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Report

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

on the proposal from the Commission of the European Communities to the
Council (doc. 361/76) on the fourth medium-term economic policy programme

Rapporteur: Mr H. SCHWÖRER

PE 46.355/fin.

By letter of 12 October 1976 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 6 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Communities, to deliver an opinion on the fourth medium-term economic policy programme.

The President of the European Parliament referred this programme to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Social Affairs, Employment and Education for its opinion.

At its meeting of 28 March 1975 the Committee on Economic and Monetary Affairs appointed Mr SCHWÖRER rapporteur.

It considered the programme at its meetings of 4/5 November, 22/23 November, 2 December 1976, 27 January and 24/25 February 1977 and unanimously adopted the motion for a resolution in its entirety at the last of these meetings.

Present: Mr Van der Hek, chairman; Mr Notenboom, vice-chairman; Mr Schwörer, rapporteur; Lord Ardwick, Mr Clerfayt; Mr Lange, Mr Van der Mei, Mr Ripamonti, Mr Starke, Mr Tomney and Mr Zeyer.

The opinion of the Committee on Social Affairs, Employment and Education is annexed to this report.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the draft fourth medium-term economic policy programme

The European Parliament,

- having regard to the proposal from the Commission¹;
 - having been consulted by the Council pursuant to Article 6 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Community (Doc. 361/76);
 - conscious of the importance of a healthy economy for the Community, for the political and social conditions within the Community, of its responsibility towards the developing countries and of the need for an international division of labour;
 - having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Social Affairs, Employment and Education (Doc. 579/76);
1. Supports the proposal submitted by the Commission;
 2. Stresses that the programme is essentially a skeleton plan, the ultimate value of which will depend on the submission by the Commission of the necessary practical proposals for the implementation of the programme;

¹ OJ No. C 12, 17.1.77, p.1

As regards economic and monetary union

3. Considers that the fourth medium-term economic policy programme is in line with the agreed principles of economic and monetary union; regrets however that the programme content is so general and the objectives it deals with so distant that in view of the Community's lack of ability to formulate decisions in this field it will hardly make a significant contribution to the realization of economic and monetary union by 1980;
4. Recalls its resolution of 11 March 1976¹, in which it:-
 - called on the Commission to submit proposals 'for the economic and monetary policy measures needed for the restarting and functioning of an economic and monetary union';
 - and called on the Council 'to harmonize the economic and monetary policies of the Member States through suitable short and medium-term measures, making full use of the provisions of the EEC Treaty';
5. Finds that the lack of progress by the Community towards economic and monetary union is due to
 - the lack of political volition on the part of the Council to take the necessary decisions;
 - the lack of political volition on the part of the Member States to act in accordance with the decisions taken by the Council;
 - the Commission's hesitancy about submitting concrete proposals where acceptance by the Council is in doubt;
6. Calls on the Commission to make it abundantly clear to the Council that the Community now stands at a crossroads where
 - it must either make immediate, sustained and full use of existing Community instruments, and create new ones, to guarantee greater convergence between economic development in the individual Member States and to give genuine expression to Community solidarity;
 - or resign itself to steadily growing disparity between the economic development of Member States, which could constitute a real threat to the existence of the Community;

¹ OJ No. C. 79, 5.4.76

7. Calls on the Commission to fulfil its task as an organ of management authoritatively and not to restrict itself in this important field of Community activities to the administration of Council decisions but rather to submit its own constructive proposals immediately for the necessary measures stated here;
8. Also calls on the Commission to invoke Article 11 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Community¹ if a Member State fails to comply with the common short and medium-term guidelines;

As regards the fourth medium-term economic policy programme

9. Recalls that price stability, external balance, growth and full employment are equally valid objectives²;
10. Emphasises that the achievement of these four objectives must be the purpose of medium and long-term economic policies; in short-term economic policies more weight may be given to one or other of these objectives in the light of current conditions;
11. Takes note, in the light of the above, of the Commission's proposed quantitative objectives for the period 1976/80:
 - (a) a halving of the present number of unemployed by 1980;
 - (b) average economic growth of at least 4½ - 5% per annum;
 - (c) a reduction in the rate of inflation to at most 4 - 5% by 1980 at the latest;
 - (d) conversion of the external deficit into a positive balance of 0.5 - 1% of GDP by 1980;
12. Agrees that a lower level of unemployment cannot be achieved without
 - faster and more even economic growth than in the last five-year period and
 - a considerable reduction in inflation;

