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**Directorate-General
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and Financial Affairs**

EUROPEAN ECONOMY

Annual Economic Report 1978-79

Annual Economic Review 1978-79

November 1978

Number 1

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Statistical conventions:

- : data not available
- , decimal point.

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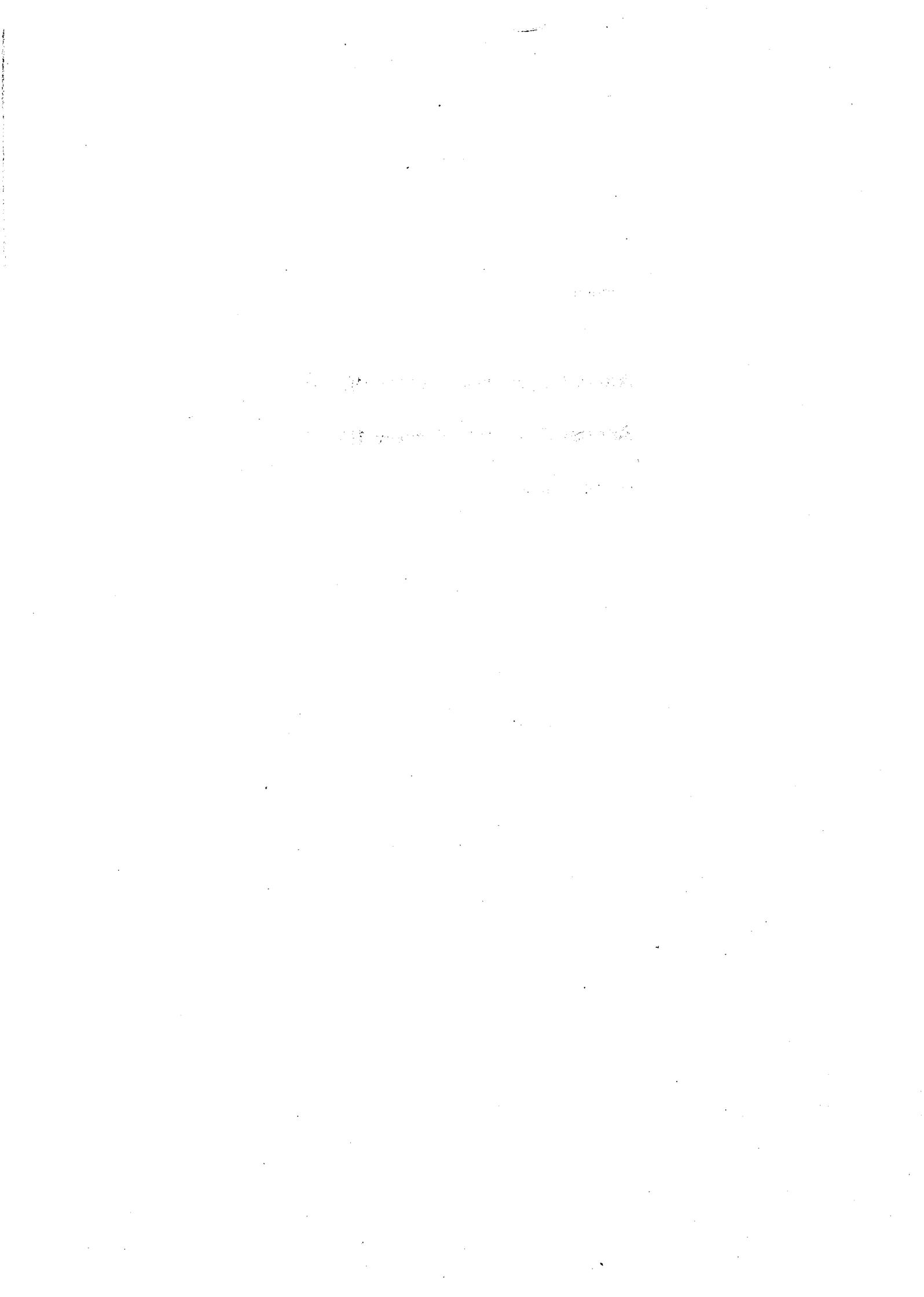
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Annual Economic Report 1978-79

(Text proposed by the Commission)

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Foreword

The present text is the Commission's proposed Annual Economic Report for 1978-79, submitted to the Community institutions¹ in accordance with the Council's Decisions² for attainment of a high degree of convergence of economic policies of Member States. The Council is required in the fourth quarter of each year — on proposal of the Commission and after consulting Parliament and the Economic and Social Committee — to adopt an annual report on the economic situation in the Community and to set economic policy guidelines to be followed by each Member State. Once the Report has been adopted by the Council, the respective governments must bring it to the attention of their national parliaments so that it may be taken into account in budget debates.

This year the Commission has also submitted, as background material to the Annual Economic Report 1978-79, an Annual Economic Review 1978-79 which contains a factual analysis of economic developments.³ The latter document is also published in this edition of *European Economy*. This innovation in the procedures is intended to separate the policy matters on which it is appropriate for the Council to deliberate from background material which is needed for information purposes but is not necessarily a matter for Council decision.

¹ Originally document COM(78)529 final, 19 October 1978.

² Article 4 of Decision 74/120/EEC of 18 February 1974, amended by Decision 75/787/EEC of 18 December 1975.

³ Originally document SEC(78)4033 final, 19 October 1978.

1. Community objectives

The theme of this report is that, while the economic performance of the Community is in several respects improving, the time has come for a stronger development of the Community's central economic mechanisms and procedures. This is aimed at enabling the Community to do still better in its economic performance in the period ahead. The objective is to provide a more effective common framework in both the economic and monetary domains for national efforts to secure the shared objectives of high employment and living standards, and monetary stability. Put another way round, the objective is to reverse, through action at the Community level, the undermining of the effectiveness of purely national economic policy that has resulted from the increased integration of the economies of Member States in the European and international economy.

While intent on building up its economic and monetary system from within the Community is also seeking to

strengthen the basis for its cooperation with third countries. This is illustrated by the positive collaboration that was in fact achieved in the summer of 1978 between the Community and the other participants in the Bonn Western economic summit, as also by the Community's intention that the European Monetary System be open for associated participation by non-member States having particularly close economic links with the Community. Moreover a major purpose of strengthening the Community's economic and monetary policy system is through achieving a sounder basis for internal growth, to restore conditions favourable to a rapid growth of an open world trading system, and, thus also to a continuous evolution of economic structures. This adjustment process must aim at an efficient division of labour between industrialized countries and the fullest opportunity for the growth of developing countries. Thus a strengthened economic and monetary policy is aimed at supporting the positive adjustment objectives of the Community's trade and sectoral policies.

2. The economic outlook

The task of adjusting the Community economy to the difficult economic conditions prevailing since the oil crisis in 1973 is broadly portrayed in the following data—although, of course, there have been major differences in

the experiences of individual Member States. The data for 1978 contain an element of estimation and forecasting by the Commission, and for 1979 they are Commission forecasts on the basis of policies described in this report:

The Community economy 1973-1979

	GDP volume growth	Rise in consumer prices	Current account balance of payments, '000 million EUA	General government financial deficits	Money supply growth M ₂ /M ₃	Unemployed in labour force
	%	%		% GDP	%	%
1973	5,7	8,3	1,6	-0,9	16,5	2,5
1974	1,7	12,8	-9,2	-1,7	12,8	2,9
1975	-1,7	12,8	1,2	-5,2	12,7	4,4
1976	4,9	10,0	-6,3	-3,7	11,1	5,0
1977	2,3	9,1	1,7	-3,2	12,5	5,5
1978	(2,6)	(6,9)	8,3	(-4,1)	:	(5,7)
1979	(3,5)	(7,0)	(8,5)	(-4,5)	:	(5,6)

and the current-account payments situations have become volatile stop-go in the Community economy, which has to be avoided in the future. The period ahead is seen as being one of gradual rather than dramatic economic recovery. The growth-rate is now strengthening, and valuable improvements have been made in price performance and in the external payments situations. The dispersion of inflation rates has been reduced as well as the average, and the current-account payments situations have become

much more balanced (the deficits of France, Italy and the United Kingdom have been reduced or reversed, and Belgium and the Netherlands have moved into balance or slight deficit—although the surplus of the Federal Republic of Germany has not declined). Unemployment appears to have peaked in the Community as a whole, and progress is beginning to be made in some Member States for its reduction.

3. Concerted action

The stronger economic outlook for 1979, with a prospect of real growth of nearly 3½%, is partly due to the concerted action decided by the Council on 24 July 1978,¹ in implementation of the conclusions of the European Council of 6-7 July 1978 meeting in Bremen, and of the Western economic summit of 16-17 July in Bonn—at which the Community was represented by the President of the Council and the President of the Commission.

The meetings in Bremen and Bonn decided on a broad range of policies beyond budgetary and monetary policy, and notably in Bremen on specific measures to promote employment, to strengthen the Community's energy situation, to facilitate structural change in industry and the Mediterranean region, to strengthen the open world trading system and to aid the developing countries. The Bonn meeting reached further agreement at the broader international level on largely the same policy issues.

The aim of concerted action in the field of macro-economic policy at the Community level is to achieve a higher economic performance than would otherwise be possible, by making the use of macro-economic policy instruments more effective.

More precisely, the economic rationale of concerted action is that:

- purely national action, in economies with large external trade sectors, will to a high degree be dissipated through the leakage of demand abroad; thus the multiplier effect of stimulatory action on the domestic economy will be lower than in a less open economy;
- this makes it less attractive to use possible room for manoeuvre in demand management policy, since, for example, the fiscal pay-back of budgetary measures is diminished in amplitude and the necessary confidence of consumers and investors weakened;
- this kind of preoccupation has been reinforced by doubts in industrial and financial circles as to whether expansionary action would have the desired effect on the real economy as opposed to an adverse effect on inflation and foreign exchange market expectations, and by concern in many Member States that the public finances have grown excessively in relation to the GNP;

¹ OJ L 220/27 of 11.8.1978.

- the antidote to these problems must, at least in part, be to pool national initiatives into a broader and coherent Community action, and so to restore the prospect of favourable multiplier effects, a more rapid fiscal pay-back to demand management moves, and create a higher probability of inducing the positive real response from the private economy, rather than an aggravation on monetary instability.

Beyond these general principles, however, the present Community action is more ambitious and concrete in further respects.

There is the particular case of Member States whose economies are in the greatest need of monetary stabilization and development. A deliberate concerted action by the remainder of the Community economy to strengthen demand improves the setting for domestic stabilization policies. In all stabilization programmes there is the problem of strengthening the monetary and public finances situation without creating recession. The preparation of such stabilization programmes alongside a concerted recovery programme for the majority of the Community increases the chances of success and diminishes the risks inherent in stabilization policy. Ireland and Italy are both cases in point. This is why, as noted already in the terms of the concerted action Decision of 24 July, in the cases of Ireland and Italy the Community strategy includes a priority in the allocation of its financial resources in favour of investment and employment in these countries.

There is also the need to systematize and strengthen for the future the most positive features of 1978's concerted action experience and to identify the precise means of increasing its potential. The coordination process must be anchored in a more explicit setting of final objectives of economic and financial policy and monitoring of performance. The setting of final objectives has to be worked through at the technical level more thoroughly in terms of the collective analysis of forecasts and instrumental objectives. The synchronization of national budgetary and monetary policy timetables has to be further improved in some countries. The link at the Community level in the decision-making process between the technical and political levels has improved in the course of the work that led to the 1978 concerted action Decision, and this progress needs to be built on for the future. Moreover the European Monetary System will itself (as indicated further below) strengthen the need for progress in the area of harmonization of budgetary and monetary policy.

4. European Monetary System

Monetary stability is a priority objective in itself. But it is also the route through which to restore effectiveness to the instruments of macro-economic policy. Nothing is more damaging to the effectiveness of demand management policy and growth than to have to try to operate on a disturbed basis of domestic or external monetary instability.

Member States with revaluing and devaluing currencies, especially where there have been overshooting or exaggerated movements, have the common experience of recent years of being unable to obtain full satisfaction from demand management policy in the prevailing conditions of domestic and/or external monetary instability. Countries with revaluing currencies have found business investors unresponsive to expansionary policy moves where great uncertainty has surrounded their international competitive situation and the prospects for demand abroad. Countries with devaluing currencies have experienced how strongly and quickly exchange-rate depreciation can aggravate domestic inflation and also create a climate of uncertainty and instability detrimental to the objective of inducing a strong flow of new, competitive investment.

These are the economic reasons which have led the Community towards establishing a European Monetary System.

Discussions will be proceeding (in the Council, the Committee of Governors of Central Banks and other Community bodies) on the design of the European Monetary System at the time that this report is before the Community institutions. The European Council intends at its meeting on 4-5 December 1978 to take decisions on a scheme following the terms of reference adopted by the European Council at Bremen on 6-7 July.

It would therefore be premature for this report to go into any details of the European Monetary System, beyond noting the main characteristics of proposals under discussion, and its implications for general economic policy in the period ahead.

According to the Annex to the conclusions of the Bremen European Council, the European Monetary System would consist of an exchange-rate management mechanism at least as strict as the 'snake', changes in central rates would be subject to mutual consent; the European Currency Unit (ECU), having the same definition as the present European Unit of Account, would be at the centre of the system; a large volume of reserves and credit

facilities would be put at the disposal of the system; within two years of the start of the system the existing arrangements and institutions would be consolidated in a European Monetary Fund; the successful functioning of the system will require all participating countries to pursue policies conducive to greater internal and external stability.

Alongside work on the monetary mechanisms the European Council requested that there be undertaken concurrent studies of the action needed to be taken to strengthen the economies of the less prosperous member countries in the context of the monetary system envisaged.

The economic policy implications of the European Monetary System envisaged can be indicated in broad terms, although not yet in the precise form that will become appropriate at a later stage.

The system will provide a more clear-cut frame of reference for domestic monetary stabilization policy, although the choice of instruments of stabilization policy will no doubt continue to differ as between Member States. However, the System will in any case need, in spite of the difficulties it involves, a more rigorous coordination of monetary policies in the Community framework, as well as of budgetary policies.

The availability of larger volumes of credit implies that there would be a larger recourse within the Community to the collective negotiation of economic policy conditions accompanying credits of relatively long maturity.

The successful functioning of the System will also require that the Community as a whole strikes the right balance in policies for stabilization and growth, i.e. to aim at convergence on a low rate of inflation and stronger growth. To this end all Member States must accept obligations to manage their economic policies accordingly.

In these respects the functioning of the European Monetary System will be strongly linked to the further development of the 'concerted action' approach to economic policy in the Community.

Above all, for the system to be credible and durable further progress will have to be made in reducing the average and the dispersion of inflation rates; the progress achieved in external payments situations will have to be consolidated; a steady expansion of real demand and output will have to be maintained, with special responsibilities assumed by the most strongly placed Member States.

5. Guidelines for 1979

The guidelines that follow carry forward and extend the concerted action Decision of 24 July. The present time is therefore a significant one for economic policy not only because of the preparation of the European Monetary System, but also because it is a period of implementation of the Decision of July.

In particular the budgetary measures decided by the Federal Republic of Germany of 28 July are now passing through the legislature. France has since implemented a larger budget deficit in 1978, and the United Kingdom's expansionary 1978/79 budget has now been enacted. Belgium and the Netherlands have been adopting important new budget policy programmes in which the future growth of public expenditure is being constrained more tightly, permitting none the less a positive short-run policy stimulus to the concerted action programme. Luxembourg is proceeding with its stimulative measures. Denmark, while retaining a moderately expansionary policy, has taken steps to strengthen its public finance situation and its stabilization policies more broadly. Ireland and Italy are both in the course of preparing major changes in budgetary policy following the 'Green Papers' of earlier this year in Ireland and the 'Pandolfi Plan' in Italy; both are aimed at constraining or cutting current public expenditures, reallocating resources to development oriented investment expenditure, while cutting the public deficit as a share of GDP.

Overall this set of policy adjustments amounts to a substantial net stimulus for the Community economy. The differences in the measures as between Member States are deliberately aimed at achieving a more convergent and stable structure of balance of payments positions. They also reflect the need to correct public finance trends in a number of countries where the growth of public expenditure has become excessive, or imbalanced as between current and investment expenditure.

As regards monetary policy the present strategy (and without prejudice to changes that may be required by the European Monetary System) is one in which all Member States pursue specific quantified objectives, be it money supply or credit norms in the case of the four larger economies, and/or the discipline of a fixed exchange-rate relationship in the case of the other five Member States. These objectives first of all aim at maintaining or improving monetary stability; however, at the same time the management of monetary policy must allow and help the Community economy to return progressively towards its potential performance.

Strong efforts are still required in several Member States to bring trends in costs and prices into a range of performance compatible with a durable functioning of a European Monetary System. The modalities of policy can and do vary widely between Member States. However, in

their different ways, Denmark, France, Ireland, Italy and the United Kingdom all face a crucial period ahead in their need to achieve a further reduction in the rate of inflation.

The normal occasion for considering adjustment of the following guidelines would arise in the framework of the first examination of the economic situation in the Community in 1979, notably during the first quarter of that year.¹ That occasion will be of more than usual importance because it is at the turn of the present year that, on the one hand, economic prospects in the light of the recent concerted action will be clearer, and, on the other hand, decisions will have been taken on the European Monetary System.

Growth prospects for *Denmark* in 1979 are still moderate because the external constraint on economic policy leaves only a narrow margin of manoeuvre. The Danish Government has confined itself, within the framework of concerted action, to granting some temporary reductions in personal income tax. On 31 August 1978 it decided to propose amendments to the system of index-linking for personal income tax scales, applicable from 1979, and raised VAT rates from 18% to 20¼% on 1 October 1978, as well as budget savings partly effected through postponement of certain public infrastructure projects. These provisions should mean that the spontaneous central government deficit will be reduced in 1979, and thus the 1979 general government deficit will increase by only ½% of GDP in relation to 1978. Domestic costs will for the six months to the end of February be subject to severe control; only wage increases provided for under existing wage agreements may be passed on in price increases. In order that the effects of these measures are felt beyond this period, the authorities should ensure that incomes policy is strictly applied, so that the expected results of the budgetary measures are not endangered and that progress is made towards an improved internal and external equilibrium position.

After a weak performance in the first quarter, economic activity in the *Federal Republic of Germany* has gained momentum over the past few months. It should be further stimulated after 1 January 1979 by the measures the Federal Government has adopted as part of Community concerted action. In particular, tax reductions are planned on low and medium incomes and additional public expenditure to stimulate investment and strengthen disposable income through increased family allowances. To reduce the burden on the budget resulting from these measures, the VAT rate will be increased on 1 July 1979. In accordance with the Council Decision of 24 July 1978, these measures will involve a net amount of about 1% of GDP; as a result the general government deficit will reach about 4½% of GDP.

¹ According to Article 2 of the Council Decision of 18 February 1974.

The measures should contribute in particular to reinforcing private consumption, and in general improving the short-term situation. They should permit annual average growth of about 3½% in 1979, compared with 2¾% in 1978. The stimulatory effects of the programme will continue to be felt after 1979, particularly on business investment. In view of the introduction of a new European Monetary System in 1979, it is of paramount importance that the German economy should keep up sustained and balanced growth. In the area of monetary policy, it would be desirable for the Bundesbank to bear in mind the need to support policy for growth and stability when fixing its monetary objective for 1979.

