisions which were taken or not taken - many years ago and which have made our productive structure less able than others to face up to the challenge posed by the changes taking place in the outside world.

28. Everything, of course, is relative. The rate of investment in the EEC is particularly inadequate if we consider the need to revitalize an industrial structure which inevitably still suffers from the fact that the oldest processes of industrialization occurred in our countries; the particularly high rate of investment in Japan must be seen in relation to the need for that country to build up adequate capital stocks from nothing, which in fact it has succeeded in doing; the apparently low rate of investment in the USA must be assessed in the light of existing capital stocks and of the substantial investments made abroad.

29. As regards the 'conservative' nature of EEC investments, which would obviously call for a sectoral analysis, we believe that this is satisfactorily illustrated - at least in terms of the effects on external competitiveness, and even if intra-Community and extra-Community trade differ substantially in character - by the specialization indices for exports. As the Commission's report shows, in the case of the EEC these indices are confined to a very narrow range and tend to vary little over time. By contrast, the range of specialization indices in Japan and the USA is much wider and tends to vary much more over time. This is particularly true of Japan which, in a relatively short space of time, has reduced its commitment to the technologically less specialized sectors and moved on to the more advanced sectors. The competitive advances made through the conquest of larger shares of the world market are closely bound up with its ability to supply technologically new and more advanced products and with the conversion of its productive structure for that purpose.

30. The situation in the EEC is bad enough and, we feel, will get worse as time passes, given the structural deficiencies which we have briefly described. On page iii of the Commission's report, we read that 'not only are Community exports relatively unspecialized, the degree of specialization in high technology high skill products seems to be declining and certain Member States' exports are even specializing in product areas where they are - or will be - competing with newly industrializing countries, rather than with other developed countries'.

31. This being so, it is quite likely that within a few years we shall find ourselves in difficulty, not to say in a position of inferiority, not just in relation to the USA and Japan, but also in relation to a growing number of newly industrializing countries. Moreover, it was not so many years ago that Japan itself was considered a country of little consequence in terms of competitive ability. It was not taken into consideration in the documents drawn up preparatory to the establishment of the EEC which, by contrast, had much to say about the competitiveness of the USSR and, of course, the USA.

32. This inauspicious situation for the EEC as a whole is made even more serious by the differences that exist between the member countries, which makes concerted action by the Community, as a customs union, all the more

difficult to contemplate. These differences could not only hold up and obstruct Community action, but also lead to the creation of internal zones operating at different speeds, which would surely herald the disintegration of the Community.

33. In an attempt to simplify matters, we have focused our attention on the problem of investment and where it should be made for two reasons: first, because these are determined by one or more of a variety of other key factors such as costs and prices and entrepreneurial capacity, and secondly, because the low rate of investment and the tendency for it to be ill-directed are weaknesses common to all the Member States apart from the FRG and Ireland, which do not, however, alter the overall situation. The differences between the Member States are far greater for other reasons, e.g. their inflation rates.

34. In continuing our attempts to identify the fundamental reasons for the unsatisfactory state of our competitiveness, we might say that inadequate investment and its inadequate orientation are both the cause and effect of a more general phenomenon, which is the inability of our countries actively to adjust to the rapid and radical changes in the international context which have mostly taken place since the end of the 1960s, or since the beginning of the present monetary crisis. Consequently, the EEC countries have been exposed to and damaged by the consequences of many changes at international level. They have tried to protect themselves from the increase in the price of oil, for example, by depressing economic activity, whereas a general commitment to conversion would have called not for a reduction but for an increase in investment and economic activity and would have had a favourable effect on the utilization of resources and, in particular, on employment and competitive performance. We have looked on the changes in the world context, for which we were in large measures responsible, as a 'disgrace' from which we have sought to defend ourselves, instead of welcoming them as an incentive to change.

35. This is illustrated by the different way in which the EEC countries and Japan reacted to the deterioration in the terms of trade as a result of one of the major changes that have occurred over the past decade in the relationship between the prices of manufactured goods and raw materials.

