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Report

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

on ~~the~~ economic situation in the Community

Rapporteur: Mr J.-E. BOUSCH

PE 32.899/fin.

By letter of 25 April 1973, the Bureau of the European Parliament authorized the Committee on Economic and Monetary Affairs to draw up a report on the communication from the Commission to the Council on the adaptation of the economic policy guidelines for 1973.

On 5 April 1973, the Committee on Economic and Monetary Affairs appointed Mr Bousch rapporteur, subject to authorization from the Bureau to draw up a report.

It discussed the communication on the adaptation of the economic policy guidelines for 1973 at its meetings of 5 April and 3 May 1973. At the latter meeting it unanimously adopted the following motion for a resolution and explanatory statement.

The following were present: Mr Lange, chairman; Mr Bos, vice-chairman; Mr Bousch, rapporteur; Mr Arndt, Mr Artzinger, Mr Burgbacher, Mr Federspiel, Mr Flämig (deputizing for Mr Kater), Mr Hamegnies, Mr Krall, Mr Mitterdorfer, Mr Normanton, Lord Reay, Mr Starke, Mr Yeats.

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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

on the economic situation in the Community

The European Parliament,

- having regard to the communication from the Commission to the Council on the adaptation of the economic policy guidelines for 1973 (Doc. SEC (73) 1112/fin.),
 - having regard to the annual report on the economic situation of the Community,¹
 - having regard to the Statement of the Heads of State or Government of the Member States of the European Communities and of the acceding countries of 21 October 1972,²
 - having regard to the Council's resolution of 5 December 1972 on anti-inflationary measures,³
 - having regard to its own resolutions, in particular those of 11 October 1972 and 15 February 1973,⁴
 - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 47/73),
1. Endorses the analysis of the economic situation in the Community contained in the Communication to the Council on the adaptation of economic policy guidelines for 1973;
 2. Repeats that economic policy must in the first place be directed at arresting price increases without, however, jeopardizing efforts to eliminate regional unemployment;
 3. Urges all the Member States strictly to apply the guidelines contained in the annual report on the economic situation of the Community of 31 October 1972 and the Council resolution of 5 December 1972 and, pursuant to the provisions of the Treaty, to treat their exchange rate policy as a matter of common interest;

1 OJ No. C 133, 23 December 1972

2 Annex to Bulletin No. 37/72 (PE 31.175/Ann.)

3 OJ No. C 133, 23 December 1972

4 OJ No. C 112, 27 October 1972, p.27, and OJ No. C 14, 27 February 1973, p.36

4. Considers that a very strict monetary and credit policy will be even more essential during the months ahead in those Member States in which the overall demand for goods and services tends to exceed the supply;
5. Notes that the limits within which public budgets can be used as instruments of conjunctural policy are in danger of being exceeded in certain Member States and therefore believes that Community guidelines on this subject must be followed without, however, placing the growth of public investment in jeopardy;
6. Is convinced that progress in the coordination of the economic policies of Member States is essential if price increases are to be moderated in the medium term;
7. Urges the Commission once again to submit a proposal for a directive or regulation, repeatedly called for by Parliament, on stability, economic growth, maintenance of a high level of employment and external economic equilibrium;
8. Is of the opinion that a continuous analysis of incomes and prices should lead to the elaboration of measures that will strike at the very causes of inflation, such measures to be applied inter alia in the spheres of employment policy, regional structure policy, competition policy and incomes policy;
9. Urges the Commission to redouble its efforts to organize discussions at European level with representatives of all the parties concerned on a controlled development of prices and incomes;
10. Invites the Commission to draw up a report on the experience of various Member States in the sphere of prices and incomes policy;
11. Stresses the need for further harmonization of national provisions on movements of capital between Member States and third countries and continued liberalization of movements of capital within the Community;
12. Instructs its President to forward this resolution and its committee's report to the Council and Commission of the European Communities and to the parliaments and governments of the Member States.

B.

EXPLANATORY STATEMENT

1. On 20 March 1973 the European Commission sent the Council a Communication on the adaptation of the economic policy guidelines for 1973¹.

At its sitting of 22 March 1973, the Council considered this document for the first time. The Council will devote a second sitting, in June, to the discussion of conjunctural policy. It is desirable that the European Parliament should deliver an opinion before that time.