In *France* the authorities have introduced a number of measures which, due notably to a faster growth of investment, ought to result in a moderate acceleration of growth in 1979. This should avoid a further significant increase in unemployment, without hindering restoration of balance on current external transactions—which should be consolidated. However, the deceleration of inflation will remain the priority objective, so as notably to contribute to the implementation and the smooth working of the proposed European Monetary System. The draft central government budget, in accordance with the guidelines laid down by the Council in its Decision of 24 July 1978, maintains the action introduced in 1977 and reinforced in 1978 to support national economic expansion, notably through measures in the field of social transfer payments; and there are also employment measures aiming at favouring stable employment in sectors with promising future prospects. The finances of the large nationalized firms should be further strengthened. The net borrowing of general governments should thus be situated at a level of about 2% of GDP, as in 1978.

In the framework of the fight against inflation the central government budget deficit should be financed mainly by non-monetary means. Monetary policy should for its part, aim at a small reduction in the level of liquidity in the economy. Finally, the efforts to avoid an excessive growth of earnings should be maintained and reinforced.

The prospects for *Ireland* in 1979 are still favourable, and the rate of growth of the economy could remain higher than the Community average. If economic policy is to lay the foundation for lasting and balanced growth in the longer term, it should endeavour to reduce the central government borrowing requirement. To this end, the projects described in the 'Green Paper' intended to reduce the net borrowing requirement of central government in 1979 to 10.5% of GDP, by moderating current expenditure and reducing subsidies, should be accompanied by increased taxation. At the same time, economic development and employment could be supported by a transfer of resources from the Community to finance infrastructure investment. Incomes policy should try to moderate wage increases so

as to reduce inflationary pressures and thus establish favourable conditions for participation in the new European Monetary System. This implies that incomes policy should not aim at compensation for the effects of heavier taxation, but should also try to avoid too steep an increase in wage drift which was the case in 1978. Monetary policy management will be facilitated by the expected reduction in the central government net borrowing requirement. However, to limit domestic credit expansion and as reflected in recent measures, it is desirable to control more strictly the expansion of credit to private individuals.

In 1978, *Italy* made considerable progress towards controlling inflation, improving the external surplus and preparing for more rapid growth. It is therefore important that economic policy in 1979 should endeavour to consolidate the successes already achieved, to step up the fight against inflation and the effort to stabilize public finances, while ensuring the transfers of resources required to support economic growth. This is the intention of the 'Pandolfi Plan', the translation of which, into appropriate legislative terms, is now advisable. These efforts will be facilitated by Community action which could help the Italian authorities improve economic structures. As far as budgetary policy is concerned the enlarged public sector budget deficit (EC definition) in 1978 should be about 15½% of GDP. This latter ratio represents a ceiling, it being desirable to achieve a lower level already in 1979. In the course of 1979, the structure of public expenditure should in any case be improved, through restricting the growth of consumption expenditure, compensated in part by an increase in investment. The ratio should also be reduced in the two following years. The reduction should be achieved mainly by limiting the increase in current expenditure, in particular through measures to reduce the growth of social transfer payments and expenditure on health. Better management of public-owned companies and companies in which there is State participation could also enable a reduction in State aid. Tighter budgetary management would facilitate the task of the monetary authorities and would help stabilize or even reduce the ratio of domestic credit expansion to GDP. The creation of monetary base should be strictly controlled, through the workings of the interest-rate mechanism, so as to avoid destabilizing capital flows. The success of this policy will depend to a large extent on how rigorously the incomes policy is applied, alongside the measures to promote investment. In this context, it is essential to control increases in costs by preventing any rise in real hourly wages.

Economic growth in the *Netherlands* in 1979 should gain momentum, thanks to the favourable effects of concerted action, and in particular to vigorous support of domestic demand. If the medium-term prospects for employment are to brighten, competitiveness will have to be strengthened

through further reducing the rate of inflation, and improvements in the functioning of the labour market. This should stem the loss of jobs at present arising from high real labour costs, and encourage investment. The Dutch authorities have therefore stepped up their efforts to moderate the increase in wage costs, mainly by limiting the rise in compulsory levies while reducing at the same time the rate of growth of public expenditure so as to keep the structural government borrowing requirement over the next few years between 4% and 5% of national income. Demand support, as part of concerted revival action, will nevertheless have to continue next year; a temporary increase in the general government borrowing requirement from 5% in 1978 to nearly 6% in 1979 (provided for in the draft central government budget for 1979) is therefore consistent with the economic policy objectives set for the Community as a whole. A certain amount of monetary financing will inevitably be required to cover so large a budget deficit, but this is consistent with maintaining the liquidity ratio in the economy at its 1978 level.

Economic growth could also gain some momentum in *Belgium* thanks to the prospect for exports which should develop notably in the framework of the concerted action. The effects of this improvement on the labour market will be reinforced by specific measures such as early retirement, training courses for young people and the creation of temporary posts in the public sector. Pursuant to the Community guidelines, the general government borrowing requirement could rise from about 5% of GDP in 1978 to slightly over 5,5% in 1979. Although it does not seem advisable to reduce this percentage in the short term, since such a reduction would have unfavourable consequences on activity, in the longer term it will probably have to be reduced to establish a more favourable balance between national resources and collective uses. With this in mind, efforts to moderate the growth of current expenditure should be continued and intensified. Monetary policy should continue to help contain inflation to a modest rate; the European Monetary

System, for which preparations are in progress, will probably be a great help in achieving these aims.

The Council's budget guidelines for *Luxembourg* recommend a budgetary stimulus of over 1% of GDP; in its draft budget for 1979, the Luxembourg Government accordingly announced or implemented a number of measures intended to stimulate business investment and exports. The draft budget also provided for a rapid increase in public investment, and for reinforcement of the programme of specific individual measures in favour of employment and encourage private consumption (selective reductions in direct taxation, improvement of certain social benefits). The borrowing requirement of general government will thus probably increase somewhat, which, however, could be covered by loans and for the remainder by recourse to the budgetary reserve constituted in the years of strong economic activity.

In the *United Kingdom*, the significant reduction in the rate of inflation and strengthened balance of payments enabled the Government to propose, in the context of the concerted action programme, a stimulative budget for the fiscal year 1978/79. The planned level of the Public Sector Borrowing Requirement (PSBR) was raised to 8½ thousand million pounds (5¼% of GDP), just below the level communicated to the International Monetary Fund, as confirmed in the stand-by credit renewal of May 1978. The most urgent objective of policy must now be to keep the rate of inflation well below 10%. To this end there must be a marked deceleration in the rate of growth of earnings which, in the year to July 1978, rose a good deal faster than the Government's guidelines of 10%. For the fiscal year 1978/79 the growth of sterling M_3 needs to be contained within the range of 8-12%. For 1979/80 a lower target range for monetary growth should be considered. A more expansionary stance of fiscal policy should only be considered in the event that the growth of earnings is moderated, domestic demand is subdued and the balance of payments is strong.

Annual Economic Review 1978-79

(Text adopted by the Commission)

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1. Introduction

The purpose of this *Annual Economic Review* is to serve as background to the proposed *Annual Economic Report* submitted by the Commission for adoption by the Council. It analyses the main features of the Community's economic performance, and of macro-economic policy in the recent past.

This introduction gives a brief guide to the chapters that follow.

Chapter 2 analyses the Community's hesitant growth performance in the period since the 1973 oil crisis, against the pattern of stronger and more stable growth in the preceding decade. It describes how the sharp recovery of 1976 gave way to a phase of slower growth in 1977 and 1978, and how a more expansionary phase of policy opened up in the course of 1978, in part as a result of the concerted action Decision agreed by the Council on 24 July.

Chapter 3 shows how the low growth performance has affected labour markets: employment has stabilized at a low level after a sharp decline in 1975-76, while the rate of increase of unemployment has been aggravated by the rapid rise of the population of working age, compensated to some limited extent by a virtual cessation of net immigration from outside the Community. The results of some longer-run projections suggest that the rise of the working-age population will further accelerate in the first half of 1980s, but then stop quite abruptly under the effect of the decline in fertility rates that began in 1965.

Chapter 4 reviews progress in the fight against inflation. This progress has been significant in 1978, with the Community average consumer price rise falling well below the double-digit level for the first time since 1973. Price control policies are reviewed, both where such instruments have been used actively, and where, as in the case of France in 1978, they have been largely removed. Incomes policy and wage bargaining developments are also reviewed; the picture that emerges is one of the widespread efforts by governments to influence nominal settlements, falling short, however of statutory intervention.

Chapter 5 examines the convergence or divergence of economic performance as between the Member States of the Community, notably as regards prices, growth and income *per capita* levels; these criteria being relevant to the task of making renewed progress towards economic and monetary union. Considerable progress has been made in reducing both the dispersion (as well as the average), in inflation rates. Differences of income levels,

by Member State and by region, have not on the whole lessened, although the high Irish growth is a relatively new and positive development. The inequality of income *per capita* between Member States is also shown to be substantially less when measured with purchasing-power parities, compared to market exchange rates.

Chapter 6 reviews the course of budgetary policy in more detail, leading notably to the concerted action Decision of 24 July 1978. It shows how policy has had to respond to the double challenge of countering both the deep recession and the tendency in many countries for public expenditure and transfers to grow to excessively high levels in relation to the gross national product.

Chapter 7 reviews the course of monetary policy, and notably the relatively new experience for most Member States in pursuing quantified money supply or credit objectives. It also discusses briefly the prospects for harmonizing such policies to a higher degree in the Community, a task which will be increasingly significant with the establishment of a European Monetary System.

Chapter 8 analyses the Community's balance of payments since the 1973 oil crisis. It shows how the Community's current balance has related to the world balance of payments structure; 1978 has seen the Community's first substantial current-account surplus since the oil crisis. The Community's balance of payments are then analysed in more detail, by type of transaction on current and capital accounts, and by Member State. Exchange-rate changes are compared with relative price performance, giving an indicator of developments in competitiveness.

Chapter 9 examines the nature of structural changes in the Community economy in the period since the 1973 oil crisis by comparison with those that were in evidence in the previous decade of faster and steadier economic growth. The analysis concentrates on the shares in value-added of twenty sectors and branches, their rates of growth, and performance in terms of productivity, employment and external trade. It emerges that no single sector has been unaffected by the crisis; however, the wide 'hierarchy' of growth-rates between sectors that lies at the heart of growth process appears to have been attenuated. The situation of the food industry has relatively improved, that of investment and durable goods industries relatively moderately affected, while many branches producing intermediate industrial goods and non-food consumption goods have been among the most adversely affected.

The Statistical Annex gives for a selection of main economic indicators a complete time series of annual data from the beginning of the EEC in 1958 to 1977 or 1978

wherever estimation has been possible. Four of the tables give Community budget expenditure and receipts, gross

borrowing and net indebtedness, both in a complete time series from 1958 to 1978 and, for the budget, 1979.

2. Growth of demand and output

GDP growth performance

The fifteen years, 1958 to 1972, saw in the Member States a period of sustained expansion. Certainly there were slow-downs—in most countries in 1961-62, 1966-67 and in 1971-72—in which the rate of growth briefly faltered but generally remained positive. In 1974 the Community countries together with the rest of the industrialized world experienced the beginnings of the deepest recession in the post-war era. Despite a substantial recovery in 1976, prolonged into 1977 in the United States, the growth-rate in most industrialized countries seems to have reverted last year to figures generally about half the average of the 1960s. There seems to have been a substantial reduction in the spontaneous momentum of economic expansion. It is the purpose of this chapter to analyse the factors which appear to be behind the change in the trend in growth-rate which followed the 1974-75 recession.

Table 1 gives growth-rates for the countries of the Community, the United States, Japan and the OECD

member countries as a whole for the decade 1960 to 1970 and for subsequent years. For the 1960 to 1970 period the similarity of average growth-rates, notably among the original six member countries of the Community, is noteworthy though the actual annual rates show considerable variability from year to year. The standard deviation of growth-rates for the period 1961 to 1970 varied from 0,9 percentage points for France with the steadiest growth-rate to 2,7 for Denmark with the most volatile. But one important difference between the decade to 1970 and subsequent years is that in the former period cyclical movements were less synchronous than in the latter period. Thus in the 1970s cyclical swings have been magnified by the coincidence of fluctuations in domestic and foreign demand, in turn interacting with commodity price movements which reacted to the cycle in the industrialized world.

The various causes of the 1974-75 recession in the industrial countries are fairly well known, though their

Table 1

Increase in the volume of GDP

	1960-1970	1971/72	1973	1974	1975	1976	1977	1978
	<i>(percentages)</i>							
DK	4,9	4,0	5,2	-0,6	-1,2	6,3	1,8	0,0
D	4,7	3,5	4,9	0,5	-2,1	5,6	2,8	2,7
F	5,6	5,7	5,4	2,8	0,3	4,6	3,0	3,0
IRL	4,2	4,9	4,6	2,1	1,2	2,9	5,5	6,0
I	5,6	2,3	6,9	4,2	-3,5	5,7	1,7	2,2
NL	5,4	4,2	5,9	4,2	-0,9	4,5	2,4	1,9
B	4,9	4,8	6,5	4,7	-2,1	5,7	1,3	2,0
L	3,3	5,4	11,3	5,0	-11,0	2,9	1,3	2,5
UK	2,8	2,6	6,6	-0,6	-1,6	2,6	0,7	3,2
EC	4,6	3,8	5,8	1,7	-1,6	4,7	2,2	2,6
US	3,8	4,3	5,4	-1,4	-1,0	6,0	4,9	3,75
JAPAN	10,7	8,1	9,7	-1,2	2,3	6,0	5,0	5,75
OECD	5,3	4,6	6,0	0,1	-1,0	5,2	3,6	3,75

Note: EC totals based on 1970 exchange rates, OECD totals for 1960-1970 based on 1963 exchange rates and 1970 exchange rates thereafter. The price base is 1970, except for 1978, which is based on the prices of the preceding year. Official UK figures based on 1975 prices show rates of growth in 1976 and 1977 about 0,75% higher owing to the higher valuation of the output of North Sea oil.

Source: Eurostat and estimates of the Commission services for 1977 and 1978.

relative strength remains disputed. In brief there was a surge in production in the developed economies in 1973, not because those economies were individually expanding abnormally fast compared with earlier years (except perhaps Luxembourg which being a raw-material processing country effectively proves the rule), but because they were atypically in phase. The resulting rapid rise in demand for raw materials led to an explosion of industrial raw material prices. This, together with the inflation in foodstuffs which was largely climatic in origin, and the quadrupling of oil prices in 1973-74, in turn generated inflationary pressures in the industrialized countries; the adverse shift in the terms of trade and as will be seen the reaction of different economic agents to them, sowed the seeds of generalized recession. The export prices of developing market economies excluding crude petroleum rose 43% in 1973 and 42% in 1974. This rise was made up of 43% and 33% respectively for food, 84% and 14% for agricultural goods excluding food and 22% and 53% for minerals.¹ The boom in world activity leading to the detonation of the world price level was sanctioned in advance, some would say was brought about, by the rapid rise in the world money stock from 1971 onwards. The world money stock grew at an average of 14% per year from 1971 to 1973 inclusive, compared with 7½% over the years 1968 to 1970 and 6½% over the decade 1961 to 1970. Also in the early 1970s in certain countries the stance of budgetary policy was significantly more expansionist than on average during the 1960s. This was the case notably in the United Kingdom where the public sector borrowing requirement moved 4% of GDP in an expansionary direction from 1971 to 1973, and to a lesser extent in Italy, Ireland and Denmark.

The recovery in the Member States which began in the second half of 1975 was vigorous but short-lived, and petered out towards the end of 1976 or early 1977. The growth in GDP in the Community in 1977 was, at 2,2%, the lowest for the nine countries together since 1958 apart from the 1974-75 recession years. The figure of 2,6% foreseen for this year is the second lowest, and reflects a weak demand in all countries except Ireland.

The extent of the shortfalls in GDP growth below the previous average rates and thus an impression of output forgone is shown in Graph 1. Extrapolating the 1958 to 1973 trend line would imply an increment to Community GDP by 1978 of 25% rather than the 10% actually obtained, suggesting a 'loss' of 15% of 1973 GDP. For the individual countries the corresponding figures are: Denmark 18%,

Germany 11%, France 10%, Ireland 6%, Italy 18%, Netherlands 17%, Belgium 10%, Luxembourg 23%, and the United Kingdom 12%. However, in discussing the inadequacy of the recovery the effects of both the change in the structure of demand caused by relative price changes which may have rendered a lot of capital equipment in certain industries permanently unprofitable, and the low rates of investment in the last three years on productive capacity are relevant. There are signs that in certain industries, such as automobiles and paper, capacity constraints are already beginning to bite, though other sectors remain characterized by considerable underutilization. Business surveys carried out by the Commission give evidence here. The measure consists of the average balance for all industrial sectors of positive over negative replies in the three surveys each year to the question 'is productive capacity more than sufficient to meet demand?'. Though these data, like all capacity utilization series, are to be interpreted with prudence, they do suggest that the degree of underutilization is in general on the increase.

The difficulties experienced in putting the Community economy back on to its desired growth path are illustrated by a comparison of growth performance in recent years with official targets or forecasts. An average target growth-rate for the Community for 1975 was published in the 1974

Table 2

Index of capacity underutilization derived from business surveys

	1973	1974	1975	1976	1977	1978 ¹
D	4	26	52	32	37	37
F	-22	-20	39	22	26	28
IRL	:	7	25	21	4	5
I	10	13	57	41	40	48
NL	3	10	52	43	45	43
B	-2	8	54	51	61	60
L	-27	-21	51	72	72	69
EC ²	-4	13	49	30	36	38

¹ Average of result of January and May surveys, except for FR of Germany, which shows January survey result.

² Based on weighted average of countries for which survey data are available.

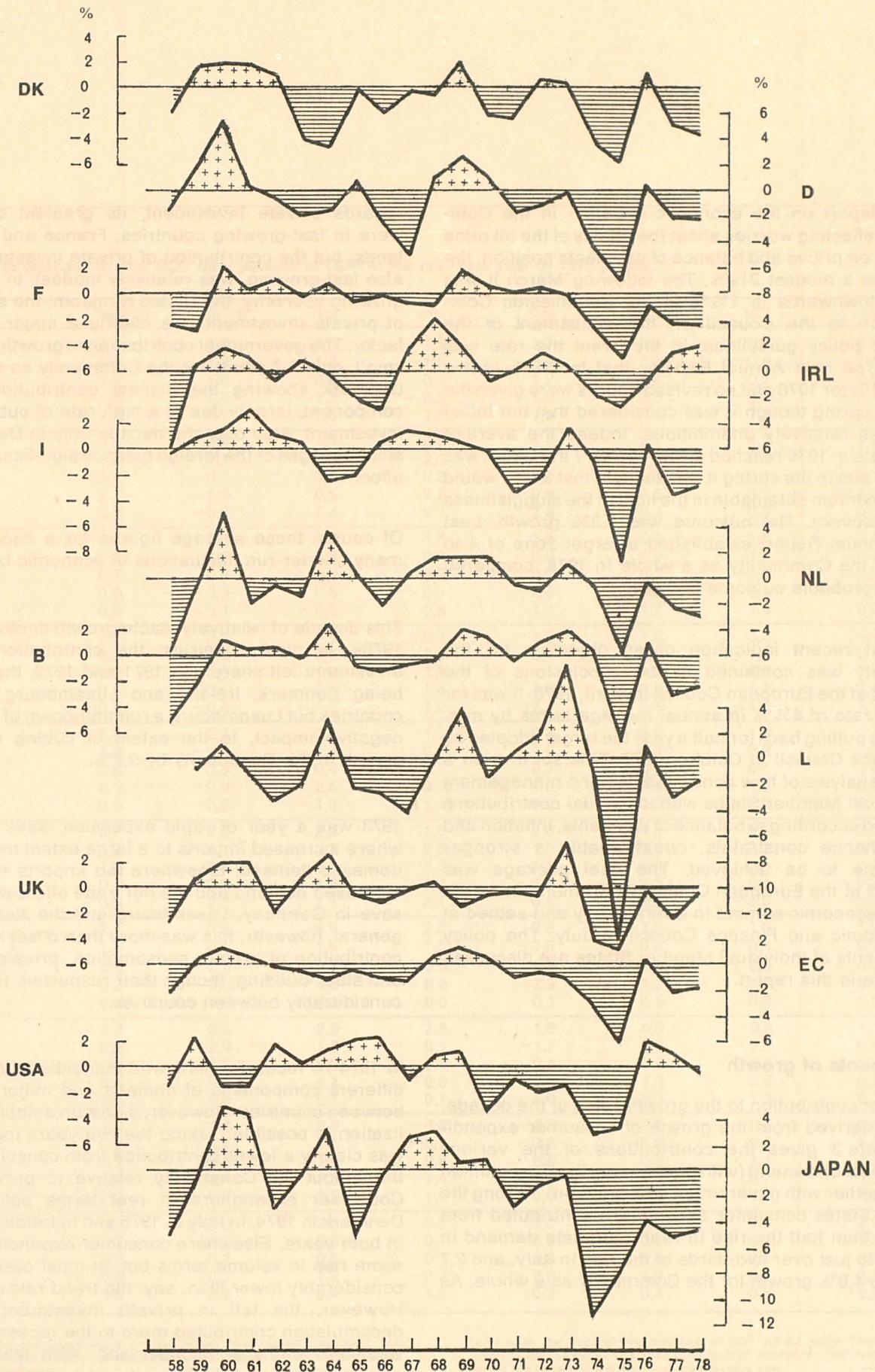
Note: The index represents the balance of the respondents who consider productive capacity more than sufficient to meet demand against those who consider it less than sufficient.