The European countries with the longest history of industrialization have endeavoured to defend long-established positions; Japan, on the other hand, has accepted the general spread of industrialization throughout the world. The deterioration in the terms of trade, which has been more rapid and serious for Japan than for other countries, has resulted not merely from the increase in the prices of raw materials, which has been damaging to Japan because of its extreme shortage of such materials, but also from the shift in Japanese production towards technologically advanced sectors. This has been partly responsible for the fall in unit costs and prices. Other causes have been growing external competitiveness and the rapid expansion of exports, bolstered by the tendency to undervalue the yen. Thus, Japan has responded to the higher price of oil and other raw materials by flooding the world markets with its new products at extremely competitive prices and by creating for those new products new consumption habits even in the industrially more backward countries. In this way, it has pursued a policy of active adjustment to changes in the international context.

Similar observations might be made with regard to capital productivity (value added : gross stock capital), which is always substantially lower in the EEC than in the USA and Japan.

36. In a word, then, the decline in our external competitiveness is due to our inability to adapt actively to the key changes that have taken place, especially over the past decade, in the world in which we live and on which we depend.

37. We have failed to make the necessary changes within our countries through adequate investment. This inability to change, in a changing world, is attributable to many factors: the widespread protection of various individual rights, which has been an incentive to maintain the status quo; the absence of entrepreneurial expertise and flair; the meagre efforts and, above all, the lack of coordination in the field of scientific and technological research; the existence of a credit system which tends to reinforce the status quo, rather than encouraging us to accept the risks associated with innovation; the growth of public expenditure and the resulting deficits which, in order to maintain and safeguard the established order, transfer resources away from the development of innovatory schemes, and are likely to continue.

38. Overall, our systems have been wanting in innovative capacity, in the broadest sense of the term, in that it also covers new management systems and, hence, new control procedures and incentives.

39. It has to be repeated, however, that, while all these factors are relevant, none of them can alone explain the bewildering fact of our inability actively to adapt to the outside world; it would be unrealistic, moreover, to concentrate on just one of them in the hope of improving the situation as a whole. Every attempt to tackle a single aspect of the problem, such as the overall cost of labour, which, because of the indirect charges involved, is one of the most striking illustrations of the way in which we 'safeguard' our societies, would be considered unacceptable by those directly interested and create an excuse for not tackling other aspects, thus leaving us in an unchanged, if not a worse, situation.

40. To improve our competitive position, we must seek to identify an overall 'reason' which would allow a concerted effort to be made by all concerned to find a satisfactory remedy.

41. All the reasons mentioned above, and various others besides, are, we believe, a reflection of a society withdrawn into itself which has adopted a defensive attitude towards a changing world to which, however, it should have remained receptive and responsive.

42. The reasons why the EEC should have remained open to the outside world are many and diverse, but they include the very conditions that have enabled the Community to distance itself from the main regulations governing world trade (GATT and others) but also to be instrumental in their realization.

43. The EEC's defences consist predominantly of restrictive monetary and fiscal policies; the retention of various internal preferential rules, at the expense of a reduction in overall economic activity; the rejection of necessary changes which require an understanding of the need for action on a Community scale to carry through the reforms needed for the EEC to be able to participate sufficiently in the changes taking place in the world at large.

44. For centuries Europe changed the world at the level of the nation state. It has not been possible and is still not possible to operate at that same level and with the same structures and the same traditions and political and trade union organizations in what is a completely different situation, or to 'adapt' to changes in the world made increasingly by others and less and less by ourselves. At most, we might have tried to defend the positions achieved. This in fact is what happened, with unavoidable negative results and a loss of competitiveness in relation to the rest of the world which, in part, has left us behind.

45. It might be said that the 1970s saw the re-emergence of a problem - loss of competitiveness - in some ways similar to that which was observed and denounced in many quarters in the 1950s and which was one of the main reasons for the creation of the Community.

46. This new situation could perhaps provide an opportunity for reforming the Community institutions. If the Community is to be revitalized, it must be capable of belonging to a 'multipolar' world and be strong enough to compete with the other members of that world, however different they may be from ourselves: Japan, of which we still know too little, the NIC, whose potential we have still properly to assess, the less developed countries, with which we are specially able to cooperate, and the state-trading countries. But to succeed in this, we must also be ready to abandon many plans of the past, which are nurtured particularly at national level and which took shape at a moment in history when our countries held sway over the rest of the world. While our methods and ideas of freedom were spread throughout the globe, at home all the social classes, including an increasingly large proportion of the working class, found access to a more privileged way of life.