¹ OJ No. L 63, 5.3.74

² Council Directive of 18 February 1974 on stability, growth and full employment in the Community (OJ No. L 63, 5.3.74)

13. Is of the opinion that bringing forward the age of retirement, reducing working hours and raising the school leaving age are not on their own suitable means for reducing unemployment;
14. Supports in particular the ideas for an active labour market policy, for abolishing unemployment amongst young people and for improving vocational training and retraining schemes and increasing the mobility of workers, and stresses the need to obtain better and more comparable unemployment statistics in order to reveal the causes of unemployment;
15. Agrees with the Commission that close cooperation between the Commission and the two sides of industry on the implementation of the medium-term programme is of particular importance; further worker participation in companies is an important factor in a wages and prices policy as a component of a policy for higher and steadier growth;
16. Agrees with the Commission that a strict currency and credit policy is vital in order to achieve stability and in particular that limits must be placed on the growth of the money supply;
17. Is of the opinion that the Council must take urgent steps to transform the European Monetary Cooperation Fund into an instrument for coordination between the Member States in the fields of currency and credit;
18. Draws attention to the need for a structural policy to increase the performance **and** competitiveness of the economies of the Community countries and is of the opinion that the concrete measures in the field of sectoral structural policy proposed by the Commission in its medium-term economic policy programme should have been given greater emphasis;
19. Calls on the Commission to submit at long last in 1977 a general structural policy programme to encourage and coordinate the necessary restructuring and constant adjustment of the economies of the Member States, taking particular account of the small and medium-sized undertakings in all sectors;
20. Calls on the Commission to submit to the Council in the near future proposals for the improvement of the **Regional and Social Funds** and the Guidance Section of the European Agricultural Fund as regards their institutional and operational aspects and also cooperation between them, in the light of structural and regional policy requirements;
21. Supports the Commission's view that market and profitability prospects, together with financing conditions, are of crucial significance for the way in which investment evolves;

22. Considers that the Commission has not made sufficiently clear its concept of regular notification of information on investment projects in some highly capital-intensive industries; requires more detailed information on the proposal to improve transparency by introducing a regular procedure for the notification of information on investment projects before it can deliver an opinion;
23. Emphasizes that the wishes expressed by the European Parliament when adopting the third medium-term programme that, inter alia:
- the Commission should be entrusted with instruments of economic and monetary policy,
 - greater cohesion should be created between the policies of the Member States,
 - a more precise and concrete structural policy should be drawn up, and that statistical survey methods should be harmonized to give a better basis for comparison of economic data in the Community,
- have not been fulfilled, and reiterates these views;
24. Expects, in view of the failure of the third programme, that the Commission will pursue a practical policy by making the fourth programme a reference point for national economic policies, updating the medium-term projections each year, regularly examining the compatibility of national budgetary policies with the medium-term objectives, suggesting to the Council annual quantitative objectives for the currency policies of the individual States and creating at Community level the conditions for consultation procedures between the two sides of industry;
25. Instructs its Committee on Economic and Monetary Affairs to keep a close watch on the realization of the fourth programme and, where necessary, to draw up a further report;
26. Instructs its President to forward this resolution and the explanatory statement not only to the Council and Commission but also to the Governments and parliaments of the Member States.

EXPLANATORY STATEMENT

By letter of 12 October 1976 the European Parliament was consulted by the Council on the Commission's proposal for the fourth medium-term economic policy programme.

At the meetings of the Committee on Economic and Monetary Affairs of 18 October and 4 November 1976, the Commission stressed the need for the European Parliament to deliver its opinion during the November part-session, so that the Council could take a decision on the programme on 22 November 1976. The Committee on Economic and Monetary Affairs was not able, however, to draw up its report on the Commission's proposals in such a short space of time.

Despite the committee's desire to help the Council to adopt the fourth medium-term economic policy programme before the end of the year, it was unable to submit a report for the December part-session as it considered it necessary to give the Committee on Social Affairs, Employment and Education the opportunity to deliver an opinion.

However, the Committee on Economic and Monetary Affairs would like to point out that neither the Commission nor the Council could expect the European Parliament to examine with sufficient care the medium-term framework within which short-term economic policy is to be shaped, in the short time originally allowed for the Council.