Source: Commission business surveys.

¹ United Nations series, Monthly Bulletin of Statistics, Table 59.

Graph 1

Deviations of GDP annual growth-rates from 1958 to 1973 average



Source: Commission services.

Annual Report on the economic situation in the Community. Reflecting worries about the effects of the oil price rise, both on prices and balance of payments position, the figure was a modest 2½%. The following March it was revised downwards to 1½% in the Commission Communication to the Council on the adjustment of the economic policy guidelines. In the event the rate was -1,7%. The next Annual Report—that for 1975—set a target of 4% for 1976 and no revised figures were given the following spring though it was considered that the initial target was relatively unambitious. Indeed the average growth-rate in 1976 reached 4,9%. For 1977 the target was set at 4% and in the spring it was thought that 3½% would be the maximum obtainable in the light of the sluggishness of the recovery. The outcome was 2,3% growth. Last year's Annual Report established a target zone of 4 to 4½% for the Community as a whole in 1978, compared now to a probable outcome of 2,6%.

The most recent indication of an objective for the Community was contained in the conclusions of the President at the European Council in April, 1978. It was for a growth-rate of 4½% in annual average terms by mid-1979, thus putting back for half a year the target adopted by the Finance Council in October 1977. This set in train a detailed analysis of how concerted demand management action by all Member States with individual contributions modulated according to balance of payments, inflation and public finance constraints, could enable a stronger growth-rate to be achieved. The final package was discussed at the European Council in Bremen and at the Western economic summit in Bonn in July and settled at the Economic and Finance Council in July. The policy commitments of individual Member States are discussed elsewhere in this report.¹

Components of growth

The major contribution to the growth-rates of the decade, 1960-70, derived from the growth of consumer expenditure. Table 3 gives the contributions of the various components of demand (with government fixed investment taken together with government consumption). Among the Member States consumer expenditure contributed from just less than half the rise in real aggregate demand in Belgium to just over two-thirds of the rise in Italy, and 2,7 out of the 4,6% growth for the Community as a whole. As

regards private investment, its greatest contributions were in fast-growing countries, France and the Netherlands, but the contribution of private investment in Italy, also fast-growing, was relatively modest. In the slowest-growing economy, the United Kingdom, the sluggishness of private investment was clearly a major explanatory factor. The government contribution to growth tended to be small, only 0,7 points for the Community as a whole with Denmark showing the highest contribution from this component, largely due to a high rate of public authority investment. Also over the decade only in Denmark were stock changes or the foreign balance significant in their net effect.

Of course these average figures for a decade conceal many shorter-run fluctuations in economic behaviour.

This decade of relatively stable growth contrasts with the 1970s. In most countries, the contribution of private investment fell sharply in 1971 and 1972, the exceptions being Denmark, Ireland and Luxembourg, and in all countries but Luxembourg a running-down of stocks had a negative impact, to the extent of cutting the average growth in the Community by 0,7%.

1973 was a year of rapid expansion, save in Denmark where increased imports to a large extent met the rise in domestic demand. Elsewhere too imports responded to increased demand and the net trade effect was negative, save in Germany, Luxembourg and the Netherlands. In general, however, this was more than offset by the strong contribution of private consumption, private investment and stock-building, though their respective roles differed considerably between countries.

In 1974-75 recession saw wild fluctuations in the role of different components of demand and major differences between countries. However, a certain amount of generalization is possible. Taking the two years together there was clearly a lower contribution from consumer demand throughout the Community relative to previous years. Consumer expenditure in real terms actually fell in Denmark in 1974, in Italy in 1975 and in Ireland and the UK in both years. Elsewhere consumer expenditure showed some rise in volume terms but, in most cases, at a rate considerably lower than, say, the trend rate of the 1960s. However, the fall in private investment and stock decumulation contributed more to the recession than the weakness of household demand. With few exceptions private investment, both fixed and in stocks, fell in real terms in both years of the recession, while the role of the foreign balance tended, aided by exports to countries

¹ See Council decision of 24 July, 1974, OJ L220/27 and The Economic situation in the Community, No 2/1978, Commission of the European Communities.

Table 3

Contributions to changes in real GDP as a percent of GDP in the previous year at 1970 prices ¹

		1960-1970	1971/72	1973	1974	1975	1976	1977	1978
DK	pr. con. ¹	2,5	1,4	3,1	-1,5	2,7	3,8	0,5	-0,3
	pr. inv.	0,6	1,0	1,4	-1,9	-2,8	3,3	-0,4	-1,1
	pub. exp.	1,9	1,0	-0,4	0,4	1,2	1,4	0,7	0,8
	stocks	-1,6	-0,6	1,3	-0,2	-3,0	2,6	-0,4	-0,4
	for. bal.	1,5	1,1	-2,5	2,7	1,8	-5,1	1,5	1,3
D	pr. con.	2,7	2,8	1,4	0,7	1,9	2,1	1,7	1,9
	pr. inv.	1,2	1,1	0,0	-2,3	-1,0	1,3	0,9	0,9
	pub. exp.	0,8	0,7	0,5	0,3	0,2	0,3	0,1	0,7
	stocks	0,1	-1,0	0,5	-0,2	-0,9	1,6	-0,2	-0,2
	for. bal.	0,0	-0,2	2,4	2,1	-2,8	0,4	0,0	-0,5
F	pr. con.	3,4	3,8	3,4	1,8	1,8	3,1	1,5	2,1
	pr. inv.	1,6	1,2	1,3	0,1	-0,9	1,0	1,5	0,2
	pub. exp.	0,7	0,9	0,6	0,2	0,9	0,7	-1,0	0,6
	stocks	0,0	-0,3	0,5	-0,1	-2,6	1,5	0,1	-0,1
	for. bal.	0,0	0,1	-0,5	0,8	1,1	-1,7	1,0	0,2
IRL	pr. con.	2,7	2,5	3,4	-0,3	-3,8	1,9	3,5	5,2
	pr. inv.	0,9	1,5	3,5	-3,1	-2,4	0,8	1,9	2,1
	pub. exp.	0,9	1,5	1,8	1,8	1,1	1,3	0,3	1,4
	stocks	0,1	-0,5	0,4	1,8	-7,0	2,5	1,2	-0,4
	for. bal.	-0,4	-0,4	-4,7	1,2	12,4	-3,3	-1,4	-2,3
I	pr. con.	3,9	2,1	3,8	1,7	-0,3	2,2	1,4	1,4
	pr. inv.	1,0	-0,4	1,4	0,6	-1,0	0,2	0,2	-0,3
	pub. exp.	0,6	0,8	0,4	0,5	0,3	0,3	0,1	0,4
	stocks	0,1	-0,9	2,5	0,0	-1,0	2,8	-1,6	0,1
	for. bal.	0,0	0,6	-1,3	1,4	0,9	0,2	1,6	0,6
NL	pr. con.	3,7	2,2	2,3	1,5	2,0	1,3	2,5	2,1
	pr. inv.	1,7	-0,1	1,3	-0,8	-1,3	-0,3	2,2	0,5
	pub. exp.	1,0	0,4	0,0	0,3	1,1	0,6	0,6	0,3
	stocks	-0,4	-0,8	1,2	1,1	-3,6	2,3	0,1	-0,2
	for. bal.	-0,5	2,5	1,1	2,1	0,6	0,7	-3,0	-0,9
B	pr. con.	2,4	3,3	4,9	2,2	0,3	3,8	1,3	1,2
	pr. inv.	1,1	0,1	1,5	1,5	-0,6	0,2	-0,1	0,0
	pub. exp.	0,9	0,8	0,6	0,5	0,9	0,7	0,5	0,8
	stocks	0,2	-0,4	1,0	0,9	-2,9	1,2	-0,1	-0,1
	for. bal.	0,4	1,0	-1,5	-0,3	0,1	-0,5	-0,3	0,0
L	pr. con.	2,2	2,9	2,5	2,8	1,3	4,0	0,9	1,1
	pr. inv.	0,8	2,0	1,6	0,1	-1,7	0,4	-0,7	0,5
	pub. exp.	0,3	1,0	1,0	0,4	0,4	0,2	0,4	0,4
	stocks	0,3	0,4	4,1	0,3	-2,4	-1,5	2,0	-0,2
	for. bal.	-0,3	-0,9	6,1	0,1	-6,0	-0,3	-1,3	0,7
UK	pr. con.	1,5	2,8	3,0	-0,8	-0,7	0,3	-0,5	3,4
	pr. inv.	0,6	0,4	0,5	-0,2	-0,2	-0,5	0,4	0,5
	pub. exp.	0,7	0,5	1,3	0,8	0,6	0,3	-1,1	0,3
	stocks	-0,1	-0,4	2,5	-1,4	-2,5	1,9	0,7	0,3
	for. bal.	0,2	-0,7	-0,2	1,0	0,9	1,1	1,6	-1,3
EC	pr. con.	2,7	3,0	2,8	0,9	1,0	2,2	1,3	2,0
	pr. inv.	1,2	0,7	0,8	-0,7	-0,9	0,6	0,9	0,4
	pub. exp.	0,7	0,7	0,6	0,3	0,5	0,6	-0,3	0,5
	stocks	0,0	-0,7	1,2	-0,2	-2,0	1,9	-0,2	-0,1
	for. bal.	0,0	0,2	0,4	1,5	-0,2	-0,4	0,5	-0,2

Note: pr. con.: consumer expenditure; pr. inv.: private fixed capital investment; pub. exp.: government expenditure on goods and services; stocks: changes in stocks. for bal.: net foreign balance.

¹ Differences between the sum of the components and the rates of growth in GDP given in Table 1 arise from rounding, and in the case of the UK, from the fact that this

table uses the expenditure measure of GDP growth while Table 1 uses the compromise measure. The price base is 1970, except for 1977 and 1978 each of which are based on the prices of the previous year.

Source: As Table 1, which also gives the corresponding GDP aggregate data.

outside the Community, in particular the OPEC member countries, to support economic activity particularly in 1974.

In 1974 because of inflation and balance of payments worries, government expenditure was cut back in several countries and indeed in all countries, except Ireland, its real contribution to aggregate demand was much less than in earlier years but still slightly positive. In France the restraint in public expenditure was particularly marked compared to 1973. In 1975, the contribution of government expenditure generally rose moderately, though not in Germany or Italy.

In assessing fiscal policy it is of course necessary to look at the general government budget as a whole and this is done in Chapter 6. At this point it may be noted that, partly because of discretionary fiscal policy and partly because of the automatic effects of lower tax revenues caused by the recession, the overall budget was in most countries a good deal more expansionist between 1973 and 1975 than public expenditure alone (see Annex Table 26). The budget deficit as a percentage of GDP increased most in Germany (by some 7½%) and Ireland (by 9%). Thus to an important extent governments were absorbing the deflationary effect of the deterioration in the terms of trade in those years, in which Community import prices rose 64%, Community export prices rose 48% and the Community current account deteriorated from 5,5 thousand million EUA in 1972 to 1,2 thousand million in 1975.

The year 1976 showed a return to a stronger pattern of demand growth. The major motor behind the recovery was growth in consumer expenditure and the replacement of stocks. Private investment generally remained sluggish and actually fell in real terms in the Netherlands and the United Kingdom. Public sector expenditure made some contribution to growth in most countries, more particularly in Denmark and Ireland, but noticeably less than in the previous year in the Netherlands and the United Kingdom. Indeed as a percentage of GDP the general government deficit was reduced in several countries, notably Germany, France and the United Kingdom. The foreign balance contribution became significantly negative in Denmark, France and Ireland.

1977 and 1978 have been years of sluggish growth. That growth that has taken place has been on the whole due to the generally hesitant expansion in private consumption, though this has recently shown some greater dynamism in the United Kingdom and Ireland, and in certain countries. In Denmark and Italy there has been a significant contribution from the foreign sector. Private investment

has been depressed in all countries except Ireland. The role of government expenditure has been marginal or even negative in its contribution to aggregate demand taking these two years together, again with the exception of Ireland. As is evident from Table 18 (and as analysed in more detail in Chapter 6) in most countries the general government deficit diminished in 1976 and 1977. This tendency was reversed in the course of 1978, in the first place through the more expansionary initial posture of the 1978 budgets, and secondly, in the framework of the concerted action programme, by subsequent supplementary budgets and commitments, especially by Germany, to a more expansionary policy in 1979.

The role of private consumption

The fact that weakness of private consumption was in most countries the major immediate factor behind the 1974-75 slump and that its recovery in 1976 preceded a new further slowing down¹ begs the question of whether there has been a change in the behaviour of households over and beyond that which can be explained by earlier reactions to changes in real disposable income or inflation. It has often been alleged that consumer reticence has been increased by the threat of unemployment or the fall in the real value of liquid assets. Certainly, the savings ratios given in Table 4 show a tendency to rise in several but not all countries up to 1975, when inflation was at its peak, but in most cases by 1977 they have reverted to their 1972-73 levels. In Ireland there has been a substantial and continuous upward trend (which has coincided with high rates of investment and economic growth), and in the United Kingdom there was a significant increase up to 1975, which has not been reversed. Germany is the only case where the 1977 level remained below that of 1972-73.

The ratios of household savings to disposable income do not in themselves demonstrate a new reticence in consumer expenditure. The changes in the savings ratio may simply reflect the established reaction to higher disposable income or to inflationary expectations. Quarterly, or, where quarterly data are not available, annual series were used to estimate regression equations 'explaining' the level of total consumer expenditure by real disposable income and the consumer expenditure deflator. Statistical tests were then carried out to determine whether there was clear evidence of a change in the role

¹ This is illustrated by the year-on-year differences in the contributions to real GNP change in Table 3 for the Community as a whole.

played by either of the explanatory variables. In effect the quarterly data showed that in the case of Germany from the beginning of 1974 while households spent as high a proportion of additional disposable income—some 82%—there has been a longer delay than in earlier years in adjusting consumption to a change in disposable income. In the case of the United Kingdom there appeared to be a change in the reaction of households to price rises. Whereas in the past, price increases, present and anticipated, appear to have stimulated expenditure, from mid-1973 onwards the effect of increased inflation seems rather to have been to depress expenditure.

Of course consumer demand may also lack dynamism because of the slow growth of real disposable income. The latter generally moved very much in line with GDP over the period. However, the falls in Italy in 1974, and Denmark and Ireland in 1974 and 1975 and in the United Kingdom in 1976 and 1977 were out of line with the evolution in GDP. At least in these cases there are grounds for attributing some of the sluggishness of consumers' expenditure to falls in real disposable income effected by demand-management or wages and prices policies, generally designed to protect the balance of payments.

Apart from the new tendencies to react to changes in disposable income more slowly in Germany and to react negatively to inflation in the United Kingdom, the econometric evidence does not point to any clear changes

in consumption behaviour. The fact that consumer expenditure has not done more to sustain the recovery in 1977 and 1978 can largely be attributed to the low growth in real disposable income, which in certain cases has been reduced by stabilization policies but in others merely reflects the weakness of other demand components.

The role of private investment

The principal factors behind the low rates of private investment since the 1974-75 recession are generally considered to include the depressed level of profits, continuing high levels of capacity underutilization, uncertainties created by fluctuating exchange rates, the effect of high nominal rates of interest on the cash flow implications of borrowing and a general lack of confidence in demand management policies. Different arguments apply with different force in different countries and indeed in different sectors within the same country.

As regards depressed profits, the reverse side of the same argument is of course the excessive growth of earnings. The weight of the argument is seen in figures for the share of wage and salary earnings in net national income (see Table 5). It is clear that in general the wage share has risen substantially since the 1960s and though the timing of the rise has varied from country to country, the inflection has generally been accelerated by the 1974-75 recession. While labour was able to force up wage-rates to maintain the real value of earnings, the weakness of demand and in some countries, Italy, France, the United Kingdom in particular, price policies prevented the increased labour costs being fully passed on. For the Community as a whole the wage share was on average some 59% during the 60s. It rose to 66% in 1975 and since then it has fallen somewhat and should be about 62% in 1978.

In order to test whether there has been a discontinuity in the behaviour of private investment, annual, and where possible quarterly, regression equations were estimated for each Member State. Changes in industrial output or total domestic demand, the relative costs of capital and labour and an index of the degree of capacity utilization were used to explain changes in the rate of private investment. This gives some evidence to suggest that in France, Italy and Denmark the fall in output during the recession discouraged investment relatively more than the earlier year-to-year fluctuations in output would have implied. In general, however, there is no clear pattern of underprediction or overprediction when the equations based on the years 1960-73 are used to forecast private investment in the post-1973 period. The recent lethargy of private-sector investment is largely explicable without

Table 4

Ratio of household savings to gross disposable income

	1972	1973	1974	1975	1976	1977
DK	0,16	0,16	0,15	0,18	0,16	0,16
D	0,14	0,13	0,14	0,14	0,13	0,12
F	0,17	0,17	0,18	0,19	0,17	0,18
IRL	0,13	0,16	0,19	0,24	0,21	0,23
I	0,25	0,24	0,23	0,27	0,27	0,26
NL	0,17	0,18	0,18	0,16	0,18	:
B	0,21	0,21	0,22	0,21	0,23	0,21
L	:	:	:	:	:	:
UK	0,10	0,11	0,13	0,14	0,14	0,14
EC	0,16	0,17	0,17	0,18	0,17	0,17

Source: 1972-1976, except Denmark and Ireland: Eurostat, otherwise national data, where necessary adjusted to SEC definitions. 1977, estimates of Commission services.