47. Our ability to respond, in competitive terms, is strictly dependent on the 'dimensions' within which we operate, since those dimensions are necessarily related to changes to situations and institutions inherited from the nation states and are decisive to the 'quality' of our response.

Only a larger and hence a more varied market could provide varied and wider opportunities for work and investment, which would create the savings necessary to start a 'virtuous process' involving more balanced and competitive relations with the third countries. Such a process would also promote relations with the Third World.

In short, then, the decline of our competitive capacity is bound up with our inability to press forward, especially over the last decade, with the process of European integration started in the 1950s. As things stand at present, that process calls for a new and different kind of approach and, since it must take place in a world context which is not only new but constantly changing, for fuller social participation than in the past. There has to be a more steadfast commitment, more boldness and flexibility in our response and, necessarily, a wider consensus. We have to realize that, within our countries, the social order has radically changed, not least because of the progress achieved during the initial rudimentary phase of European integration.

48. It seems to us that the most important 'internal' change concerns the position of our workers. This change cannot be measured solely in terms of the percentage of national income to be set aside for the wage-earner, which is usually confused with that earmarked for households, which includes a whole range of special benefits. The change is rather to be seen in the social status of the wage-earner, who now enjoys various rights and safeguards, which all the Member States have introduced, albeit to a varying extent and using different methods, with a view to protecting the worker increasingly as an individual, irrespective of his output.

This situation has resulted from a long historical struggle to improve the lot of the workers. In this respect, the countries of Western Europe are clearly different from the other industrialized countries, the USA and Japan, and even more so from the NIC. Apart from this struggle in a democratic system, the satisfactory economic growth of our countries and of the Community as a whole up to the end of the 1960s undoubtedly helped to accentuate this difference. Indeed, up to that time we were able to enjoy the benefits of the first phase of integration under conditions which were also particularly favourable to our external competitiveness.

The special individual rights enjoyed by wage-earners in our countries may, today, also have an adverse effect on our competitiveness because of the excessive egalitarianism and protection they entail and, hence, the rigidity of the system of national insurance and welfare charges, which inflate labour costs and call for additional public expenditure on payments to households and firms.

The privileges extended to wage-earners are, however, an inherent part of our social system and must be turned to good account, both by securing greater support for and fuller participation in the building of Europe and by developing new productive activities which can foster Europeanism and eventually restore full competitive strength to the Community.

49. As for external changes, we have only to refer to the problem of energy, which is crucially important for our competitiveness and, indeed, for our very survival. Just over 10 years ago, the price of oil supplied to the EEC was often lower than the US price. Today, the reverse is the case. A comparison between the 'Report on the competitive capacity of the European Community' produced by a group of experts for the Commission in 1971, and the current Commission report from which we have quoted, shows that substantial and in some respects astounding changes have taken place in our competitive position.

The possible consequences

50. An examination of the external competitive capacity of the EEC as a whole could lead us to underrate the relevant facts owing to the Community's limited external dependence, in which respect it occupies a position midway between Japan and the USA. It should also be pointed out in this connection that the free trade agreements with the EFTA countries are likely to bring the EEC closer to the position occupied by the USA.

51. Clearly, the situation would be very different if competitiveness were evaluated by individual country, sector or product.

However, a competitive situation cannot be evaluated, especially in terms of its consequences, solely by reference to directly related factors such as the various types of deficit which it may occasion and which in themselves may not be of much significance.

The truth of the matter is that a more or less competitive situation results from the interaction of a variety of factors and is, above all, a reflection of a country's internal development.

52. In that sense, the decline in the external competitiveness of the EEC as a whole must be seen as a reflection of its inadequate internal development and a symptom of the inadequate use of its largest resource, i.e. available manpower, which has sharply increased over the past ten years.