2. The Committee on Economic and Monetary Affairs endorses in broad outline the analysis of the economic situation given by the European Commission in its Communication. Since this is an interim report, to be followed in September of this year by a report on the draft annual report on the economic situation of the Community, your Committee will confine itself to commenting on a few points.

Adaptation of guidelines

3. The European Commission's Communication is concerned for the first time with the nine Member States of the enlarged Community. More clearly than in previous documents, the European Commission places its conjunctural policy recommendations in a medium-term perspective. Although in practice Community programmes for medium-term economic policy have as yet only a slight effect on the policies pursued by Member States, this is certainly the right approach and one which satisfies the wishes repeatedly expressed by the Committee on Economic and Monetary Affairs.

4. The European Commission's document contains no recommendations on conjunctural policy that have not already appeared in the annual report on the economic situation of the Community of 31.10.1972² or the Council resolution of 5.12.1972 on anti-inflationary measures³.

This is understandable, but it is also unsatisfactory. It is understandable because the directives established at the end of October and at the beginning of December respectively are still too recent for their effectiveness to be assessed. It is unsatisfactory because the European Commission must already acknowledge that the target figure for the moderation of price increases quoted in the afore-mentioned Council resolution - viz. at most 4

¹ Doc. SEC (73) 1112/fin.

² OJ No. C 133/72

³ idem.

per cent between the end of 1972 and the end of 1973 - is now, three months after publication, already out of reach. This being so, one might think that the European Commission should now have put forward an adapted objective for the moderation of price increases and possibly, too, have amended their guidelines on conjunctural policy.

At the meeting of the Committee on Economic and Monetary Affairs of 5 April 1973, the representative of the European Commission stated that such an adjustment would be difficult at this stage, since the necessary data were not yet all available. If Community action in the sphere of conjunctural policy is to have credibility, it is desirable that the objectives and guidelines should at all events be adapted as soon as possible.

Continuing inflation

5. For many years now a very high priority has been accorded in conjunctural policy, both in the Member States separately and at Community level, to measures aimed at combating inflation. There is good reason for this priority since persistent increases are an obstacle to the smooth development of collective facilities; they give rise to social injustice, they promote the movement of capital to less directly productive investment and, by provoking anticipatory measures, they accelerate the pace of inflation.

Nevertheless, 1972 was a year of exceptionally rapid price increases¹ and the prospects for this year are scarcely any better.

6. It is then somewhat remarkable that at the committee meeting of 5 April of this year, the representative of the European Commission should on the one hand state that the Member States had followed the conjunctural policy recommendations while on the other hand forecasting that inflation would continue practically undiminished.

Yet it would be wrong to conclude from this that the Community's conjunctural policy has taken a completely wrong path. After all, any serious co-ordination at Community level of the instruments of conjunctural policy is a very recent development. In fact it is not until the annual report of 31.10.1972 and the anti-inflation resolution of December of last year that one finds the quantified directives that are essential if the inflation problem is to be tackled vigorously. These measures cannot fail to have effect. It is in fact reasonable to assume that their effect would already have been much more clearly visible if there had not been the most rapid increase in the prices of raw materials and foodstuffs since the Korean crisis². Although the prices

¹ Ranging from 5.7% in Luxembourg to 8.2% in Ireland

² In the period 1.12.72 to 1.3.73 food prices in the OECD countries rose at a rate of 9.7% per annum; other goods by 4.4% per annum. The rate of increase was even more rapid for imported raw materials.

of many raw materials will, in the somewhat longer term, rise considerably, a certain easing off in price increases can be expected in the short term. Where price trends for certain products or product groups are especially responsible for consumer price increases, specific action ought to be considered.

7. The need for a cautious budgetary policy and a strict monetary and credit policy will become more evident in the coming months as the demand for goods and services begins to exceed the supply - especially in Belgium, the Federal Republic of Germany, Denmark, France, the Netherlands and Luxembourg - and the conjunctural element in inflation thereby becomes more important again. The norm which the Council has fixed in respect of the rate of increase of the liquidity mass¹ must be strictly adhered to. The European Commission is requested to indicate to what extent the Community directives have been followed up to now.

The fight against inflation can and must be coordinated at Community level but it remains, fundamentally, the responsibility of the Member States themselves. It may be desirable for different countries to adopt different approaches, especially as regards measures to control prices and incomes.

8. Finally your committee repeats its request to the European Commission that the latter should submit at an early date a proposal for a directive or regulation on stability, economic growth, maintenance of a high level of employment and external economic equilibrium. Such an instrument would promote the coordination of the Member States' economic policies and would be a useful addition to the set of conjunctural policy instruments of each of the Member States.