Table 5**Share of compensation of employees in net national disposable income**

	1960-1970	1971/72	1973	1974	1975	1976	1977	1978
DK	0,57	0,60	0,59	0,64	0,66	0,65	0,64	0,63
D	0,59	0,62	0,63	0,65	0,65	0,63	0,63	0,62
F	0,57	0,57	0,57	0,59	0,61	0,61	0,62	0,61
IRL	0,55	0,55	0,53	0,57	0,59	0,59	0,58	0,58
I	0,54	0,57	0,58	0,59	0,64	0,63	0,64	0,63
NL	0,60	0,63	0,63	0,65	0,68	0,66	0,65	0,65
B	0,58	0,59	0,60	0,61	0,64	0,64	0,64	0,64
L	0,66	0,62	0,54	0,54	0,65	0,69	0,70	0,68
UK	0,65	0,66	0,67	0,72	0,75	0,73	0,70	0,70
EC	0,59	0,61	0,61	0,64	0,66	0,65	0,63	0,62
US	0,67	0,69	0,69	0,71	0,70	0,69	0,73	:
JAPAN	0,57	0,56	0,57	0,59	0,62	0,66	0,71	:

Note: Series adjusted to eliminate the effects of variations in the proportion of wage and salary earners in total employment (1975 = 100).

Source: Eurostat and estimates of the Commission services for 1977 and 1978.

recourse to special arguments. In short the high degree of capacity available together with the expected level of demand does not warrant higher levels of investment,

though this does not rule out the role of such factors as uncertainties about exchange rates, low profit levels and high interest rates in certain sectors.

3. Employment and unemployment

Labour demand and supply

In the period 1960 to 1973 the level of employment in the Community increased only at a slow rate from some 103 to 106 million persons, while the total population rose far more strongly from some 233 to 257 millions. Salaried employment, however, was growing a good deal faster than total employment—at about 1% per annum. Unemployment fluctuated, but stayed within a range from 2 to under 3 million (Graph 2).

Since 1973 the Community labour market has been subjected to drastic changes, on both the demand and the supply side.

The recession in 1975 led to a sharp reduction of 1,2% in salaried employment, whereas the following year's strong but temporary recovery in economic growth gave no increase in salaried employment at all. Since then, in 1977 and 1978, there has been a modest increase in employment, essentially due to special employment measures by governments. While the form of these measures has been very diverse, the general pattern appears to be a continuing decline in industrial employment, with the increase in employment arising mainly through direct job-creation in the public sector (see also Chapter 9 for a longer-run view).

The weakening labour market has been due in part to

Table 6

Development of salaried employment and productivity, changes over preceding year

		(percentages)							
		1960-1970	1971/72	1973	1974	1975	1976	1977	1978 ¹
DK	Employment	2,0	2,2	1,0	-0,3	-2,5	1,6	0,6	0
	Productivity	2,9	2,1	1,8	0,4	1,5	2,7	1,3	0
D	Employment	0,8	0,2	0,6	-1,1	-3,5	-0,5	0,1	0,3
	Productivity	3,7	3,5	4,2	2,4	0,9	6,1	2,7	2,4
F	Employment	2,0	1,6	2,3	1,5	-0,9	0,6	0,2	0,4
	Productivity	3,8	4,2	3,0	1,3	1,2	4,1	2,8	3,6
IRL	Employment	1,2	-0,1	1,8	1,9	-2,1	-1,5	:	:
	Productivity	3,1	5,6	2,6	-0,5	2,4	4,8	4,9	:
I	Employment	0,8	0,5	1,6	2,0	0,4	1,3	0,5	-0,5
	Productivity	4,5	2,7	5,3	2,2	-3,9	4,5	1,2	2,7
NL	Employment	2,0	-0,8	0,4	0,4	-0,4	0,1	0,8	0,5
	Productivity	3,4	4,7	5,5	3,8	-0,8	4,3	1,6	1,4
B	Employment	1,6	0,5	2,0	2,0	-1,5	-0,5	-0,3	-0,5
	Productivity	3,3	5,0	4,4	2,7	-0,7	6,2	1,5	2,5
L	Employment	1,6	4,4	3,4	3,3	0,8	-1,6	-0,6	-1,0
	Productivity	1,7	2,3	12,0	0,2	-13,5	4,3	1,9	3,5
UK	Employment	0,3	-0,1	2,4	0,5	-0,4	-0,1	0,3	0,4
	Productivity	2,6	2,5	4,1	-1,1	-1,2	3,4	0,7	2,8
EC	Employment	1,0	0,5	1,6	0,4	-1,2	-0,0	0,3	0,2
	Productivity	3,6	3,5	4,0	1,4	-0,5	4,8	2,0	2,4

¹ Average: January-August.

Note:

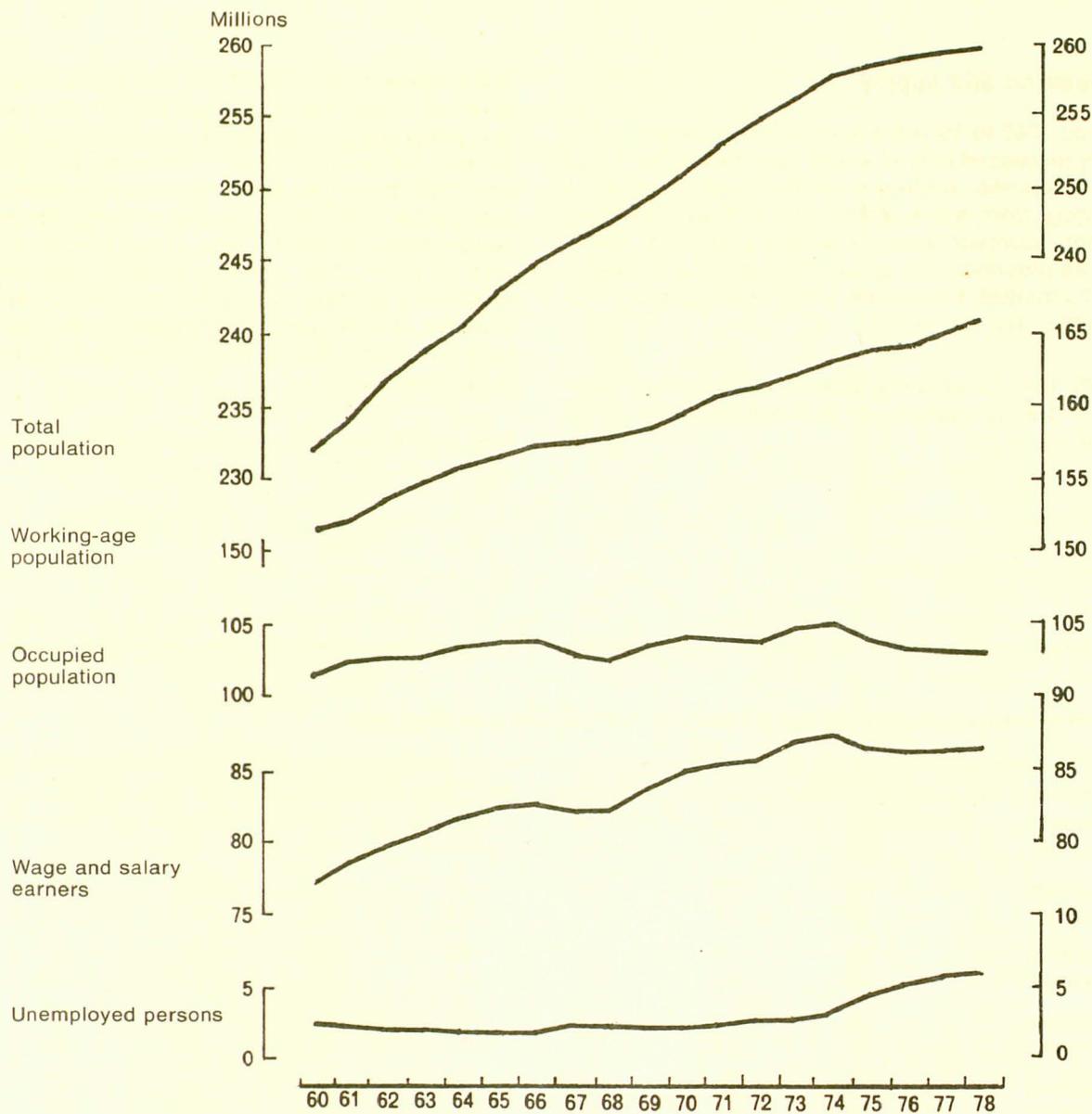
Employment = Number of wage and salary earners.

Production = Production per wage and salary earners.

Source: Eurostat and estimates of Commission services for 1977 and 1978.

Graph 2

Population, employment and unemployment in the Community 1960-1978



Source: Eurostat and Commission services.

demographic trends. An increasing rate of growth of the working-age population has been apparent since the end of the 60s.¹ The most dramatic change has occurred in Ireland where the working-age population is growing in the present decade at over 1% per year compared to a decline of almost 1% per year two decades ago in the 50s. Germany represents the other extreme case, turning from a growth of working-age population of over 1% per annum in the 50s to nearly ½% per annum in the present decade.² These changes are already doubtless having an effect on the pattern of economic growth in the countries concerned, notably in Ireland's transition to a high growth economy, compared to an adjustment to a more moderate growth-rate in Germany.

In most Member States acceleration in the rise of the rate of activity of women appears to have been more than offsetting the reverse trend of declining activity rates among the male population, the latter due to the prolongation of education and some lowering of the average retirement age; the proportion of the population undergoing full-time education rose from 16,4% in 1965-66 to 19,9% in 1975-76.

Immigration contributed between 1963 and 1973 about one-quarter of the total increase in population in the

Community, foreign workers reaching 7,8% of the salaried employment by 1973. The change since 1973, however, has been a radical one with restrictive measures applied in Germany and the United Kingdom since 1973 and France and Benelux countries since 1974. About 1 million foreign workers have returned to their home countries since 1973.

A further factor supporting the labour market has been the modest rise in productivity, which in 1973 to 1978 rose on average at under half the rate experienced in 1960 to 1973. The only recent year of strong growth, 1976, saw on the other hand a sufficiently sharp rise in productivity to leave the employment level unchanged in that year.

As the outcome of this series of (partly offsetting) influences, the main increase in unemployment occurred in the course of 1974 and 1975, the rate of unemployment for the Community as a whole rising from 2,5% in 1973 to 4,9% in 1976. Since then there has been a continuing but decelerating increase in the Community aggregate, and by 1978 the trend was being reversed in some individual Member States, notably Ireland and Germany.

Despite help from governmental measures it has been hardly possible to absorb the massive change in labour supply/demand conditions evenly throughout the labour force. A pattern observable in almost all Member States has been the increase in the share of female unemployment from 33% of the total in 1973 to 41% in 1977, reflecting the increasing participation rates and the marginal economic situation of much female employment. The

¹ Source: The Economic Implications of Demographic Change in the European Community 1975-1995, report of a study group of the Commission of the European Communities, Brussels, 1978.

² The decade as a whole, however, saw a change of trend with a stronger growth in the first half.

Table 7

Rate of unemployment; registered wholly unemployed in the civilian labour force

	(percentages)							
	1960-1970	1971/72	1973	1974	1975	1976	1977	1978 ¹
DK	1,2	1,2	0,7	2,0	4,6	4,7	5,8	6,6
D	0,8	0,8	1,0	2,2	4,2	4,1	4,0	3,9
F	1,4	1,7	1,8	2,3	3,9	4,3	4,9	5,1
IRL	4,7	6,0	6,0	6,3	8,8	9,8	9,7	8,9
I	5,7	5,0	4,9	4,8	5,2	5,5	6,4	7,0
NL	0,9	1,8	2,3	2,9	4,1	4,4	4,3	4,2
B	2,2	2,5	2,9	3,2	5,3	6,8	7,8	8,3
L	0,1	0	0	0	0,2	0,3	0,6	0,9
UK	1,9	3,4	2,5	2,4	3,8	5,3	5,7	5,7
EC	2,1	2,6	2,5	2,9	4,4	5,0	5,3	5,5

¹ Average: January-August.

Source: Eurostat.

second general phenomenon has been the increase in youth unemployment (see Table 8), also reflecting of course the rigidities in existing employment structures in conditions of weak labour demand. This has in turn led to an increase in the average duration of unemployment for young persons. For example, in each of Germany, France, and the United Kingdom the number of youths unemployed for more than twelve months was very small in 1974 (1 to 3% of total youth unemployment), whereas by mid-to-late 1977 it had risen to more significant proportions (7 to 10% of the total).

The labour market in the Member States

In *Denmark*, the stabilization of employment following the weakening in the recovery phase observed since 1976 and the accelerated growth in the labour force have been translated into a strong upsurge in unemployment. Thus, the unemployment rate which was traditionally lower than the Community average exceeded it; in 1978 the numbers out of work reached 190 000. The increase in participation rates of women, and more especially married women, has played an important role in this progression.

Table 8

Distribution of wholly unemployed by sex and age

Number of unemployed *women*, as % of total registered unemployed
 Number of unemployed aged *less than 25*, as % of total registered unemployed (May)

	1960-1970	1971/72	1973	1974	1975	1976	1977
DK women	13,4	18,8	23,0	26,4	29,2	37,1	42,2
less than 25	:	24,6	26,7	22,7	24,9	25,2	30,3
D women	31,3	43,0	44,9	44,2	42,1	46,8	49,8
less than 25	:	:	:	23,1	24,9	25,6	26,6
F women	40,4	45,9	50,9	52,9	49,1	52,5	53,4
less than 25	:	27,1	29,8	31,6	36,4	37,0	38,3
IRL women	16,3	18,3	18,0	18,8	19,4	19,1	20,1
less than 25	:	:	:	:	:	:	:
I women	29,6	32,7	34,0	36,0	36,7	37,3	39,0
less than 25		27,3	30,1	32,6	34,1	36,8	
NL women	14,6	16,1	19,5	20,9	21,7	24,2	29,5
less than 25		31,7	28,7	30,8	36,0	36,3	37,0
B women	31,0	38,2	47,9	53,2	52,3	57,0	59,5
less than 25	29,9	28,4	22,8	33,0	34,7	33,9	29,7
L women	40,0	77,7	70,9	60,6	35,1	38,7	39,8
less than 25	47,6	43,9	61,8	30,6	42,5	43,0	48,8
UK women	22,4	16,8	16,7	16,6	20,5	24,8	27,9
less than 25	31,6	25,4	30,4	41,8	43,9	45,6	:
EC women	28,1	29,5	33,1	35,9	36,3	38,8	41,3
less than 25	:	:	:	:	:	:	:

Note:
 Denmark and United Kingdom, July,
 Belgium: 1972 and 1973 (March),
 Luxembourg: unemployed aged less than 21 (March),
 Italy: persons aged less than 21 seeking first employment.
 Source: Eurostat.

In the *Federal Republic of Germany* the labour market situation deteriorated less rapidly in 1977 and slightly improved in 1978; none the less the total number of persons in employment fell by 1,7 million between 1973 and 1978. The number of unemployed increased by about a third of this figure, whilst 600 000 people left the labour force and half a million immigrant workers returned home. Had this not been so, the present unemployment rate (3.9% for January to August 1978) could well have been doubled. The domestic labour supply, which had been steadily falling and had subsequently stabilized, began to rise again in 1976 for demographic reasons.

In *France*, where relatively few jobs were lost because of the crisis, the slight recovery of employment observed in 1976 and 1977 appears not to have continued into 1978. Production per employee increased faster than the Community average. The increase in labour supply due to demographic factors and to the increased participation rate of women contributed to unemployment. As in the other Member States, there is a continuing increase in the number of young people entering the labour market; but in France, this is combined with a relatively small number of workers reaching retirement.

Employment in *Ireland* has started to rise again since 1976; unemployment remained steady in 1977, and fell slightly in 1978. The improvement is due in particular to foreign firms moving in and to government measures to support employment. However, it masks problems inherent in the structure of the Irish labour market: the relatively marked influence of demographic factors, the paramount importance of agriculture and the shortage of skills in some sectors.

The employment situation in *Italy*, already suffering from the effects of demographic factors (young people entering the labour market in very large numbers), was further aggravated by the return of some 200 000 emigrants between 1975 and 1977. Employment had increased during the recession years 1974 and 1975, a development contrary to that observed in the other Member States. After the statistics were revised it transpired that the labour force and the level of unemployment had both probably been much higher since 1977 than was previously thought. On the most recent assessment, the number of wholly unemployed as a percentage of the labour force in Italy is now among the highest in the Community.

In the *Netherlands*, where the employment situation had deteriorated sharply even before the oil crisis, the numbers of persons employed continued to fall between 1975 and 1978. At the same time, productivity gains were

becoming smaller, particularly in industry. Although the population of working age was increasing more rapidly between 1975 and 1978 than between 1971 and 1974, the number of unemployed increased on an annual average by about the same amount (20 000 compared with 22 000). This is mainly connected with the increased numbers of those unsuitable for employment and of those wishing to take further their vocational training.

Since the 1975 recession, employment in *Belgium* has fallen considerably more than has the Community average. The deterioration continued into 1977 and 1978. The considerable increase in the population of working age and fairly liberal social legislation had encouraged the extension of unemployment after 1970. This trend continued even after demographic factors became less influential.

Only after 1976 did employment begin to fall in *Luxembourg*. Since then, and for the first time since 1963, registered unemployment has been appreciable, in spite of the fact that migratory flows have been reversed and that measures have been implemented to support employment.

In the *United Kingdom*, the level of employment, which had been falling since 1974, rose slightly in 1978. The improvement was not solely due to the improved economic climate, but also to some jobs being maintained, to a change in the structure of demand for labour and, in general, to specific employment policy measures that, according to official estimates, should make it possible to maintain some 300 000 jobs. The upward trend of unemployment since 1969 continued until 1977 with the deterioration of the economic situation and the increased participation rate. Since then, unemployment stabilized between the autumn of 1977 and that of 1978, although the stabilization is probably temporary. The number of persons retiring and leaving the labour market is much higher in the United Kingdom than in other Member States, and this was no doubt a contributory factor in the stabilization of unemployment.

Longer-run demographic trends

Demographic changes have, as already seen above, been coming increasingly to the forefront as a variable of importance in the planning of economic policy. But knowledge in this domain is far from sure, especially when it comes to behavioural aspects of labour market participation.

A report recently prepared by a group of independent experts¹ has sought to explore the nature of the longer-term trends at work for all Member States, using a consistent methodology, with a view to estimating potential labour supply through to 1995. Some of the main features of this work are summarized here.

The purely demographic characteristics of the potential labour force can be calculated through to 1995 with relative accuracy since most of the working-age population of this period is already born (see Table 9). This age group (15 to 64) has been growing faster at about 0,5% per annum in the 70s than in the late 60s. In the 80s, however, a double change of trend is expected, first a marked acceleration in the first half of the decade to a rate of 0,9% per annum, this reflecting the peak in fertility rates observed in most of the Community in 1964 (this in turn apparently related in part to the pre-war upswing in fertility rates in the late 30s and the fact that this generation was little affected by the war). The sharp decline in fertility rates since 1964 (also doubtless reflecting important sociological factors and improved contraceptive techniques) will then lead to only a small growth in working-age population in the second half of the 80s (0,1% per annum), followed by a small decline in the early 90s.

¹ The Economic Implications of Demographic Change, op. cit.

Projections of labour supply then have to take account of actual participation rates, and their expected trends, for the various age groups and by sex. Table 10 shows separately the experts' estimates for the 'demographic' and 'activity rate' components in their total active labour force projections.

In the period 1975-85 the demographic component is dominant with increases of about 4 million in each of the five-year periods 1975-80 and 1980-85. Thereafter the demographic component becomes less important, as one would expect from the simple working-age population data already noted.

The activity rate projections necessarily rely on many assumptions notably as regards trends in female and male participation rates. Over the period 1975 to 1995 the female labour force is projected to grow at 1,4% per annum, the male labour force at only 0,3%, with a total of the order of 0,7%. The female participation rates is assumed by 1995 to reach levels varying from 46,8% in the Netherlands to 63,3% in the United Kingdom (as against respectively 26,6% and 55% in 1975).