In this connection it should be pointed out that likewise in 1970 criticism of the short time available was made by the committee's rapporteur during consideration of the third medium-term economic policy programme. The Council and the Commission will have to give the European Parliament reasonable time when the fifth programme is drawn up in due course.

I. THE COMMISSION'S PROPOSAL

a. Analysis of the situation

1. The diagnosis is already familiar; in this connection the draft Fourth Programme lists the effects of the economic crisis on the Community as follows:

- the excessively high rate of inflation, three times as high as the earlier figure of 3 to 4%;
- the very high rate of unemployment (5 million jobless);
- the extremely problematic disparities in the development of the Member States' economies;
- the unstable rates of exchange.

Among the numerous causes of inflation are certain conjunctural factors, as already pointed out in the Maldaque report¹:

- insufficient and belated awareness of the dangers of inflation;
- the excessive growth of domestic and international liquidity;
- the excessively high rate of income growth;

in addition to which there are also the structural causes:

- rising social tensions and increasing difficulties in establishing a social consensus,
- increase in the number and influence of market-dominating undertakings, which impose a certain rigidity in the economic structure;
- lack of flexibility in the labour market.

2. The reasons for the Community's inability to cope with the crisis stem from three factors:

- the diversity of economic and social structures,
- differences in adjustment to social developments and the collapse of the social consensus in several countries,
- inadequate coordination of policies within the Community.

¹ on the problems of inflation

In the absence of genuine political responsibility at Community level, the different interests of the various individual Member States make it increasingly difficult to work out a Community solution. This is why

- no joint action was taken vis-à-vis the oil embargo,
- there has been a falling off in the trend towards liberalization of capital movements,
- regional imbalances have become more pronounced.

b. Objectives

3. The draft Fourth Medium-term Programme lays down a series of objectives:

- an average growth rate of 4 - 5% for the period 1976-1980 (France about 5.5%; Italy, Belgium, Ireland and Denmark 4.5 - 5%; Germany and the Netherlands between 4 and 5%; the United Kingdom between 4 and 4.5%; Luxembourg 3 - 3.5%);
- an inflation rate of about 4-5% by 1980 at the latest;
- a return to full employment by 1980, i.e. a position in which anyone seeking employment will be able to find it;
- as far as external economic balance is concerned, the Community should accept an external deficit, but by 1980 it should achieve a positive external balance of some 0.5 to 1% of GDP (goods, services and factor incomes).

In the draft Fourth Report the mutual dependence of these quantitative and qualitative objectives, e.g. the achievement of a better regional balance, environmental protection, a closing of income gaps and the improvement of living and working conditions, is emphasised.

4. A perusal of the draft Fourth Programme indicates that the implementation of these quantitative objectives is very uncertain, as it is linked with numerous conditions that are very difficult to bring into line with each other:

- the requirement that a consensus be worked out between the two sides of industry and the public authorities, at both national and Community level;
- a readiness on the part of the two sides of industry not to look for an increase in the short-term in their share of the national income;

- the promotion of productive investments and a cutting back of private consumption;
- close coordination of the monetary and credit policies of the Member States.

Furthermore, the Fourth Programme is based on a number of hypotheses with regard to:

- an average annual growth rate of 8 - 8.5% in the unweighted volume of world imports,
- an annual increase of 7 - 8% in the price index of the main industrialized countries in the OECD area,
- an increase in imports by the OPEC countries.

c. Implementation of the guidelines

To achieve these objectives the Fourth Programme recommends:

Public finance

5. Budgetary strategy should play a key role, and over the next few years will have to aim at the following objectives depending on the country involved:

- to reduce the public authorities' borrowing requirement,
- to increase the re-distributive impact of public finance,
- to contribute to job creation,
- to limit the increase in the share of public expenditure in national income and to increase the effectiveness of public expenditure.

A further increase in public expenditure would lead to a corresponding increase in taxation and parafiscal charges and take too many real resources out of the market; it would thus be a factor of cost-push inflation. For this reason, it has been rejected in many Member States. At the same time, there is a growing demand for public services (new social demands in connection with the protection of the environment, improvement of living conditions in conurbations and vocational training).

The following objectives could be set for the public authorities' borrowing requirement for 1980: public sector deficits of zero or almost zero in France, Denmark and Luxembourg; between 1 and 2% of GDP in Germany, some 2% of GDP in Belgium and a still higher public sector deficit in Italy, the Netherlands and the United Kingdom.