The situation is clearly demonstrated by the rate of unemployment:

Unemployment

Country	1972	1974	1976	1978	1979	1980	1981	1981 Dec.	1982 March
	annual averages as a percentage of the labour force								
United States...	5.6	5.6	7.7	6.1	5.8	7.2	7.6	8.8	9.0
Canada	6.3	5.4	7.1	8.4	7.5	7.6	7.6	8.5	9.0
Japan	1.4	1.4	2.0	2.2	2.1	2.0	2.2	2.2	2.3
Germany	1.1	2.7	4.6	4.3	3.8	3.8	5.5	6.7	7.1
France	1.8	2.3	4.3	5.3	6.0	6.4	7.8	8.8	11.8
United Kingdom .	3.7	2.6	5.3	5.7	5.4	6.8	10.5	11.5	9.0
Italy	6.4	5.4	6.7	7.2	7.7	7.6	8.4	9.1	9.3
Netherlands	2.8	3.3	5.5	5.0	5.1	5.8	8.9	10.5	11.0
Sweden	2.7	2.0	1.6	2.2	2.1	2.0	2.5	3.2	3.0
Belgium	2.2	2.7	5.7	7.0	7.2	7.9	9.4	10.2	10.9
Switzerland	0.0	0.0	0.7	0.3	0.3	0.2	0.2	0.3	0.3
Total for the countries of the Group of Ten, plus Switzerland	3.5	3.5	5.2	5.1	5.0	5.7	6.6	7.3	7.5

¹Figures include seasonal variations

²First week of January

BRI annual report, 1982

53. As regards the significance of this table, it would in our view be a mistake to infer from a simple set of statistics that the USA and the EEC are in a similar position.

In the case of the USA, apart from the external operations of its multinationals to which we have referred, we should bear in mind that, although the use of available manpower is unsatisfactory, that is offset by a high return on capital investment. The EEC, on the other hand, has an unsatisfactory record in both respects.

Furthermore, during the period 1960 to 1979, 30 million jobs were created in the USA, whereas over the same period the EEC, with a labour force of about the same size, created only 2.5 million jobs. Japan, which has a much smaller labour force, created 7.5 million. A high degree of mobility in the USA contrasts with a high degree of rigidity in the EEC. In strictly quantitative terms, we can say that from 1973 to 1980, 500,000 jobs were created in the EEC, although 7 million would have been needed to maintain the original rate of employment.

54. Clearly, in such an employment situation, it is young people who suffer most from our poor competitive performance which, as we have explained, is related to low and unsatisfactorily placed investment. It would be wrong to assess the situation primarily in terms of the prevailing economic situation and to assume that the present unemployment problem can be solved through a general recovery of the world market and by measures aimed at regulating supply and demand in accordance with the production process and therefore capable of influencing the world markets to the good of the Community.

The truth is that we are faced with unemployment which is largely structural and linked to the Community sector producing intermediate goods, which seldom operates either on the technologically more traditional market or on the more advanced market. While the Community system affords a limited amount of protection from the first market, we are very much exposed to the second, on which our competitive weakness is blatantly obvious.

55. Clearly, unemployment is not just a consequence of our weak competitive position. It is also a causative factor. This is particularly to be seen in the unsuitability for work, the inexperience and the lack of professional qualifications of the young unemployed, factors which make it increasingly difficult to overcome the unemployment problem as a whole.

56. A further serious consequence of our competitive weakness is the negative impact it has on our independence vis-à-vis the rest of the world and, consequently, on our ability to take steps to remedy it.

57. If the current payments balance continues to be in deficit, the result will inevitably be an increase in the external debt. If this is not intended to finance conversion and restructuring programmes and can therefore be expected to last only for a short time, restrictive monetary and credit policies are adopted, regardless of internal requirements. This also tends to fuel inflation because it calls for the maintenance of high interest rates, with a consequent increase in the public debt which, in turn, creates further internal and external imbalances. This, in short, is a vicious circle which brings pressure to bear on the weakest and least competitive Member States with the largest external debts and creates havoc in the Community as a whole, which is virtually without a monetary and financial system of its own.

58. Admittedly, this situation does not affect all the Member States in exactly the same way, but the positive differences encountered in a few cases do not significantly alter the picture for the Community as a whole. One exception to the general rule is the FRG, which is closely linked to the EEC by agreements of some political and economic importance, by monetary accords - albeit still at an embryonic stage - but, above all, by the fact that almost half its trade is conducted within the Community area whose fate it largely shares. It is precisely for these reasons, despite the fact that the FRG is in many ways better off than the other Member States, that its various industrial sectors, which are essential to the health of its economy, have not yet managed to be sufficiently competitive on the world market. The other Member States have fared no better, not least those which believe themselves to be most 'different' in their policies.