By age group, a stabilization over time of the activity rate for youths (15-24) is expected, compared to the decline currently experienced; the fall in the participation rates of

Table 9

Total population of the Community 1955-1975 and projections to 1995

	1955	1960	1965	1970	1975	1980	1985	1990	1995
	<i>(millions)</i>								
<i>Total population</i>									
Children 0-14	52,7	56,3	58,9	61,0	60,6	55,7	52,3	52,2	54,0
Working age 15-64	147,3	150,8	156,7	159,4	163,4	167,9	175,7	176,7	176,3
Retirement age, over 64	23,1	25,1	27,9	31,0	34,3	36,5	34,7	36,5	37,6
Total	223,1	232,2	243,5	251,5	258,3	260,2	262,7	265,4	267,9
	<i>(percentages)</i>								
	50/55	55/60	60/65	65/70	70/75	75/80	80/85	85/90	90/95
<i>Annual growth-rate</i>									
Children 0-14	0,32	1,32	0,91	0,73	-0,14	-1,65	-1,26	-0,05	0,68
Working age 15-64	0,58	0,47	0,77	0,34	0,50	0,54	0,91	0,12	-0,5
Retirement age, over 64	1,59	1,67	2,13	2,13	2,04	1,29	-1,05	1,02	0,58
Total	0,62	0,80	0,95	0,64	0,54	0,15	0,19	0,21	0,18

Source: Commission services, derived from tables in Chapter 1 of The Economic Implications of Demographic Change..., op. cit.

older people (60 and above) is expected to continue but at a slower pace than at present.

The overall projection is for a rising activity rate component in the growth of the potential labour force, with the increases of the order of 0,9 million in each of 1975-80 and 1980-85, rising to 1,5 million or more in each of 1985-90 and 1990-95. In noting these figures it is to be stressed that the 'activity rate' projections are deliberately supposed to represent underlying tendencies as assessed at the time of the study and do not seek to reflect shorter-run developments in employment expectations. Indeed it is quite possible that a sustained weak outlook for labour demand in the period ahead could itself influence the underlying trend in the direction of lower participation rates.

Table 10

Projections of the total labour force, 1975-1995

<i>Total level of labour force, and projected changes</i>						
Age group	1975 level	1975-1980	1980-1985	1985-1990	1990-1995	1995 level
15-24	19,7	0,5	1,0	-1,0	-2,3	17,9
25-44	49,8	3,4	2,8	4,0	1,8	61,9
45-59	28,5	2,9	0,8	1,4	3,0	36,6
60-100	8,1	-2,2	0,5	-0,5	-0,3	5,5
Total	106,1	4,6	5,1	3,9	2,2	121,9

Demographic component in changes

Age group	1975-1980	1980-1985	1985-1990	1990-1995
15-24	0,8	1,1	-1,1	-2,4
25-44	1,9	1,6	3,1	1,3
45-59	2,3	0,3	0,3	1,9
60-100	-1,2	1,1	-0,7	—
Total	3,8	4,1	2,3	0,8

Activity rate component in changes

Age group	1975-1980	1980-1985	1985-1990	1990-1995
15-24	-0,4	-0,1	0,1	0,1
25-44	1,6	1,3	1,0	0,5
45-59	0,6	0,5	1,1	1,1
60-100	-0,9	-0,8	-0,5	-0,3
Total	0,9	0,9	1,7	1,5

Source : The Economic Implications of Demographic Change..., Part 1, Table 3.2, *op. cit.*

4. Prices and incomes

Price and wage income trends

After being halted in 1977, the deceleration in inflation in the Community was resumed in 1978. For the Community as a whole the increase in consumer prices may have been around 7%, compared with around 10% in 1976 and 9% in 1977 (see Table 11). In terms of the implicit price of GDP the slowdown between 1977 and 1978 has probably been less marked. This mainly reflects an improvement in the Community's terms of trade in 1978 after a small deterioration in 1977 but also a higher rate of increase, in some countries, in construction prices than in consumer

prices in 1978 following a year when the reverse had been true. The slowdown in the increase in consumer prices which has been a feature of all the Community countries except France has been most marked in the member countries with the highest inflation rates: Italy, Ireland and the United Kingdom. (The question of convergence of inflation rates is considered in more detail in Chapter 5.)

The rate of increase of consumer prices in the Community as a whole in 1978 came closer to the rates recorded in the US and Japan and to the OECD average (probably about 7%) than at any time since the oil crisis.

Table 11

Increase in consumer prices and GDP prices ¹

		<i>(percentages)</i>							
		1960-1970	1971/72	1973	1974	1975	1976	1977	1978
DK	con. pr.	5,5	5,4	8,2	15,3	8,4	9,3	10,9	9,0
	GDP pr.	6,0	7,3	10,3	11,3	12,1	8,5	8,9	9,5
D	con. pr.	2,9	5,8	7,6	7,0	6,3	4,4	3,9	2,5
	GDP pr.	3,5	6,6	6,0	6,9	7,1	3,2	3,6	3,8
F	con. pr.	4,2	5,7	6,8	13,4	11,7	9,9	9,1	9,2
	GDP pr.	4,4	6,0	7,8	11,6	13,2	10,0	8,8	10,1
IRL	con. pr.	4,6	9,2	12,4	15,2	21,8	17,0	13,9	8,0
	GDP pr.	5,4	11,7	15,9	7,1	23,6	18,1	13,6	10,0
I	con. pr.	4,0	6,2	12,2	21,0	17,6	17,9	18,0	12,5
	GDP pr.	4,6	6,7	11,7	8,2	6,6	10,6	7,4	13,6
NL	con. pr.	4,2	8,3	8,9	9,7	10,3	9,2	6,7	4,4
	GDP pr.	5,1	8,6	8,2	8,6	11,1	8,3	6,6	5,4
B	con. pr.	3,1	4,8	5,7	12,3	12,1	7,7	6,6	4,0
	GDP pr.	3,4	5,4	6,6	12,1	12,5	7,2	7,6	4,4
L	con. pr.	2,5	4,7	5,5	9,5	10,7	9,8	6,7	3,1
	GDP pr.	4,2	2,3	10,6	15,4	4,4	6,4	6,5	4,4
UK	con. pr.	4,0	7,6	8,2	16,4	23,3	15,5	14,3	8,6
	GDP pr.	4,2	8,5	7,4	14,6	27,9	15,3	13,9	9,3
EC	con. pr.	3,7	6,3	8,7	12,8	12,8	10,0	9,1	6,9
	GDP pr.	4,2	7,1	7,9	11,7	15,0	10,5	10,2	7,7
US	con. pr.	2,6	3,9	5,4	10,8	8,2	5,8	6,5	7,5
JAPAN	con. pr.	5,6	5,4	11,0	21,5	11,0	9,3	8,1	4,0

¹ For both consumer prices and GDP prices the EC figures are derived using current exchange rates. The EC figures for GDP are thus not directly comparable with those in Annex Table 5, derived using 1970 exchange rates.

Note: con. pr.: implicit price of consumer's expenditure,
GDP pr.: implicit deflator of gross domestic product

Source: Eurostat, estimates of the Commission services for 1977 and 1978, OECD Economic Outlook.

At the level of consumer prices, the slowdown between 1977 and 1978 has been most marked in food prices. Table 12 shows the profile of some components of consumer prices through the two halves of 1977 and the first half of 1978. After rising rapidly in the first few months of 1977, food commodity prices in dollars fell back, reflecting both an adjustment of tropical beverage prices and heavier temperate-zone crops in 1977 following the drought of the previous year. For the Community as a whole the annual rate of increase of consumer food prices halved from about 17% in the first half of 1977 to about 8% in the second half. Since food has a weight of around 30% in consumption in the Community the contribution to the decline in overall inflation in the second half of 1977 was substantial.

Consumer prices for fuel and light have in part reflected the freeze in oil prices and the movement of exchange rates against the dollar, but in a number of countries they have been heavily influenced by public policy, as have rents and the prices of publicly-provided services.

The deceleration in the prices of non-food consumer goods between 1977 and 1978 has been less dramatic but none the less important. For the Community as a whole the annual rate of increase declined from around 11% in the first half of 1977 to around 7% in the second half. The increase in the first half of 1978 remained at or below the lower rate of the second half of 1977.

The underlying rate of increase of manufacturing wholesale output prices appeared to be edging up to an annual rate of around 7 or 8% in the second quarter of 1978 (after very moderate rates of increase earlier in the preceding year, largely as a result of falling prices of fuel and materials imports in the second half of 1977 - see Graph 3). This may imply that the rate of increase of prices for non-food consumer goods might remain in the second half of 1978 at the moderate levels recorded in the previous two half-years, but with no marked further deceleration.

The increase in nominal gross compensation per head in the Community as a whole slowed from 13% in 1976 to

Table 12

Components of consumer price developments

(increases from previous half-year at percentage annual rates, not seasonally adjusted)

	1977 I						1977 II						1978 I					
	Total	Food	Non food ¹	Fuel and light	Rent	Services ²	Total	Food	Non food ¹	Fuel and light	Rent	Services ²	Total	Food	Non food ¹	Fuel and light	Rent	Services ²
DK	9,4	11,2	7,3	5,0	12,4	9,5	14,2	13,8	15,6	19,4	9,9	12,3	8,9	9,4	9,8	9,8	8,4	10,0
D	5,7	9,6	3,5	1,7	3,5	3,9	2,1	0,4	2,2	-0,2	2,9	4,3	3,7	2,8	5,2	4,7	3,3	3,2
F	9,0	13,0	6,6	14,9	7,4	6,5	10,1	12,9	8,4	6,0	7,4	8,8	8,2	7,3	6,2	4,7	8,3	9,1
IRL	16,6	20,3	14,9	30,3	8,0	11,9	7,8	11,0	6,5	4,0	-0,1	11,9	6,6	6,6	6,4	5,6	-20,3	4,9
I	20,9	23,3	22,7	39,3	8,1	15,4	12,8	15,3	11,3	8,7	6,2	9,0	12,3	12,6	11,9	18,6	4,9	12,3
NL	6,6	4,5	9,4	11,9	4,2	7,6	5,0	3,1	4,2	13,0	6,0	5,0	3,8	-1,2	7,7	10,5	0,7	5,0
B	7,3	6,9	4,8	11,9	11,9	9,7	6,0	3,9	3,8	11,9	11,9	12,0	4,1	1,4	2,9	11,9	11,9	7,5
L	8,0	9,6	7,1	14,0	:	:	3,3	6,8	-2,2	1,6	:	:	2,9	3,2	2,5	-0,2	:	:
UK	20,3	26,8	19,2	14,5	18,1	10,8	9,5	6,5	11,3	15,2	4,9	4,8	7,8	9,2	7,4	4,3	4,1	14,9
EC	12,2	17,0	11,0	14,4	14,6	9,2	7,8	7,9	8,4	8,3	7,1	8,2	7,1	5,0	6,7	7,4	7,2	6,8

¹ Non-food goods in Germany, France, Italy, Netherlands, Belgium, UK and Denmark. Total non-food consumption in Luxembourg and Ireland.

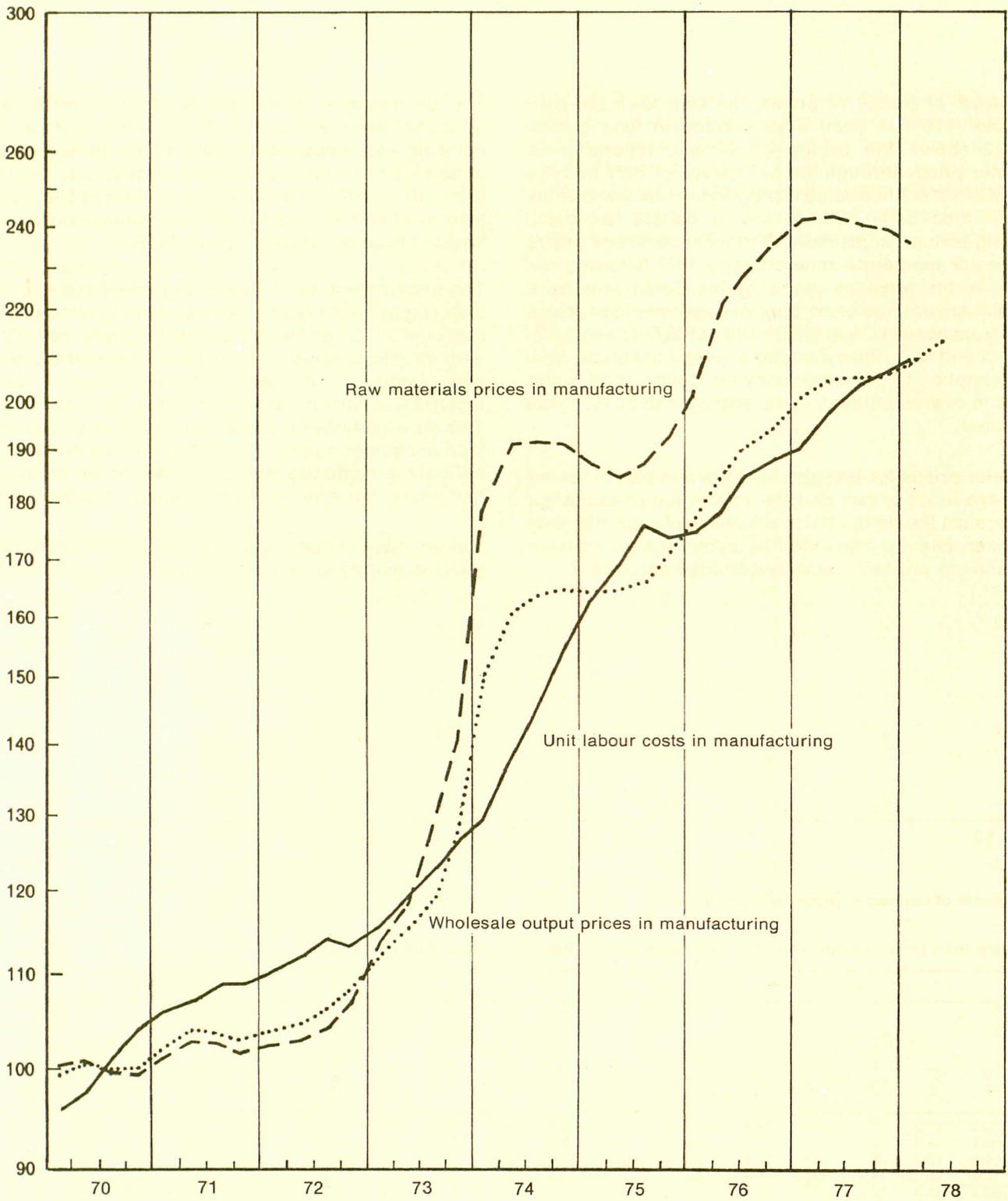
² Services excluding rent, except in Belgium.

Source: OECD Main Economic Indicators, Commission departments.

Graph 3

Prices and labour costs in manufacturing

(1970-1978, quarterly figures, average 1970 = 100)



Source: Eurostat and Commission services.

Table 13

Increase in wages and salaries per head ¹

	(percentages)							
	1960-1970	1971/72	1973	1974	1975	1976	1977	1978
DK	10,3	10,8	14,0	18,8	16,8	12,1	9,2	8,5
D	8,6	11,0	12,9	12,1	7,8	7,6	7,0	5,6
F	9,4	10,8	12,7	17,5	18,4	14,8	13,1	12,2
IRL	9,8	15,2	19,1	17,8	29,6	22,2	17,5	14,0
I	10,9	12,0	19,6	22,4	21,0	20,8	21,1	15,5
NL	10,6	13,2	15,1	15,8	13,4	10,8	7,9	7,1
B	7,8	12,9	13,2	17,9	16,6	15,2	9,4	7,2
L	6,8	9,1	12,5	22,0	14,5	12,7	9,1	5,1
UK	7,0	12,6	12,3	20,5	30,7	15,7	9,5	12,6
EC	8,8	11,2	14,4	16,9	16,7	13,0	10,9	10,0
US	5,0	7,2	7,4	8,0	8,4	8,1	:	:
JAPAN	13,2	14,8	21,9	24,5	17,2	:	:	:

¹ Gross wages and salaries per wage and salary earner.

Source: Eurostat and estimates of the Commission services.

10,9% in 1977. The resurgence of consumer price inflation, fuelled largely by commodity price movements, at the beginning of 1977 probably helped keep nominal pay settlements in the first half of that year in double figures. In a number of countries this effect was ensured through the indexation arrangements in operation. Although there was a deceleration in consumer prices for the Community as a whole in the second half of the year its incidence among countries was not such as immediately to produce a symmetrical effect on wage and salary movements. Despite the somewhat slower growth of gross nominal compensation per head in 1977, the increase in unit labour costs (whole economy) in the Community as a whole accelerated from 7,7% in 1976 to 8,4% in 1977 as productivity growth fell back, in the face of weakening output growth, from nearly 5% in 1976 to only 2% in 1977.

In 1978 it appears that gross compensation per head in the Community as a whole may have grown slightly less than 10%. The relatively low growth of output in 1978 has probably limited the growth of productivity in the Community as a whole (all industries and services) to around 2½%, hardly better than the figure recorded in 1977. None the less the slight deceleration in compensation per head and the even slighter acceleration in productivity have been working in the same direction, producing an

increase in labour costs per unit of GDP of around 7% in 1978.

Real pre-tax wages—gross compensation per employee deflated by the implicit price of consumption—grew by 1,8% in 1977 and probably by about 3% in 1978 in the Community as a whole (see Table 14). Thus while in 1977 the increase in real pre-tax wages fell below that in productivity, in 1978 it may have about equalled it. The picture for 1978 varies from country to country, however, real pre-tax wage increases exceeding productivity growth in Italy, the United Kingdom and Luxembourg, running at about the same rate as productivity growth in Belgium and the Netherlands, and falling below it in Denmark (where real wages have probably fallen absolutely in 1978), the Federal Republic of Germany and France.

Pre-tax compensation of employees per unit of output, deflated by the GDP price (an appropriate concept from the employer's point of view), probably fell by about ½% in 1978 after a fall of 0,2% in 1977. In 1977 this had fallen sharply in the United Kingdom and had also fallen in the smaller Community countries (except Luxembourg - see Table 14), had risen in France and Italy and was little changed in the Federal Republic. In 1978, by contrast, it has probably fallen in all the Community countries except Belgium.

Table 14

Increase in real compensation of employees and real labour costs per unit of output

		(percentages)								
		1960-1970	1971/72	1973	1974	1975	1976	1977	1978	
DK	(a)	+4,5	+5,0	+5,3	+3,7	+7,8	+2,8	-1,7	-0,5	
	(b)	+0,7	-0,4	+1,2	+6,0	+3,2	-0,7	-1,7	-1,0	
D	(a)	+5,5	+4,8	+4,9	+4,7	+1,5	+3,0	+3,1	+3,1	
	(b)	+0,3	+0,7	+1,7	+2,4	-0,2	-2,2	+0,5	-1,0	
F	(a)	+5,1	+4,8	+5,6	+3,6	+6,0	+4,4	+4,0	+3,0	
	(b)	-0,1	-0,6	-1,5	+3,0	+3,0	-0,1	+1,1	-1,2	
IRL	(a)	+5,0	+5,5	+5,9	+2,1	+6,3	+4,6	+3,9	+6,1	
	(b)	-0,1	-1,6	-0,9	+9,4	+3,0	-1,3	-2,3	-2,5	
I	(a)	+6,6	+5,4	+6,6	+1,1	+2,8	+2,5	+3,1	+3,0	
	(b)	+0,1	+0,2	+0,9	+0,7	+2,7	-2,6	+0,8	-0,6	
NL	(a)	+5,8	+4,5	+5,6	+5,6	+2,9	+1,5	+1,2	+2,7	
	(b)	+1,2	-0,2	+0,5	+2,4	+2,6	-2,5	-1,8	-0,2	
B	(a)	+4,5	+7,7	+7,1	+5,0	+4,2	+7,1	+2,8	+3,2	
	(b)	-0,1	+2,6	+1,0	+1,8	+4,6	+1,5	+1,1	+0,7	
L	(a)	+4,2	+4,2	+6,6	+12,0	+3,2	+2,9	+2,4	+2,0	
	(b)	-0,6	+4,5	-10,0	+4,6	+26,3	+0,1	+2,8	-2,0	
UK	(a)	+2,9	+4,6	+3,8	+3,4	+5,7	+0,2	-4,8	+4,0	
	(b)	+0,1	+0,3	+0,4	+6,2	+3,3	-3,1	-4,9	+0,2	
EC	(a)	+4,9	+5,1	+5,0	+3,4	+4,3	+2,8	+1,8	+3,1	
	(b)	+0,1	+0,5	+0,9	+3,2	+2,6	-1,8	-0,2	-0,6	

(a) Gross compensation per employee deflated by implicit price of consumption.