Employment policy

6. An intensive employment policy will have to set the following objectives:

- measures to provide training and re-training,
- genuine promotion of geographical mobility,
- upgrading of manual work;

to a lesser extent, on the other hand:

- reduction of working hours and bringing forward of the age of retirement.

In these last two cases the principle of selectivity should be applied.

Incomes policy

7. The fight against inflation requires better control of incomes; the prerequisite for this is that profits should return to a normal level. The self-discipline that the two sides of industry will have to show in the question of incomes if this is to happen will be all the more easily attained if policies designed to share out the constraints satisfactorily are implemented. For this purpose, the following measures are required:

- in some Member States adjustments to the wage structure;
- in the case of the incomes of self-employed persons, the elimination of certain unjustified gains,
- the reduction of income differences between regions.

Consumer policy

8. To combat the enormous price differences between the individual countries, a genuine opening up of markets in the interests of the consumer should be encouraged by adopting a system for gathering and publishing prices for a number of important and identical products.

Promotion of investment

9. In order to achieve a rapid return to full employment, investment must increase at a rate higher than that of GDP. Sales and profit expectations are a key factor in the creation of the necessary climate of confidence. The following should also be encouraged:

- the mobilization of long-term saving at appropriate interest rates,
- the slowing down in increases of taxes and parafiscal charges,
- better information on structural development,
- a continuous innovation effort.

Competition policy

10. An active competition policy will have to be based on the following measures:

- stronger control over abuse by firms with dominant positions on the market,
- control of concentrations at both national and Community levels,
- improvement of the viability of small and medium sized firms,
- the elimination of artificial competition advantages (strict application of Articles 92 and 93 of the Treaty of Rome, opening up public contracts to as wide a market as possible, etc.)

Strengthening the Community

11. The internal strengthening of the Community requires the strict application of the provisions of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States.

In the field of external economic policy, it is essential to prevent disparate export-promoting measures at national level (definition at Community level of trade policy instruments: export credit and insurance, framework agreements on commercial cooperation etc.).

The draft Fourth Programme also attaches great importance to the reduction of regional disequilibria and the expansion of common policies (especially a deliberate policy of promoting industrial reconversion).

II. COMMENTS ON THE MOTION FOR A RESOLUTION

Point 1

The drawing up of the Fourth Medium-term Economic Policy Programme has been characterized by repeated delays.

Pursuant to Article 6 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community¹ (hereinafter referred to as the Council Decision of 18 February 1974) the Commission establishes 'at regular intervals and at least once every five years . . . a draft medium-term economic policy programme.' The Fourth Programme should therefore have been adopted by the end of 1975 and the Commission had given an assurance that its proposals would be submitted before the summer of 1975.

The many uncertainties characterizing all attempts at assessing future short-term economic trends in 1974-1975 naturally made it difficult to draw up a programme of this kind during the first half of 1975. This does not, however, explain the needlessly long delay that has been experienced, and the urgent structural problems within the Community should have prompted the Commission to quicken the pace as much as possible.

Point 2

The Commission themselves stress that 'the reference framework which the programme represents will have to be translated into concrete economic policy measures; the Commission will put forward appropriate proposals for these.'²

¹ OJ No. L 63, 5.3.74

² See point 13 in the Commission's foreword

Moreover, Article 6 of the Council Decision of 18 February 1974 states:

'Parallel to the adoption of the programme, the Council shall, where appropriate and on a proposal from the Commission, unanimously adopt any decisions, directives or recommendations necessary to achieve the objectives set out in the programme and to implement the measures for which it provides.'

The Commission has not put forward any concrete proposals of this nature in connection with the draft programme, but it has drawn attention in its foreword to a number of areas in which it intends to submit proposals at a later date. The value of the programme naturally depends on the Commission putting forward at the right time the right concrete measures needed to implement and update the programme.

Points 3 - 8

Pursuant to the Council Decision of 18 February 1974 the purpose of the medium-term programme is 'in the context of economic and monetary union, to facilitate and guide structural changes - sectoral, regional and social - and to ensure the convergence of overall economic policies.'

Point 3 contains the statement that the present draft programme is in line with the agreed principles of economic and monetary union but that, by itself, it will hardly make a significant contribution to the realization of this union by 1980.