59. As a final consequence of inadequate competitiveness, it is possible to envisage the EEC occupying an inferior position in relation to an ever increasing number of third countries. Owing to our lack of external competitiveness, we are approaching a situation which is entirely new for our countries, profoundly different from what they experienced at that stage of their history when they became what they are today - modern nations with institutions and a social system which have made Europe the freest area of the

entire world, even as regards the 'internal' trade relations which it maintains with the EFTA countries. A position of economic subordination resulting from inadequate competitiveness has - and will increasingly have - political consequences and consequences of various other kinds which are difficult to evaluate, but which will profoundly affect not just the quality of life but fundamental human development. These consequences will obviously affect everyone, irrespective of class or social category - a sinister portent of a growing insecurity in the world which surrounds us.

Possible lines of action

60. The decline in our competitive capacity must be seen as the 'external' aspect of unsatisfactory 'internal' growth on which the process of European integration - as far as it has gone - has had different effects, whether in different countries and regions, in different sectors of activity or as regards individual products.

61. The effects on agriculture are obvious and widely recognized, in other words on what may be considered the only common policy which has so far been implemented and which provides us with a substantial amount of protection vis-à-vis the outside world.

However, Community progress has also had different effects on the industrial sector, although these are still barely recognized. While some of the industries producing traditional consumer goods have been afforded a limited amount of protection - if only of a 'cultural' kind - the technologically more advanced and new sectors, on which the Community process has had a negligible impact, have remained very much 'exposed'. The Community 'dimension' is essential for these sectors and must therefore be provided, from the outset, through the harmonization of technical standards and control procedures, cooperation in the research field, the liberalization of public contracts, financing, etc. - in other words, through common policies which we are still without. Furthermore, the ability to expand always depends more on the new, technologically advanced sectors, which give fresh impetus to the longer established, though still essential, sectors.

62. Thus, our competitive weakness in the most advanced sectors which, right from the beginning of their development, need an outlet as large as the Community market, is translated into an unsatisfactory level of competitiveness overall. Indeed, owing to the various adverse consequences which this has had for the various Member States, the protectionist lobby within the Community is becoming increasingly vocal, as is evidenced by the various campaigns which have been mounted in support of the 're-conquest of the national market' and which are mainly concerned with everyday consumer products.

63. Consequently, if we are successfully to tackle the problem of external competitiveness, whether we have in mind the development of the new sectors or the restructuring of the traditional sectors, we must tackle the individual aspects of that problem - which have been the subject of more studies and proposals than we care to mention here - if only because of the urgency of the matter which we have sought to demonstrate so far in this report:

- Development of the internal market

64. This must receive priority, not simply because of the importance of the internal market to all our countries but, specifically, because it is essential to the improvement of our external competitiveness - which must depend on the development of our new and traditional industries and to the successful building of our future.

That priority must be given to the development of the internal market becomes quite obvious if, following our advice, the problems of external competitiveness are tackled at Community level, which allows us to see the considerable powers we possess as a 'continental region' of the world which is different from all others.

65. The situation would be different if the problem were tackled at national level or at the level of individual sectors or products.

However, the costly failures of the past should suffice to demonstrate the lack of realism in such an approach, which takes no account of the objective need for new 'dimensions'.

66. Hand-in-hand with this 'internal' development, efforts must be made to develop our external relations, which will be partly facilitated by the more powerful stimulus we can give, as a 'region' in full growth, to the revival of international trade, which is now in difficulty after decades of rapid expansion - which, however, was for a long time not as spectacular as our own 'internal' expansion.

It would be wrong, in our opinion, to seek to develop the EEC principally by boosting exports and by trying to reconquer shares of the world market, when we should leave more room for others who also have development problems.

67. In any further attempt to expand the internal market, we should not rely solely on the elimination of obstacles to intra-Community trade - a process that has been interrupted and is perhaps also losing momentum. Even so, that process should be continued and strengthened. This can be done by tackling the root causes of the obstacles that exist and by preventing the erection of new obstacles, as well as by radically reforming internal controls and those applied by the customs authorities of the Member States. For the development of the internal market, however, it is now essential to have 'common policies' capable of coping with the problems as a whole by identifying both the objectives and the instruments and procedures needed to achieve them and, at the same time, by ironing out the difficulties encountered on the internal market and those associated with our external competitiveness.