(b) Gross compensation per employee, per unit of output, deflated by implicit price of GDP.

Source: Eurostat and estimates of the Commission services.

Price policy developments

With the notable exception of the *Federal Republic of Germany*, price control policies have been a feature of all Community countries over the past few years. In the period immediately following the oil-price shock, price-control policies based on detailed rules for the passing on of industrial costs at the industrial stage and on margin control at the distributive stage were in force in many Community countries; public sector charges and other administratively-controlled prices were held back; and temporary price freezes of varying coverage and duration were employed in some countries. The controls were generally aimed at reducing or delaying the pass-through of sharply increased import prices and were often presented as a *quid pro quo* for pay controls or restraint.

More recently, both the form and apparent emphasis of

price policies have been changing in a number of countries. Most notably, controls on the prices of industrial products in *France* have, with the exception of a small number of products, been freed. The new stance of policy in *France* aims at modifying the structure of relative prices so that prices bear as close a relation as possible to real costs of production. In the pursuit of this aim, and to reduce or at least stabilize the operating deficits of public enterprises, public sector charges have also recently been increased, by 10 to 20% in some cases. Control of distributive margins for the majority of goods, notably food (except for bread) and for many services remains in force. The freeing of industrial prices and the increases in public charges must initially add to the rate of price increases, but the *French* authorities hope that the effect will be limited by the pressure of foreign competition on manufactured products, while at the same time the relative price structure and the attitudes of businessmen to pricing and competition can be improved.

The main development in policy in *Italy* over the last two or three years has been the attempt to develop more objective rules for the fixing of Government administered prices (and also for rents, for which a new system was introduced in July 1978). The aim, as in France, is that prices should reflect costs somewhat more accurately than hitherto, and new rules for the better determination of costs were introduced in 1977. The Government has, in particular, succeeded in having accepted the principle that public-sector tariffs should as far as possible cover costs. The most recent manifestations of this principle have been sharp increases in the price of electricity (16%) and rail travel (20%) in the summer of 1978.

The *Belgian* Government has been much less active in direct intervention (through the imposition of delays in price increases or ultimately the fixing of maximum prices of certain products and key sectors) in prices during the last two years of decelerating inflation. However, the general prohibition of indexation of industrial and commercial prices remains in force. Price increases can be justified only on the grounds of an increase in the costs on the enterprise in question. For 1977 only those salary increases limited to a percentage equal to the percentage increase in the cost of living were allowable.

In *Denmark* prices in some periods were set in conformity with specific rules about imputed costs (the concept of allowable costs has varied at different times). Price controls have been regarded as a countervailing element to incomes policies and are intended to contain profits within normative limits. For the period from March 1977 to the end of August 1978 most of the previous restrictions were abandoned. No explicit limit for profits was set but the Price Committee was empowered to assure that profits in specific sectors, e.g. liberal professions developed in accordance with the incomes policy norms. A temporary price and profits freeze was announced at the end of August 1978.

Detailed cost-rules for industry and margin controls in the services sector are also in force in the *Netherlands*. For 1977, there was initially no allowance for wage increases since it was thought that such increases would not exceed the growth of productivity. However, productivity increases fell short of expectations and profit margins were compressed. Towards the end of the year industrial companies were therefore allowed to pass on the effects on their total costs of a 2% increase in wage costs. For 1978 the pass-through of wage costs has again been limited to 2% times the share of wage costs in total costs. The liberal professions were allowed to increase charges by 2½% on 1 February 1978 and by a further 2% on 1 August 1978. The food and entertainment industries have been brought within the scope of controls, as have small

enterprises in the hotel and restaurant sectors (in general, the controls apply only to large and medium-sized companies).

Since the beginning of August 1977 the Price Code in the *United Kingdom*, which embodied detailed allowable cost rules, margin controls and reliefs of some complexity, has been replaced by a more flexible system. At present, a Price Commission is empowered to investigate a price increase announced or proposed by a company and, after taking account of certain statutory criteria such as the need to earn an adequate profit sufficient to encourage future investment and employment, can, if it feels the price increase unjustified, recommend to the Government a price freeze of up to twelve months on the goods or services in question or to allow a more modest increase in prices. In general terms the Price Commission sees its role as strengthening competitive forces within the economy and helping to pinpoint inefficiencies in production and management.

Incomes policy or major wage-bargaining developments

1978 has been characterized by widespread attempts by governments to influence wage settlements by centralized guidance. This has often meant that policies have sought to restrain the growth of real incomes, virtually to zero in one or two countries, given that productivity growth remains relatively low and that only a small improvement in the terms of trade has been taking place. In a number of countries, governments have implemented or proposed reductions in the burden of income tax and/or employers' social security contributions, rather than increase social spending, in an effort to ease the path to wage moderation and to restrain the growth of total labour costs. The representatives of employees in some countries continue to press for increased public spending as part of wage-deal packages. Not surprisingly in view of the harsh economic climate, consensus in negotiations has been difficult to achieve.

In the *Federal Republic of Germany* it appears that the collective agreements concluded during the first four months of 1978 will result in a slightly lower rate of gross nominal wage increase this year than last—around 5½% this year as against 7% in 1977. However, the operation of the wage-determination system in recent years has not proved completely acceptable to either side of industry. The share of non-wage incomes has generally been less than was expected when the relevant collective agreements were signed. This is probably due to the fact that the general macro-economic expectations on which the collective agreements are based have often proved wide

of the mark: at various times either the growth of output or the rate of inflation or both have been overestimated. In every year except one (1976) during the period 1970-77 the non-wage-and-salary share in national income declined. The provisional union withdrawal from the tripartite 'concerted action' is symptomatic of a change in the climate of industrial relations, although this arose for reasons not related directly to the wage-bargaining process.

In the *United Kingdom* the incomes policy in operation from mid-1976 to mid-1977 was remarkably successful in restraining nominal wages in the face of accelerating inflation as the falls in the value of sterling in 1976 worked through into consumer prices. In the year from mid-1977 there was no formal agreement on incomes policy between the Government and the TUC, although the TUC recommended that settlements should take place only at twelve-month intervals and that negotiators should not attempt to recoup past losses in real wages. The Government set a 'guideline' of 10% plus the effects of 'self-financing' productivity schemes, for settlements. The Government expectation for the extent of the deceleration in consumer prices consequent on successful implementation of the 'guideline' during the year to mid-1978 has in fact been realized. However, earnings appear to have grown by about 14%, somewhat faster than the 'guideline' and much faster than in the previous twelve months. This accelerated growth, combined with that recovery of sterling in the second half of 1977 which helped make possible the deceleration in prices, has reversed the improving trend in profitability evident during 1977. For the year from mid-1978 the Government guideline is reduced from 10% to 5% (including the effect of reductions in the working week), again with the possibility of 'self-financing' productivity schemes allowed.

In *France*, the stabilization measures of September 1976 had proposed that nominal wage increases should not, on average, exceed the increase in prices in 1977. The Government has had a similar aim in 1978. In the event, wages rose slightly faster than consumer prices in 1977 (11.6% against 9.1%) and probably were so again in 1978 (about 11% against about 9%). The current policy contrasts with the guaranteed annual increase in purchasing power in public-sector wage contracts, emulated in some private-sector contracts, during the period from 1969 to 1976. Such contracts rendered adjustment to the deterioration of the terms of trade in 1973/74 very difficult. It remains Government policy in France to increase the salaries of lower-paid workers relative to those of the higher paid. To this end the purchasing power of the minimum wage has been raised by nearly 6% this year, but the Prime Minister has warned that the priority being given to improving the incomes of the lower-paid will be

compatible with the constraints on the economy only if the progression of higher income groups is slowed, and that wage restraint, enforced if necessary by credit and public contract sanctions, is an essential condition for reducing unemployment. The September 1978 budget moreover rejected the implementation of a shorter working week or earlier retirement.

In *Italy*, the containment of labour costs is, along with control of public borrowing, a central feature of the Government's economic programme. As in France, the announced aim is that there should be an approximate standstill in real wages. In addition, the temporary 'budgetization' of employers' social security contributions is being made permanent. For the present, the system of quarterly index-linked increases in wages is to be retained, but the Government will review the position in tripartite discussions at the beginning of 1979. The implication of the retention of the system is that the Government would like to see a virtual standstill in the collective wage agreements being negotiated from the autumn of 1978. The three major trade union organizations seem to be in favour of moderation in wage demands.

In the *Netherlands*, as was the case in 1977, no centralized wage agreement has been arrived at. The employers wish to introduce more flexibility into wage-bargaining than has previously been the case, while the unions continue to press 'non-materialistic' demands concerned with, for instance, disclosure of company information. They also wish to see an increase in public spending as part of any centralized deal. For its part, the Government has been attempting to hold back the growth of labour costs by reducing employers' social security contributions somewhat and by introducing various wage-cost subsidies. Individual contracts have now been concluded for 1978. Apart from price compensation the rise in agreed wages will be about 0.9%. Total compensation in real terms has increased in 1978 more or less in line with productivity. The outline of Government medium-term economic policies published in mid-1978 foresaw a need to strengthen business profitability and restrict the share of public expenditure in national income.

In *Denmark* the two-year wage agreement covering the period from March 1977 to March 1979 had to be imposed by law. The guideline for nominal wage increases was 6% annually (or 2% annually in real terms). In the event, nominal wage increases in the private sector have exceeded the guidelines, largely because of wage drift aimed at maintaining differentials in the face of the rise in the minimum pay. Real wages nevertheless fell absolutely in 1977, mainly because indirect taxes were raised sharply in the autumn. But the Government in effect introduced a temporary wage-cost subsidy by taking over additional

indexation payments into supplementary pension funds. At the end of August 1978, still faced with a need to improve the balance of payments and the competitiveness of Danish industry, the new Government coupled an increase in VAT rates with a six-month freeze on rises of incomes and prices during which the next national pay agreement is to be negotiated.

The rate of growth of salaries having moderated significantly in 1977, the *Belgian* Government has intervened less actively in income-determination in 1978 after the strong measures taken in 1976 and the still-considerable restrictions imposed in 1977. The question of the inclusion of a shorter working week has proved a stumbling-block in negotiations between the two sides of industry on the *accord interprofessionnel* which usually serves as a general framework for sectoral negotiations. In fact, settlements in a number of sectors, and a settlement for public servants, have contained provisions for reductions in the working week. Settlements have in general been

moderate, largely reflecting weak labour-market conditions and decelerating prices.

National Pay Agreements between unions and employers have been in force in *Ireland* in both 1977 and 1978. In both years the Government made tax concessions conditional on the conclusion of an acceptable agreement. In both years the Government found the agreements acceptable, even though the 1978 agreement provided for an increase, at national level, of 8% in basic pay as against the 5% increase initially deemed the maximum desirable by the Government. It appears that the increase in gross compensation per employee will again be in double figures in 1978 and perhaps not very much lower than in 1977. Real wages have risen very sharply in 1978, helped by improving terms of trade and by Government concessions including the abolition of some local taxes. Negotiations for the 1979 National Agreement may be more difficult, given the large public-sector deficit and the delicate balance of payments position.

5. Convergence and divergence in the Community economy

It is generally felt that both economic policies and economic performance must converge more closely if the Community is to make progress towards economic and monetary integration, and in particular to introduce a successful European Monetary System in the near future. However, the criteria by which convergence is evaluated are often ill-defined, both as regards their importance in the integration process and as regards their statistical measurement. This chapter is a brief contribution to this important discussion; it examines the most frequently mentioned criteria and supplies certain basic data.

If the process of economic and monetary integration is to continue, then it is essential to reduce both the average rates of monetary depreciation in the Community and deviations from this average. The basic condition for durable smooth functioning of the new European Monetary System is the convergence of inflation rates at as low a level as possible.

There is no single and simple indicator of the degree of convergence of inflation rates; useful benchmarks for assessing this convergence over the past twenty years are the Community average and the rate in the most stable Member State. An assessment based on the definitions adopted for Table 15 and Graph 4 emphasizes how wide are the divergences the Community is overcoming at present. No Community country had an average inflation rate for 1958 to 1967 that was substantially different (more than 2½ percentage points) from the Community average. Only one country had a substantially different inflation rate on average between 1968 and 1973. In 1974, there were six countries; no less than seven in 1975 and 1977, and there were still four in 1978.

Average rates for 1958 to 1967 and for 1968 to 1973 were nowhere substantially divergent from the average rate of the country where prices were most stable; in 1974, however, six countries had inflation rates substantially divergent from that of the most stable Member State, but by 1978 the number had fallen to three. During 1978, moreover, inflation rates in the Benelux countries were sufficiently close to the German rate (which has been the benchmark for many years now) to be considered closely convergent.

Graph 4 adopts the same classification of inflation rates into zones of convergence; it also shows the rates of inflation for each country in the years from 1958 to 1978. It shows clearly that the degree of convergence has been closely correlated with the average rates of inflation in the Community and in the most stable Member State, which in turn were strongly affected, in the wake of the oil crisis, by the collapse of exchange-rate stability.

The above results for price trends in the Community are accentuated if the degree of convergence is assessed on the basis of an indicator of dispersion, such as the standard deviation: relatively little dispersion until 1972 (except in 1958 when prices rose exceptionally sharply in France), markedly greater dispersion in the period 1974 to 1977, strong converging trend in 1978 (see Graph 5). The standard deviation from the average increase in prices for the Community was about 1 or 2% during the 60s; it rose to over 5½% in 1975. In spite of the improvement observed since then, the disparity between inflation rates in 1978, with a probable standard deviation of almost 3%, will still be much higher than before 1973/1974.

Differences in levels of *per capita* income are generally recognized as another important criterion of 'convergence', although their significance for economic and monetary integration is not precisely the same as for inflation differentials. It is generally agreed that all the Member States should share in the advantages of integration, and that the reduction of disparities in living standards from region to region and from country to country is one of the Community's fundamental aims. Indeed, it is obvious that progress towards integration would be greatly facilitated by the narrowing of economic and social differences. The Community's regional policy is based on these assumptions. The achievement of more nearly comparable *per capita* incomes is an important long-term aim of general integration policy. However, its pursuit has to go together with the reduction of differences in productivity.

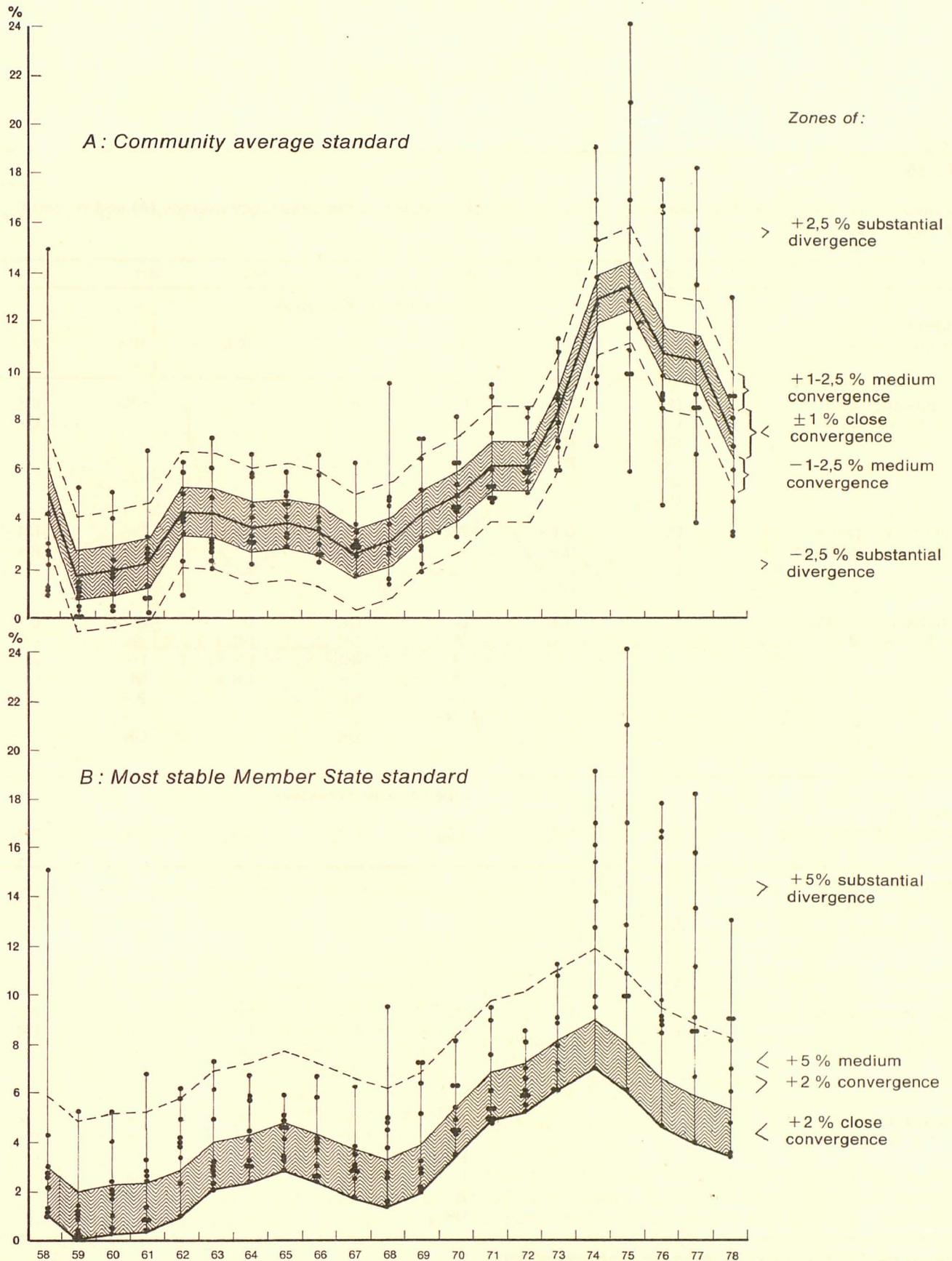
Gross *per capita* product might be used as an indicator of living standards, but it would require data expressed in national currency to be reduced to some common denominator if different countries were to be compared. Conclusions about the degree of convergence are largely dependent on the denominator chosen.

There are two main reasons for exercising caution when exchange rates are adopted as the basis for conversion. First, comparison on this basis tends to overestimate differences in living standards. For example, services that are not internationally traded are in general relatively expensive in the richer countries, but their price is insufficiently reflected in exchange rates. Secondly, other factors such as short-term capital movements affect exchange rates and distort the comparison at certain times.

The divergence in *per capita* domestic product assessed on the basis of exchange rates widened between 1960 and 1976 (see the left-hand side of Graph 6). During the same period the relative positions of the Member States

Graph 4

Convergence and divergence of inflation rates (consumer prices) in relation to the Community average (A), and the most stable Member State (B)



Note: See also Table 15; for figures on Member States see Annex Table 7.