The limits of budgetary policy

9. The limits within which budgetary policy can be used as an instrument of conjunctural policy have been more or less reached and have in fact been exceeded here and there. Important collective facilities have come under threat. It is true that in all the Member States (except for France) the proportion of total government expenditure in the gross national product at current prices has risen in recent years, but the proportion of government consumption and government investment has constantly fallen². The most recent annual report on the economic situation in the Community pointed out that

¹ Section IV of the Council resolution of 5.12.72 requires Member States to keep the rate of increase in the liquidity mass (primary and secondary liquidity) at a level no higher than that of the real growth of the gross national product augmented by the normative price increase percentage. A more flexible arrangement can be applied, however, in Member States with unemployment problems.

² In this respect Belgium is an exception.

this development is all the more disquieting now that the satisfaction of traditional collective needs (education, public health, physical planning, traffic) - to which new needs can now be added (protection of natural resources, pollution control, etc.) - is claiming an increasing part of the economic potential¹. A strictly anticyclic budgetary policy makes it impossible for a government to perform satisfactorily its duties towards the collectivity and cannot therefore be continued for years on end. The European Commission perhaps lays too much emphasis on budgetary policy². Consequently, the norm fixed in the Council's resolution of 5 December should definitely not be tightened any further³.

Care must be taken that the upward trend in the economy is not interrupted by budgetary, monetary or credit policies of a too restrictive nature, since in the present circumstances stagflation would inevitably result.

Controlled development of prices and incomes

10. For these reasons and also because the autonomous increase in costs is now the dominant element in price increases, unrelenting efforts must be made to achieve a controlled development of prices and incomes. It is beginning to be more and more widely realised that the objectives of economic policy will remain out of reach if direct influence is not at the same time brought to bear on the development of prices and incomes. In countries where the control of prices and incomes was rejected a few years ago and has since been reintroduced, it is now being successfully applied. Governments can no longer remain aloof from income trends. It is probable that in the foreseeable future the control of prices and incomes in some form or other will have to remain a part of the industrial countries' economic policies. Your committee has failed to find any mention of this element in the European Commission's Communication, where it is only alluded to once or twice, and then en passant.

11. From a political point of view it is necessary to make a distinction between a temporary control of prices and incomes and a policy aimed at a more reasonable distribution of income. The former can be useful in so far as it breaks the wage-price spiral and puts a brake on action taken in anticipation of further price increases. Experience has shown that such a policy can only be successful if it allows of practically no exceptions. A temporary control of prices and incomes merely procures the breathing space that is necessary for setting in train action that tackles the real causes of inflation (such action taking the form of regional structural policy that bestows the benefits of economic expansion mainly on the problem areas, employment policy, competition policy, modified structure of agricultural policy, incomes policy).

¹ Annual report on the economic situation in the Community, OJ No. C 133/72, p. 6

² Communication, p. 13 and 14.

³ OJ No. C 133/72, p. 13

12. In its Communication the European Commission states that moderation of the increase in incomes can only be achieved if it is accompanied by a democratization of economic and social life and the development of capital formation systems¹. It is certainly necessary that this path be taken, but worker participation does not put an end to wage demands and having a say in the affairs of one's firm is no substitute for an improvement in one's income. The central problem is that of income distribution. It is essential - despite all difficulties - to get a dialogue going on these subjects at European level. The European Commission should give the impetus to such a dialogue. The present procedure whereby the lower-paid workers obtain a wage increase and thus achieve a temporary improvement in their relative position, and the other income categories then endeavour - usually with success - to restore the former situation as regards the incomes hierarchy, is damaging to the public interest. In the end, practically no income category is benefited: 'However, seeing that the inflationary forces in the Community are much stronger than in the United States, it is even to be feared that the inflationary patterns in the Community will become so enrooted that they will continue to exist even when an equilibrium in the balance of payments has been achieved. Such a process would militate against the creation of satisfactory conditions for the expansion of world trade and also be the opposite of what is needed for a balanced growth within the Community. It would also be disquieting from the point of view of the aim of the economic and monetary union, in as much as the persistence of strong inflationary tendencies leads to new tensions within the Community.'²

It is necessary that everyone in the Community should be aware of this danger.

¹ Communication, p. 11

² Communication, p. 5