68. The common policies must not be used solely to attain at Community level objectives that can no longer be attained at national level, e.g. the objectives of reducing our dependence on others for energy or food supplies, improving transport infrastructures, etc. Nor must they be used to promote the rationalization and enhance the competitiveness of traditional sectors such as shipbuilding, steel, textiles, etc., for which the EEC was able for a long time to provide external markets, which it has now either lost or is losing very rapidly.

69. We must also avoid using the common policies to repeat the experiences of others, notably the USA and Japan, in the technologically new sectors. Such an approach, even if it was a common approach, would not achieve the desired results, just as they have not been achieved up till now at national level. Indeed, it will be mistaken to mobilize our joint resources in a more ambitious endeavour to catch up with other nations which have operated under conditions which are entirely different from our own and cannot be replicated.

If we take the case of Japan, we see that, apart from having operated under conditions completely different from our own, it has profited from the fact that, despite its choice of a fundamentally different industrial society, it has been treated by GATT and the other international organizations on the same terms as other countries, and thus enjoys the benefits without having to pay the price. Because of this, it has managed to adapt to and actively participate in the new international division of labour, thanks in part to the involuntary assistance of other countries which have not been in a position to take similar action. Even so, if, today, the EEC wished to follow the same path, it would simply be unable to do so, if only because it would start from a position of far greater strength and involvement in international trade.

70. The common policies must therefore be qualitatively different and implemented with the help of new forces which, in the development of the Community, look to the defence of their achievements. These policies must also be designed better to satisfy, at Community level and through new methods and activities, the human needs arising from the new social status acquired by the large mass of the working classes. In a variety of areas, eg. information, welfare, communications, education and mobility, the needs of our societies now exceed, especially in terms of cost, the ability of the state to satisfy them.

71. These internal market activities are today to a large extent 'protected' or, to be more accurate, 'not exposed', partly because their purpose is to satisfy specific 'internal' requirements of a society which is more diversified and also more advanced than others. They could, however, help to revitalize and broaden the base of our development through the creation of sectors and activities which might be considered 'new' because they are different by nature from existing sectors.

72. Throughout the Community we come across the rapid growth of consumer goods for which there is almost unlimited demand and which are barely touched, if at all, by the process of European integration. These goods are produced exclusively at national level at vast expense and with an enormous wastage which nowadays place an intolerable burden on the public purse, a situation which is also partly due to the persistence of antiquated structures which, in our opinion, cannot be reformed at national level. National activities such

as these, which are partly responsible for the poorness of our external competitive performance, must be transformed with a view to stimulating new forms of development and promoting new productive activities. It seems to us that the 'cost-benefit ratio of the social consensus' also calls for the introduction, albeit gradually, of the Community 'dimension', because the 'social state', in its various guises, is no longer attainable in our countries solely at national level.

73. By way of example, we might mention the special way in which telecommunications could be developed on the basis of a common policy aimed at abolishing and/or reforming the various public intervention procedures that currently exist at national level, while ensuring the maximum spread of, and accessibility to, intra-Community communications services, which could have favourable consequences for the growth of an industry and services which would also be made stronger in terms of external competitiveness. A common data processing policy could operate on similar lines, taking account of 'internal' information needs with regard to the development of industrial democracy and of multilingual operating requirements in fields which - and this applies particularly to legislation - vary markedly from one country to another. This will continue to apply despite all attempts at standardization which, however, must never be abandoned. The technologies for global information and communications systems will have to take account of the principle of diversity, since this is what distinguishes us from other countries, including those which are industrially more advanced.

74. The development of new technologies, which will be stimulated by the need to satisfy different and more sophisticated needs in our countries, might also be envisaged in the area of worker education and training, given the degree of mobility in a multilingual market and the considerable scope for technological change.

75. Certain rural life-styles, which are now considered old-fashioned, could be protected, not by going back in time, but by developing new techniques designed to get the most out of the specific attributes and natural resources of rural communities. Similar observations could be made with regard to the field of 'social regulations' - a field of paramount importance as regards the social consensus - which embraces environmental problems and already constitutes the basis for industrial activities which, however, by their very nature, cannot be pursued within the confines of national frontiers.

The same applies to the development of technologies designed to alter the material basis of human activities, i.e. systems of production and the relationship between manual work and intellectual work, and to redefine the boundaries between what is work and what is not work.