Table 15
Convergence and divergence of inflation rates (consumer prices) in relation to the Community average (A) and the most stable Member State (B)

	1958-1967	1968-1973	1974	1975	1976	1977	1978
	(percentage increases)						
Standard (A): Community average	3,3	5,5	13,0	13,5	10,8	10,5	7,5
Close convergence: (A) \pm 1% standard	D- I+ IRL- NL- B- UK-	F+ I- NL+ B-	F+ B-	B-	L-	DK+	IRL+ UK+
Medium convergence: (A) \pm 1-2,5% standard	DK+ F+ L-	DK+ D- L- UK+	DK+	F-	DK- F- NL- B-	F-	DK+ F+ B-
Substantial divergence: (A) \pm 2,5% standard		IRL+	D- IRL+ I+ NL- L- UK+	DK- D- IRL+ I+ NL- L- UK+	D- IRL+ I+ UK+	D- IRL+ I+ NL- B- L- UK+	D- I+ NL- L-
	(percentage increases)						
Standard (B): Most stable Member State	2,2 _L	3,8 _D	7,0 _D	6,0 _D	4,6 _D	3,9 _D	3,3 _D
Close convergence: (B) + 2% standard	D I IRL NL B UK	I B L					NL B L
Medium convergence: (B) + 2% standard + 5% standard	DK F	DK F IRL NL UK	NL L	DK NL L	DK F NL B	F NL B L	IRL UK
Substantial divergence: (B) + 5% standard			DK F IRL I B UK	F IRL I B UK	IRL I L UK	DK IRL I UK	DK F I

Note: Figures based on consumer price indices (not consumption price deflator).

Source: Commission services.

Graph 5

Dispersion of inflation rates between Member States (standard deviation)



Source: Commission services.

changed considerably. The ratio of the highest *per capita* gross product in the Community to the lowest was about 2,2 in 1960 and 3 in 1976.

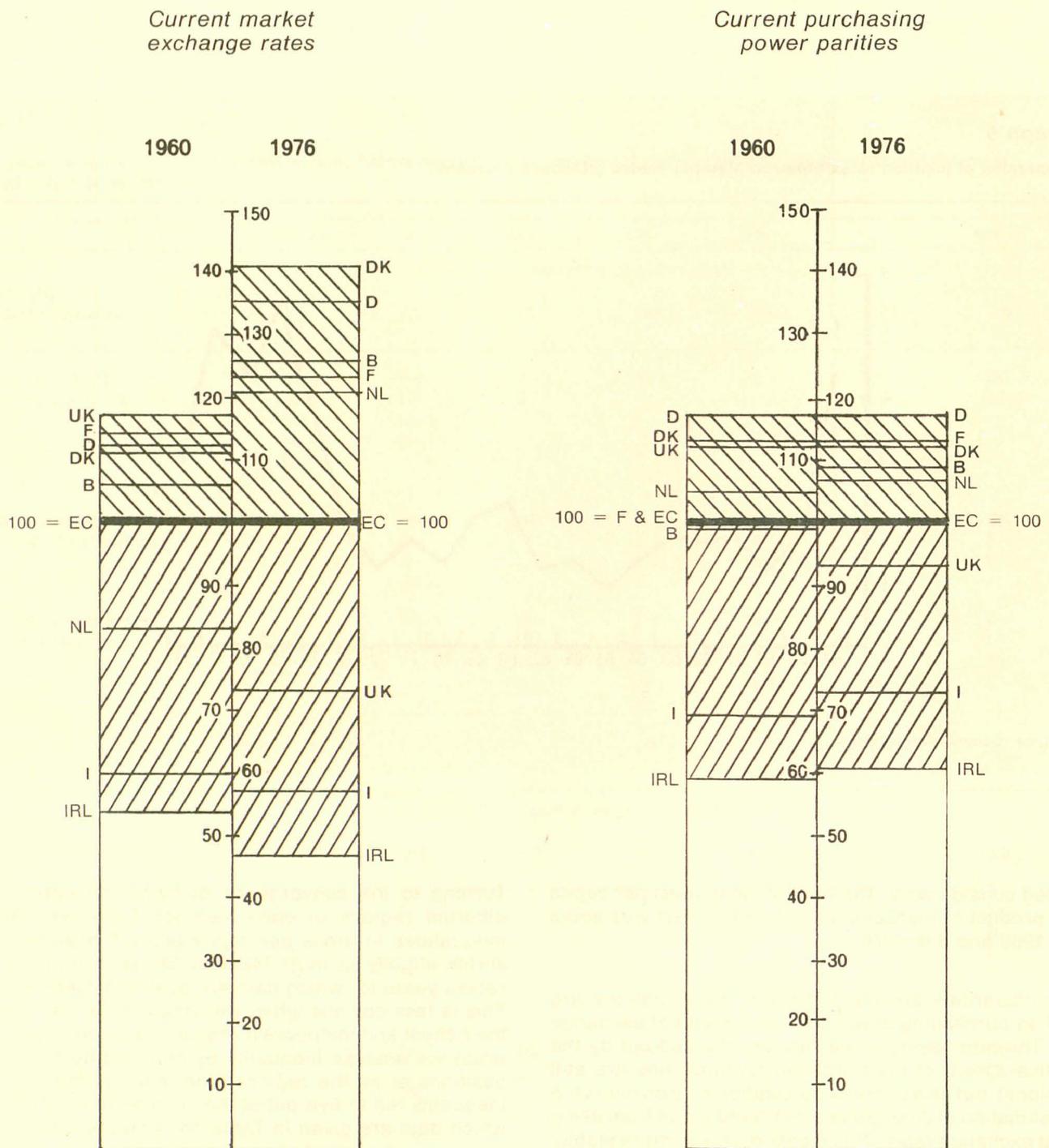
These disparities are much smaller if calculations are based on purchasing power parities instead of exchange rates. The purchasing power parities worked out by the Statistical Office of the European Communities are still provisional, but as a basis for calculation they do avoid the overestimation of divergences that could result from using market exchange rates. This measure is also more stable. Evaluating *per capita* gross product on the basis of purchasing power parities results in smaller disparities between the Member States than does evaluating it on the basis of exchange rates, both for 1960 and for 1976 (see the right-hand side of Graph 6). On this basis, the divergence of gross *per capita* products decreased, although only slightly, instead of increasing, between the two years: the ratio of richest to poorest country fell from 2,0 in 1960 to 1,9 in 1976. Moreover, the relative positions of the Member States changed less than on the basis of market exchange rates.

Turning to the convergence of living standards in the different regions of each Member State, we find that inequalities in gross *per capita* product have tended to shrink slightly in most Member States during the most recent years for which data are available (see Table 16). This is less obvious when we compare the gap between the richest and the poorest region in a given country than when we analyse inequality by considering the relative positions of all the regions. The index of the degree of inequality fell in five out of the six member countries for which data are given in Table 16; suitable regional data for this kind of analysis are not available for the three countries that are not included.

The Statistical Office of the European Communities regularly draws up harmonized statistics, based on national data, for the trend of remuneration in industry in the various Member States. The results are summarized in Table 17, which shows that the divergence from country to country of gross hourly remuneration in industry as a whole is similar to that of *per capita* gross domestic product. Comparing the divergence of gross hourly

Graph 6

Dispersion of GDP per head 1960 and 1976



Source: Eurostat and Commission services. (Data are at current prices.)

Table 16

Regional inequalities in GDP per head

Country	Year	Poorest region	Average level = 100	Richest region	Average level = 100	Ratio min./max.	Degree of inequality expressed by Theil index ¹
D	1970	Schleswig-Holstein	81	Hamburg	165	2,0	0,0044
	1975	Schleswig-Holstein	84	Hamburg	178	2,1	0,0036
F	1970	Ouest	77	Ile de France	151	2,0	0,0130
	1973	Ouest	80	Ile de France	155	1,9	0,0123
I	1970	Sud	61	Lombardia	137	2,2	0,0174
	1974	Sud	65	Lombardia	135	2,1	0,0160
NL	1970	Noord/Nederland	88	West/Nederland	112	1,3	0,0021
	1974	Oost/Nederland	85	Zuidwest/Nederland	115	1,4	0,0023
B	1970	Région wallonne	87	Région bruxelloise	154	1,8	0,0076
	1974	Région wallonne	86	Région bruxelloise	153	1,8	0,0072
UK	1970	North	80	South East	115	1,4	0,0027
	1975	Northern Ireland	82	South East	113	1,4	0,0019

¹ The Theil index measures the 'inequality' of the series and is defined as the logarithm of a weighted geometric mean of the *per capita* product in each region compared to the *per capita* product of all the regions together. The index varies with the degree of dispersion of *per capita* product (a value of zero corresponding with a zero degree of inequality).

Source: Eurostat and Commission services.

remuneration with that of *per capita* gross domestic product in European units of account, on the basis of the coefficient of variation, we find a fairly similar development between 1972 and 1976 (the coefficient for hourly remuneration increases from 21% to 33%, while that for *per capita* gross product increases from 25% to 38%). Like *per capita* gross domestic product, gross hourly remuneration diverges much less if purchasing power parities, instead of current exchange rates (as shown in Table 17), were used to convert data in national currencies.

The pursuit of low inflation and substantial real growth are, of course, permanent and simultaneous objectives of policy in all Member States. It is also of crucial importance to the Community that the arbitrage between these two objectives is pursued with the highest degree possible of compatibility between Member States, since the two

factors together largely determine balance of payments and exchange rate developments, and the constraints that the Community economy imposes on each Member State's policy.

A fuller picture of convergence and divergence in the Community can be obtained from study of how the two objectives have in fact been combined. A comparison of growth-rates and inflation-rates shows that the combination has improved in most Member States over the past few years, and that previous years were in general marked by stagflation. The arrows on Graph 7 represent the development of the two variables between 1969 and 1978. From any one year to the next, the most favourable direction is downwards and to the right (higher growth and less inflation). A deterioration on both fronts is shown by an arrow pointing upwards and to the left. The other two directions show an improvement on one front with a deterioration on the other.

Table 17**Average gross hourly earnings in industry as a whole**

	(EUA)					
	1964	1970	1972	1975	1976	1977*
DK	:	:	2,40	4,39	5,28	5,37
D	0,93	1,70	2,12	3,26	3,95	4,16
F	0,67	1,04	1,34	2,30	2,52	2,66
I	0,58	1,00	1,27	1,94	1,73*	:
IRL	:	:	:	:	:	:
NL	0,74	1,35	1,86	3,27	3,93	4,18
B	0,79	1,34	1,81	3,19	3,95	4,25
L	1,07	1,69	2,08	3,46	4,45	4,82
UK	:	:	1,56	2,20	2,10	:
Arithmetic mean	0,74	1,29	1,77	2,94	3,49	—
Ratio max./min.	1,6	1,7	1,9	2,3	3,0	—
Standard deviation	0,16	0,28	0,37	0,76	1,16	—
Coefficient of variation ¹	22%	22%	21%	26%	33%	—

¹ Standard deviation as percent of arithmetic mean.

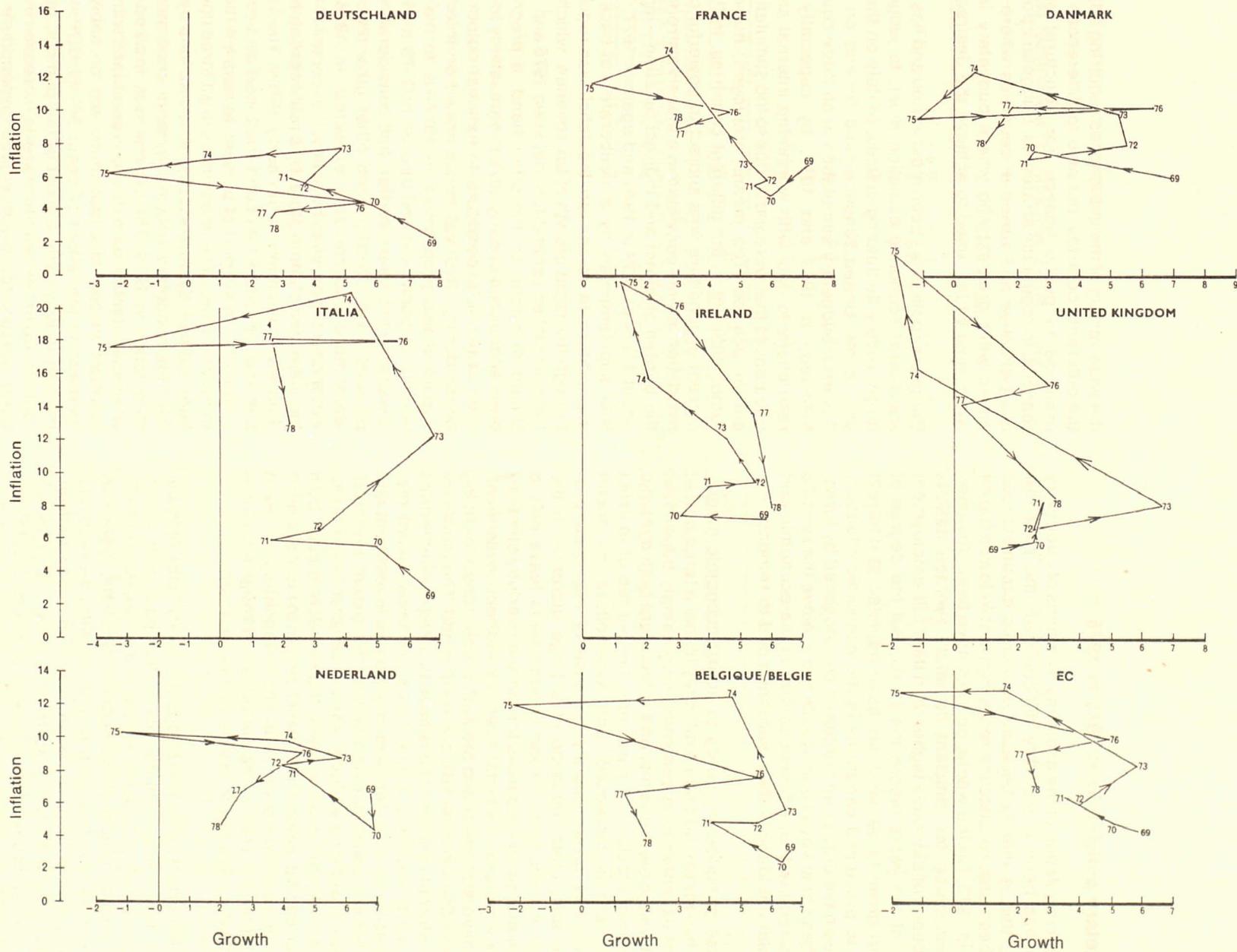
Note: All data refer to October of the year in question, except those marked with an asterisk, which refer to April.

Source: Eurostat and Commission services.

In any given year we find that a good number of countries (never less than half) have arrows pointing in the same direction.

The prevailing trends in the results obtained by the countries have varied from year to year. 1970 and 1971 saw a deterioration on both fronts for most member countries, while the recovery of 1972 and 1973 was dominated by more rapid growth combined with a worsening on the prices front in five countries. At the beginning of the crisis, in 1974, growth was losing momentum everywhere, and inflation was rising except in Germany. In 1975, a year of crisis for growth, the inflation-rate fell in five countries. The 1976 recovery meant a higher growth-rate than in 1975 in all countries, and an improvement in price trends in all but two countries. In 1977, slower economic growth combined with lower rates of inflation was prevalent, and in 1978 all member countries except France, will probably have still lower inflation, but there will be two different trends in growth: five countries will have higher growth in 1977, the other three will have lower growth.

The total picture emerging from this two-fold standard of convergence shows a Community economy deteriorating rapidly between 1969 and 1975, and recovering to an appreciable extent since then; a recovery, however, which needs to be extended and consolidated in the future.



Source: Commission services.

6. Budgetary trends and policies

Budgetary policies from 1975 to 1978

Efficient regulation of the economy by means of budgetary policy has been found very difficult over the past few years; this is mainly because economic circumstances have been unsure since the recession that followed the oil crisis in 1973. On the whole, policies have been designed to compensate for deficient demand; average deficits have been considerably higher than their full-employment levels of the years before the crisis. But the degree of support given to demand has been adjusted at different times to presumed variations in the economic situation. Policies have thus been tightened and loosened by turns, but it has not always been possible to achieve the specific effects required for efficient control of the economic and financial imbalances they were intended to remedy.

The use of budgetary policy to adjust economic magnitudes has met an additional difficulty in that a large part of current expenditure is becoming increasingly dependent on automatic mechanisms, and is therefore both dynamic and incompressible. In particular, the burden of interest payments has increased, and expenditure on social security has grown rapidly because of improved protection and, often, because of a large increase in the number of recipients. These commitments leave only a narrow margin of resources for more powerfully stimulating expenditure, such as direct or indirect investment. They have also restricted the authorities' scope for using tax reductions to stimulate private demand. The monetary risks inherent in large deficits have thus led the authorities to be fairly cautious, which has sometimes meant that direct actions and incentives to stimulate investment and employment could not be used to the extent required. However, within the limits set by general constraints, growing efforts at stimulation have been made, both through capital expenditure, which began to increase once more in real terms in 1978 after stagnating or even diminishing for a fairly long period, and through measures specifically intended to create or maintain jobs.

Many important aspects of budgetary policy in the Member States have been similar over the past few years, especially timing. Policies of powerful stimulation in 1975, when deficits reached unprecedented levels, gave way more or less rapidly to contrary policies after the recovery. Management in 1976, and even in 1977 in most countries, tended to be restrictive in spite of automatic adjustments when economic circumstances again became less favourable. In 1978, however, the prevailing trend is towards less restriction; for it has once more become urgent to stimulate activity.

But beyond these similarities, there have been important differences between budgetary policies, due not only to

the wide variety of the imbalances requiring adjustment in the different countries, but also to differences in the role assigned to public finance, for structural or practical reasons, in regulation strategies. Budgetary policies were most effective and varied in countries where the imbalances were greatest and where budgetary instruments were most widely used to achieve the desired results.

Budgetary policy has been most varied and has influenced short-term economic evolution most, to judge from the large, widely fluctuating deficits, in Italy on the one hand and in the United Kingdom and Ireland on the other. Powerful budgetary stimulation in all three countries was followed, in 1976 and 1977, by especially energetic restrictions to deal with worsening internal and external imbalances that were partly due to the stimulating effect of earlier policies. The means employed, however, were rather different in the different countries. In Italy, where current expenditure was subject to powerful constraints, restriction mainly consisted in a massive strengthening of the burden of direct and indirect taxation—increased by about 1½% of GDP in 1976 and again in 1977. This action was supplemented by a deliberate cut-back in capital expenditure. In Ireland too, the deficit was reduced mainly through the rapid growth of tax revenue, which increased twice as fast as expenditure between 1975 and 1977. In the United Kingdom, on the other hand, a programme has been announced in early 1976 progressively to reduce the ratio of public expenditure to national output. Remedial action during 1976 was concentrated on intensifying the impact of this programme in 1977-78. In the event, the volume of public expenditure in 1977-78 turned out 7% lower than two years earlier, and considerably below the planned level. Taxation and other government receipts were more buoyant than expected. In 1978-79, public expenditure is growing but it is still expected to fall short of the published planning total by a rather greater proportion than was customary in the early 1970s. The reduction of public expenditure has been combined with reductions in income tax in support of policies to restrain the growth of money incomes. The imbalances in all three countries had been sufficiently corrected by these actions by the end of 1977 for budgetary policies to move once more towards stimulation in 1978. The change was marked in Ireland, where substantial tax reductions combined with a massive increase in capital expenditure will probably entail an increase in the deficit of about 3% of GDP. It was also marked in Italy, where most of the planned measures to restrict current expenditure and to increase revenue have been postponed, while capital expenditure has been considerably increased. The stimulus afforded by tax reductions in the United Kingdom, whilst substantial, was not so great.