The rapporteur is naturally aware that the Commission can only to a limited extent be blamed for the lack of progress towards economic and monetary union. The main causes are to be found in the disparity between the economic and monetary development of Member States and in the Council's inability to reach agreement on the institutional arrangements, etc., that will be needed to ensure greater convergence and for which the European Parliament has made repeated requests.

However, the view has also been repeatedly expressed in the Committee on Economic and Monetary Affairs that the Commission must share some of the blame since it has had too great a tendency to confine itself to putting forward proposals reflecting the common denominator of the standpoints of the Member Governments.

The committee has consequently been obliged to emphasize the Commission's role as an organ of management and the Commission is urged to use the authority it is invested with by virtue of Article 11 of the Council Decision of 18 February 1974 to ensure that Member States adhere to the guidelines laid down by the Council on monetary and budgetary policies.

The rapporteur would furthermore point out that the Commission ought to ensure that Member States in future fulfil their obligation to draw up 5-year public investment programmes¹ to be implemented in accordance with the requirements of current economic activity within the framework of public expenditure.

It was the rapporteur's original intention in the motion for a resolution to go into greater detail on the concrete measures mentioned inter alia in point 12 of the Commission's foreword aimed at guaranteeing a greater degree of convergence in economic and monetary development, including the effective coordination of the short and medium-term economic policies of Member States, essential regional and sectoral structural policy measures, and measures in the field of exchange rate policy.

The rapporteur did not feel it was right, however, to propose that the committee embark on an extremely time-consuming discussion of these topics. He did, however, consider it imperative to place on record that the Community has arrived at a cross-roads where it will either have to enforce at Community level a greater degree of convergence between economic development in the Member States or it will have to resign itself to steadily growing disparity, which could constitute a real threat to the existence of the Community. The Commission ought to make this abundantly clear to the Council.

Points 9 - 10

Pursuant to Article 1 in the Council Directive of 18 February 1974 on stability, growth and full employment, the objective of the economic policies of Member States is the achievement of price stability, external balance, growth and full employment.

Pursuant to point 2 in the Commission's foreword and in accordance with the objectives formulated at the Tripartite Conference in 1976, the prime economic policy objective at Community and national level over the coming 4 years must be the re-establishment of full employment.

The rapporteur agrees that the Community's most acute problem is the large number of unemployed. The situation may, however, change - at least in some areas of the Community. The Community must therefore be able, when laying down guidelines for Member States' short-term economic policies, to attribute greater priority to one or other of these objectives.

¹ See Article 6 in the Council Directive of 18.2.1974 on stability, growth and full employment in the Community (OJ No. L 63, 5.3.1974)

Points 11 and 12

In points 11 and 12 the committee takes note, in the light of what is contained in the foreword to the draft report, of the Commission's quantitative objectives.

Major structural problems, the uncertainty of the present economic situation and the possibility that world trade will suffer further disruptions all make it extremely difficult to judge whether the quantitative objectives are realistic. The rapporteur nevertheless agrees that the unemployment problem cannot be solved unless the Community attains the quantitative objectives proposed by the Commission. He therefore emphasizes the urgent necessity of the Commission putting forward proposals for essential concrete measures at Community level relating to:

- effective coordination of the short-term and medium-term economic policies of Member States;
- necessary regional and sectoral structural policy measures;
- the European monetary system.

The rapporteur must emphasize that coordination of the objectives of short-term and medium-term economic policies is the only way in which the Community can create the proper basis for the parallel and perhaps automatic development of monetary cooperation.

As regards the wording of point 12, the committee was aware that the two conditions mentioned in this point were necessary for a lasting reduction of unemployment, but were not, by themselves, sufficient. However, it seemed pointless to recite the list of all the other measures which would need to be carried out, such as regional and sectoral structural policy and vocational training, which are mentioned elsewhere in the motion for a resolution. In this connection it was stressed that the order in which the points appeared in the motion for a resolution did not of course imply any order of priority of the problems.

Points 13 - 15

Bringing forward the age of retirement, reducing working hours and raising the school-leaving age are objectives with which one can agree or disagree. The possibility of achieving such progress in what is primarily the sphere of social and education policy depends on developments in production, productivity and production costs. To regard shorter working hours, for example, simply as a means of reducing unemployment figures is to ignore the economic realities.

The rapporteur agrees that closer cooperation between the social partners will be necessary if the objectives fixed in the programme are to be