- Progress towards monetary union and in capital formation

76. The problems associated with the improvement of our competitive capacity through the development of the internal market are closely bound up with the problems of monetary union. Further progress towards monetary union will be stimulated by our 'internal need' for greater stability in the rates of exchange between Community currencies, which is necessary to boost intra-Community trade and promote a higher level of investment. Investment could be facilitated by creating an internal capitals market and by developing borrowing in the Community currency for the purpose of implementing projects and financing policies of common interest.

In this way, by facilitating internal investment without obstructing external investment, the present situation in the Community as a whole - with only slightly more than one-third of internal investments coming from the Community itself and slightly less than two-thirds from external sources - would be improved.

77. The development of an internal capitals market must be recognized as of fundamental importance for the improvement of our external competitiveness. It would prevent various forms of 'financial protectionism', which seems to be on the increase and is now pursued to a greater or lesser degree by all the Member States, and would simultaneously reduce the distortion of factor costs resulting from the manipulation of the cost of capital.

78. The satisfactory development of our internal capacities which, as we have seen, is the prerequisite for the improvement of our external competitiveness, would call for an enormous effort, comparable to that made in our countries during the transition from a predominantly agricultural to a predominantly industrial economy. European trade union sources have drawn attention to the need to create in the EEC 15 million jobs in industry and the services over the next five years in order to re-establish full employment. Other sources

point out that, in order to bring the unemployment rate down to 5%, the rate of growth of incomes must be increased from 1.3% for the five-year period 1973-1981 to 5.5% for the period 1981-1985. The main interest of these estimates, however, is that they serve to demonstrate the unreliability of the old-style solutions.

79. In fact, the effort needed to find our way out of our present difficulties, also in relation to the outside world, would have to come to a large extent from within the Community and include a contribution from personal savings. In this way, the support of the workers for the goals of Europeanism would find practical expression in a financial commitment, while helping to ease the pressures on national budgets. Thus, for the Community as a whole, the requirement of financial security could be better met and efforts to restore capital formation rates, which certain countries have not been able to maintain, would be supported. In these countries, changes in income distribution in favour of households create today capital formation problems which are very different from those encountered in the days when firms' profits accounted for a large share of capital formation.

80. In this respect too, simple comparisons of selected statistical data for the USA and Japan are misleading. For instance, any comparison between the EEC and Japan of the share of national income destined for 'households' would have to take account of the considerable differences in the insurance and social benefits systems. When these differences are taken into account, apparently similar statistical data acquire a different significance and give very different pictures of the capital formation process and, hence, of competitive capacity.

81. Finally, we should note that, if the Community effort required to improve our external competitive position comes up against the major problem of capital formation, it carries its own possibilities of solution.

One such solution might come through improvement of the cost-benefit ratio, obtainable through a better combination at Community level of the available factors (by the establishment of the 'Community surplus'). Part of the increased resources thus obtained could be destined for capital formation, as presumably happened in the first phase of integration. It is of course a phenomenon which is difficult to quantify, but which repeats at a higher - Community - level processes and results which we already know from our history, when restricted local markets gave way to larger national ones.

In fact, today, there is no doubt that an old controversy can be settled, in that in the first, germinal phase of Community integration there was considerable 'creation' of trade and not merely 'substitution'.

The concomitant improvement in the combination of the factors available is also seen to be the result of an improvement in factors external to the enterprise, such as entrepreneurial capacity, availability of finance, etc.

Thus, the profound crisis which a number of eminent but ancient large enterprises in all our countries are now undergoing - and not even those which appear the strongest are spared - could yet prove to have its positive side. It could open up opportunities for initiative and development to new enterprises which may be supposed to be already in existence but are stifled in the claustrophobic world of the small and medium-sized undertakings.

- Problems of education and training

82. The improvement of our competitive capacity will depend on our ability to make better use of what is our principal resource, that is manpower. In this area also, therefore, new and urgent problems concerning education and training arise.

Our countries' difficulties and weaknesses in this area compared with the USA and Japan arise, at least in part, from our greater internal diversity in terms of language, social structure and culture. Such diversity could provide the impulse, under dynamic common policies, for the creation of new educational systems geared to the development of new technologies, industrial activities and services which could also be of interest to other countries which are increasingly having to cope with the need for better qualified manpower.

- Competition policy

83. The rules on competition laid down by the Treaty of Rome must be revised to meet the need for external competitiveness and adapt to the changes which have occurred in the USA, for example, and to the special conditions under which multinational and Japanese companies operate. As regards the level of application of the competition rules, we should bear in mind that sometimes

controls can hamper competitiveness by the imposition of constraints to which external competitors are not subject. This is the case where controls are exercised over a market which is smaller than that in which competition between the enterprises actually takes place.

- Reform of the institutions

84. Active intervention through 'common policies' presupposes a wider consensus and greater involvement in the Community process, together with the institution of new decision-making procedures. It is thus that the 'internal' changes, which we effect to improve our external competitive position, are also concerned with the problems of the functioning of the Community institutions and their reform, a subject on which, obviously, reference should be made to Parliament's current work.

85. Here, we shall simply note that, as consensus and participation by wider social groups, especially employees, are essential for the changes we have described as being necessary for the improvement of our competitiveness, so this improvement in turn is essential for the preservation and development of the social progress achieved in our countries. None of democracy's gains, least of all those of the working classes, can emerge unscathed from a crisis of the systems in which we live; yet, this crisis is inevitable if our countries are unable to solve the problems of their external competitiveness; and it is a crisis which amounts to the acceptance of an international division of labour which others who think differently from ourselves, want.

86. The method by which, under various 'social policies', risks and responsibilities are socialized while benefits are privatized, has in our view reached its extreme limit, not least as far as employees are concerned, precisely because of its effect on the system's external competitiveness and, hence, its capacity for survival.

- Proposals for the Commission

87. The problem of competitiveness, at one time regarded as concerning primarily the USA and the USSR, had a decisive influence on the creation of the EEC (see report by the Heads of the Delegations). This fact should have a fundamental place in the interpretation and implementation of the Treaties of which the Commission is the custodian.

88. We feel that the Commission should assume the task of monitoring the external competitiveness of the Community as a whole, of the individual countries and of the principal productive sectors, and that it should therefore recast and update its report (Doc.) to the European Parliament and continue to report regularly on the subject to the European Parliament.

89. For the immediate future, it would be advisable for the Commission to complete the abovementioned report with an inventory and an analysis (as detailed as circumstances allow) by sector and/or product and/or country of the major current competitiveness problems, together with an indication of the measures that should be taken at once.

- Concluding remarks

90. To conclude, we believe that the difficulties now experienced by all our countries and the crisis in which the Community finds itself, as manifested by the loss of external competitiveness, should make us realize that the road which our countries have so far travelled together in the Community must be seen as only the first stage of a long journey of which the most important part is still before us. Our critical remarks in no way detract from the recognition of the great opportunities lying before our countries if they decide to face together the need for adjustment in a world of continuing change, to which they themselves have contributed.

91. It is a challenge which can hardly be more testing than many others which in the course of their history our countries have been able to confront individually and, not infrequently, whilst engaged in conflict among themselves.

MOTION FOR A RESOLUTION (DOCUMENT 1-820/79/rev)

tabled by Mr LEONARDI and Mr BONACCINI pursuant to Rule 25 of the Rules of Procedure on the competitiveness of the Community economy

The European Parliament,

having regard to the following considerations:

- the decline of the EEC share of world trade in industrial products, the fall in the rate of investments and the reversal of the flow of direct foreign investments to the detriment of the Community reflect a deterioration in the competitiveness of the European Community since the early 70s;
- the factors capable of influencing the competitiveness of the European Community have not been the subject of sufficiently detailed study at Community level; a range of political measures in various sectors such as education, geographical and occupational mobility, promotion of the small and medium-sized undertakings, research and development, investments and the stabilization of production costs could all help to improve European competitiveness;
- the legitimate desire to safeguard the standard of living of Community citizens is accompanied by difficulties pertaining to the rapid adaptation of the production apparatus which may encroach upon the Community's industrial capital and be deleterious to its economic dynamism;
- the restoration of competitiveness requires a reorientation of the policy pursued both by the Member States and by the Community and, consequently, a full-scale campaign to inform the general public, an action in which the European Parliament could play an important part;

instructs its Committee on Economic and Monetary Affairs to submit to it a report on the competitiveness of the European economy and on the means of action capable of improving competitiveness.