In France and Denmark, where serious adjustment problems also arose, budgetary policy also underwent

Table 18

Net borrowing requirement of central government ¹ and of general government ² as a percentage of GDP

	Net central government borrowing requirement					General government financial balance				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
DK	+0,6	-4,1	-3,3	-2,8	-3,3	+4,6	-1,7	-0,7	-0,4	-0,7
D	-1,9	-5,3	-3,9	-2,5	-3,4	-1,3	-5,9	-3,6	-2,6	-3,1
F	+0,4	-2,6	-1,0	-1,0	-1,4	+0,6	-2,3	-0,4	-1,3	-1,8
IRL	-12,0	-16,2	-11,0	-9,9	-13,0	-9,1	-13,9	-9,4	-9,0	-11,8
I	-8,6	-12,4	-9,8	-9,4	-13,4	-5,9	-12,3	-9,7	-9,1	-11,0
NL	-1,4	-3,3	-3,2	-2,1	-4,0	+0,9	-2,9	-2,2	-1,6	-3,0
B	-3,6	-5,2	-6,0	-6,3	-7,1	-1,9	-3,8	-5,0	-5,1	-5,1
L	+3,5	+1,1	-0,2	+1,4	-0,2	+4,5	+0,2	0	+0,6	0
UK ³	-5,8	-8,1	-4,7	-3,0	-3,8	-4,0	-4,8	-5,0	-3,2	-4,2
EC	-3,2	-5,8	-4,1	-3,3	-4,6	-1,7	-5,2	-3,7	-3,3	-4,0

¹ Borrowing requirements resulting from the implementation of central government budgets, including financial transactions (loans, advances and equities).

² General government financial balance of the basis of harmonized national accounts, not including financial transactions (loans, advances and equities).

³ For the United Kingdom the reference period is the financial year (1 April to 31 March).

Source: Services of the Commission. Balance of central governments: cash outturns provided by national services for 1974-1977 and estimates for 1978. Balance of general governments: economic budgets.

similar changes, but only the initial relaxation phase was really marked. Indeed, as a consequence of the recession and of the measures taken to combat it, both countries—especially Denmark—experienced a sharp deterioration of their budgetary position in 1975, although the well-balanced starting position of both countries in this respect resulted in deficits much lower than the Community average. Consequently, the efforts required to bring them down to levels consistent with gradually reducing internal and external disequilibrium were also relatively less. The results obtained on both fronts were, however, insufficient to allow for a substantial relaxation of the budgetary stance in the two countries in 1978.

In Germany and the Benelux countries, inflationary pressures have been weaker and have never endangered external equilibrium; there was a wider margin of manoeuvre in these countries for budgetary policies to support activity. However, it could not always be fully exploited, because it was feared that excessively high deficits might rekindle inflation or absorb too great a proportion of savings. Belgium was an exception to the general rule in that the deficit expressed as a percentage of gross national product grew steadily throughout the period, so that the need for a medium-term revision of expenditure policy became pressing in 1978. The other countries, free of payments difficulties, began as early as 1976 to correct the budget imbalances caused by the recession. The persistent lack of economic dynamism,

however, led them to abandon their restrictive line and to return gradually to more flexible policies. By 1977 the German authorities were already taking measures to support activity, with extra expenditure and tax reductions totalling more than 1% of GDP. The measures included a new pluriannual programme of investment, an increase in family allowances and reductions in income tax, wealth tax and tax on enterprises, partly offset by an increase in VAT rates; they resulted in a considerably higher budget deficit in 1978. The deficit in the Netherlands will also be quite a lot higher in 1978 than in 1977, owing in particular to the effects of support measures agreed in the spring which involve a sum equal to over 1% of GDP, and to increased assistance to private investment agreed when the investment account was introduced at the end of May 1978.

Prospects for budgetary policies in 1979

The Member States agreed at the European Council meeting in Bremen on 6 and 7 July 1978 on the principle of joint action to stimulate demand. At the meeting of 24 July 1978, the Council adopted detailed arrangements for such action as proposed in a Commission communication on the adaptation of public budgets in 1978 and the preparation of public budgets in 1979 in the context of Community concerted action. The Member States are counting mainly on the increased flexibility of budgetary policy, and on its spillover effects, to obtain the desired result.

The Council decision of 24 July 1978 thus committed all the Member States to increase budgetary support; this will mean higher deficits in 1979 than was originally planned, in spite of the stabilizing effects expected from the acceleration of growth. The general trend is adapted in widely varying ways in the different countries, in view of the margin of manoeuvre left to each by its external trade and price prospects, the specific features of its short-term economic situation and the constraints on its budgetary and tax systems. It has therefore been provided that the stimulation measures considered necessary may be partially offset by restrictions, particularly where budgetary management is tight. On the whole, the characteristic feature of the Member States' budgetary policies in 1979 will be their selectivity with a view to achieving the highest possible degree of efficiency rather than the extent of the effort they will require. The Council considers, in its decision of 24 July, that in countries where the balance of payments situation and the behaviour of prices are still uncertain, arrangements for 1979 should not reinforce the support which increased deficits—sometimes considerably increased—afforded to activity in 1978.

The policy sketched for Italy and Ireland, indeed, is slightly restrictive, for the aim is to reduce the net deficits in 1979, as a proportion of GDP to below their 1978 levels. In both countries this will require a reduction in some items of current expenditure and some increases in taxes and levies especially as it now appears necessary to increase budget aid to investment. The guidelines are less strict for the other countries where the restoration of equilibrium is still causing problems. Some reduction in direct taxes is even considered possible in Denmark if it is justified by the results of the policy to moderate wages. The Danish budget measures adopted in September include an increase in the personal income tax allowance; however, to control the spontaneous increase in the budget deficit and reduce the external deficit, restrictive provisions have also been adopted including raising the VAT rate from 18% to 20 $\frac{1}{4}$ % in October, reinforcing direct taxation by changing the system of index-linking the income-tax schedule, and introducing expenditure savings, particularly through postponement of certain public infrastructures. The decision of 24 July recommends for France that the measures planned to bring the deficit below its 1978 level should be postponed. The draft budget for 1979 respects this recommendation, in spite of the moderating influence on the rate of increase in expenditure of earlier decisions (mainly concerning public service charges and support to employment). The decision noted that, beyond tax cuts proposed in the United Kingdom 1978-79 budget equivalent to more than 1 $\frac{1}{4}$ % of GDP, there was limited room for manoeuvre for the UK Government. For Germany and the Benelux countries, the guidelines in the decision are more resolutely geared to stimulation. However, it was

conceded that the margin of manoeuvre necessary for the essential revival measures could not be created in Belgium unless action were taken at the same time to reduce some of the current expenditure items of the 1978 budget. The draft budget for 1979 therefore confirms the measures taken in the law on economic and budgetary reform by limiting the rate of increase in this expenditure to below that of gross domestic product and providing for a particularly vigorous effort in favour of investment. In Germany, after the Council's decision of 24 July provided for budgetary stimulation with tax reductions and with supplementary expenditure of about 1% of GDP in 1979, the Federal Government adopted an appropriate programme on 28 July with a series of measures to be introduced between the beginning of 1979 and the beginning of 1980. The measures for 1979 mainly concern income tax and increases in certain items of transfer expenditure. On the other hand, there will be an increase in VAT rates on 1 July 1979. The Netherlands, too, have complied with Community guidelines, in their draft budget for 1979, supplementing the provisions adopted in the first half of 1978 with incentive measures. The central government budget deficits as a percentage of gross domestic product should thus be considerably higher in 1979 than in 1978 in Germany and the Netherlands, and remain about the same in Belgium, while the slight surplus expected for 1978 in Luxembourg should give way to a slight deficit.

Long-term trends in public finance

Over the past few years the share of government expenditure in the Community as a whole has been fairly stable. After increasing more or less regularly between 1958 and 1973, it accelerated sharply in 1974 and 1975 under the influence of the mechanical effects of the crisis and the short-term policies adopted. During these two years, general government expenditure as a percentage of GDP increased by nearly 6%, or almost as much as it had over the preceding fifteen years (7,7%). Public expenditure as a share of GDP reached 46,4% in 1975 compared with 40,6% in 1973 and 32,9% in 1958.

These general trends cover considerably different developments at national level; the extent of the deceleration in the growth of public expenditure since 1975 has varied according to each country's specific budgetary constraints and ability to control the spontaneous evolution of public finance. General government expenditure increased most sharply in 1974-75 in Ireland, Denmark and the Benelux countries. These were also the countries where the rates of growth of public expenditure were highest between 1958 and 1973. Except in Ireland, public expenditure continued

to grow after 1975, although more slowly. In Germany, public expenditure in relative terms, which had been rising since 1971, and especially in 1974-75, has remained stable over the past few years. The effects of the 1974-75 crisis on public finance were less marked in France and Italy, where public expenditure continued to expand at a moderate rate after 1975. Public expenditure as a percentage of GDP is considerably lower in 1978 than in 1975 in the United Kingdom.

The general effort to control the growth of public expenditure in a slack economic situation concentrated mainly, as Table 19 shows, on consumption and capital expenditure, while current transfers and interest payments continued to progress.

Between 1958 and 1973, revenue as a percentage of GDP grew parallel to expenditure, rising from 33% to almost 40% over the Community as a whole. In 1974-75, the trend of government receipts did not allow the rapid rise in the level of government expenditure to be covered, even though it rose as a proportion of GDP in all member countries except Germany, Ireland and Denmark. After 1975, the temporary recovery of economic activity in 1976 made it easier to increase taxes and levies in an attempt to reduce budget deficits; the effort continued in 1977, but it was relaxed in 1978. The increase was highest and widest-ranging (covering all categories of compulsory contribution) in Italy and Ireland, the countries where the burden

of taxation and social security contributions was considerably lighter than the Community averages and where budget deficits were greatest. The increase in revenue in Germany, France and Belgium is mainly due to direct taxes and social security contributions; in the Netherlands and Denmark, it comes from indirect taxes. The percentage of total taxes and social security contributions to GDP in the United Kingdom has fallen more sharply away from its peak but has not returned to its earlier levels. Recent increases in indirect taxation have been less than the large reductions in the burden of direct taxes.

Recent developments continue the long-term trend towards an increase in social security contributions as a proportion of the current receipts (see Table 20); this trend should be related to the increase in current transfers from social security schemes, which are financed by these contributions. Over the Community as a whole, the share of social security contributions in GDP rose from 7,8% to 14,4% between 1958 and 1977, while the burden of direct and indirect taxation rose from 22,7% to 25,8% during the same period. At the moment, social security contributions represent a higher proportion of GDP than either direct or indirect taxation in most of the Community's founder member countries. They are not so high in the United Kingdom, Denmark and Ireland, because a higher proportion of social transfers is financed out of tax revenue.

The trend towards an increase in the share of direct taxes

Table 19

Development of main categories of general government expenditure as a percentage of GDP

	Consumption					Other current expenditure ¹					Capital expenditure ²				
	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978
DK	13,1	21,9	24,9	23,0	22,8	9,6	14,4	16,9	16,7	17,7	3,3	4,6	5,5	5,9	6,0
D ³	13,2	18,2	21,0	20,0	19,9	16,7	16,9	20,8	21,3	21,4	4,3	5,2	5,7	5,3	5,3
F	14,1	12,6	14,6	14,9	14,9	17,0	21,2	24,9	26,0	26,4	4,0	4,3	4,3	3,6	3,6
IRL	12,4	15,2	19,1	18,7	18,4	12,0	19,5	21,9	22,2	22,2	3,7	5,9	7,1	6,2	6,7
I	12,0	14,7	13,9	13,7	14,2	13,7	22,9	27,2	28,8	30,4	3,9	4,0	4,9	4,2	5,0
NL	14,3	16,3	18,4	18,3	18,4	15,2	26,5	31,0	32,6	34,2	5,1	5,0	5,5	4,5	5,3
B	12,1	15,0	16,9	17,3	17,9	14,0	21,1	26,0	27,8	29,0	1,8	3,5	3,7	3,6	3,7
L	12,6	11,4	15,0	15,7	15,9	15,1	25,4	27,1	30,4	30,7	6,7	7,5	9,5	9,0	9,3
UK	16,3	18,4	22,3	20,7	20,1	12,1	15,1	18,1	18,6	19,1	2,9	5,3	5,3	4,0	3,8
EC	14,2	16,3	18,4	18,0	17,5	14,8	19,4	23,0	24,0	24,5	3,7	5,0	5,1	4,5	4,6

¹ Current transfers and miscellaneous current expenditure (mainly interest on national debt).

² Gross fixed investment and capital transfers (net of capital transfers received).

³ Differs from Table 8 of the Statistical Annex. Expenditure on health services in kind are included in public consumption and not in current transfers in conformity with German national accounts definitions.

Sources: 1958-1973: OECD National Accounts; 1975-1978: Economic budgets of the services of the Commission.

Table 20

Trends in the composition of tax and social security revenue as a percentage of GDP

	Indirect taxes					Direct taxes					Social security contributions				
	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978
DK	11,7	15,1	13,9	15,5	16,7	11,9	27,9	27,9	26,0	26,1	1,5	1,1	0,7	0,6	0,6
D	14,2	13,4	12,3	12,4	12,7	8,8	12,3	12,0	13,7	13,0	9,8	13,2	14,9	15,5	15,4
F	16,7	15,4	14,1	13,8	13,8	6,4	6,4	7,3	8,4	8,4	11,1	15,2	17,2	18,4	18,3
IRL	17,2	19,3	17,4	17,5	15,9	4,9	9,2	9,8	11,1	11,1	1,0	3,0	4,5	4,8	4,6
I	12,2	11,0	9,6	11,1	11,1	5,4	6,8	7,3	9,2	10,2	7,9	11,9	15,3	14,8	14,9
NL	9,8	11,8	11,3	12,4	12,7	12,0	15,4	16,4	16,5	17,2	8,1	16,9	18,4	18,0	18,2
B	10,7	11,6	11,7	11,8	12,1	7,4	13,5	16,4	17,0	18,6	6,4	11,3	12,6	12,7	12,8
L	9,7	11,7	13,4	13,2	13,2	11,5	14,8	18,2	20,7	20,4	8,5	11,8	15,6	17,2	17,2
UK	13,3	13,9	13,8	14,6	14,2	11,8	12,8	16,1	14,4	14,2	3,8	5,4	6,6	6,7	6,5
EC	14,0	13,6	12,6	13,0	13,1	8,7	11,0	11,8	12,7	12,6	7,8	12,1	13,8	14,4	12,6

Sources: 1958-1973: OECD National Accounts; 1975-1978: Economic budgets of the services of the Commission.

in GDP observed between 1958 and 1975, however, has become less general in the past few years. The countries with the largest increase in the burden of direct taxes from 1958 to 1975, Benelux, Ireland and Denmark, are also those where the share of indirect taxes in GDP increased or remained steady. The increase in compulsory contributions in these countries affected all categories of revenue, so as to cover the very rapid expansion of expenditure. In France, Italy and Germany, the increased

burden of direct taxation was partly offset by a reduction in the importance of indirect taxation; combined with higher social security contributions, it did make it possible to finance more expenditure, although the rate of increase in expenditure was less rapid. After 1975, the share of direct taxation in revenue continued to increase in the countries where it was originally the lowest (France, Italy and Ireland) as well as in Belgium and Luxembourg. It fell in all the other Community countries.

7. Monetary trends and policies

Developments in intermediate objectives and monetary policy

The rôle assigned to monetary policy in the different member countries may be assessed with reference to the intermediate objective adopted (money, credit) and to the operational value attributed to this objective. By comparing the objective with the results obtained, we can assess the problems faced by the authorities during the period concerned.

In the *Federal Republic of Germany*, the Bundesbank uses a money supply growth objective (money supply defined, according to the Bundesbank's special criteria, as 'central bank money')¹. Since 1975 the rate of growth aimed at has always been 8% (in 1975 this was defined as the December-on-December rate; since 1976 it has been defined as an annual average). Over the years the criteria for setting the target rate have changed a little, but the

basic aims have been to reduce gradually the rate of price increases while also assuring the means of financing the real growth of the economy. In 1977 central bank money increased by an annual average of 9% over 1976. The excess was due more to the public's increased preference for liquid as opposed to longer terms assets than to a great increase in bank credit. To contain the rate of expansion within the 8% limit, the monetary authorities would have had to raise short-term interest rates; this could well have further hampered growth, which was already only moderate, as well as creating further upward pressures on the Mark. These same risks explain why the Bundesbank did not take restrictive measures in 1978 in spite of the strong acceleration of monetary expansion, due mainly to the rapid expansion of credit to private sector residents. Even if the supply of central bank money were to settle at its mid-August level, the annual average increase would still be over 10%; however, with the moderate level of present growth-rates there is little risk that price stability will suffer from the extra expansion of money supply. Interest rates on money and capital markets, which had been falling since early in 1977, levelled off in the spring of 1978, and long-term rates even showed a slight upward

¹ Paper money plus compulsory reserves on resident's deposits calculated at constant rates.

Table 21

Monetary policy's intermediate objectives and realizations

		D	F	I	NL	UK		
		Central Bank money	M ₂	Total domestic credit mrds LIT	Monetary base	M ₂ /net national income	Sterling M ₃	DCE mrds UKL
1975	Norm	+8 % ²	—	+24 700 ⁴	—	—	—	—
	Realization	+10,0 % ²	—	+33 710 ⁴	—	—	—	—
1976	Norm	+8 % ¹	—	+29 500	+5 700 ⁵	—	+9-13 % ^{8,9}	+9 ⁸
	Realization	+9,2 % ¹	—	+33 530	+8 981 ⁵	39,6 % ⁷	+7,2 % ⁸	+4,3 ⁸
1977	Norm	+8 % ¹	+12,5 % ²	+30 600	+4 000 ⁵	-1 % by reference to 76 level	+9-13 % ⁸	+7,7 ⁸
	Realization	+9,0 % ¹	+13,9 % ² +12,2 % ¹	+35 856	-4 296 ⁵	39,3 % ⁷	+16,3 % ⁸	+4,4 ⁸
1978	Norm	+8 % ¹	+12 % ²	+46 000	+7 500 ⁶	-1 % by reference to 77 level	+ 8 -	+6 ⁸
	Realization	:	:	:	:	:	:	:

¹ Annual average.

² December/December.

³ Targets appearing in the EEC directives fixing the conditions of Italian economic policy.

⁴ Period 1 April 1975 to 31 March 1976.

⁵ Monetary base created by the Treasury.

⁶ Total monetary base.

⁷ Source: 1977 Annual Report of the Nederlandsche Bank.

⁸ Year lasting from mid-April of year indicated to mid-April of following year.

⁹ Target succeeded a target of +12% for M₃.

Source: Commission's departments, except where otherwise indicated.

tendency. However, they are still the lowest in the Community (3,7% on short-term rates and 6,8% on long-term in August); this is mainly because of differences in inflation rates between Germany and other Member States.

In *France* the first target for the growth of money supply (M_2) was fixed for 1977. At 12,5% (therefore slightly lower than the estimated growth in the value of GDP (13,2%) it was part of a medium-term strategy to stabilize the economy's liquidity ratio, which had been increasing rapidly up to 1975, thus contributing to the elimination of inflationary pressure. The manipulation of interest rates plays a smaller part in the regulation of the money supply in France than in the Federal Republic of Germany; regulation in France is based on the strict control of the counterparts of the money supply, particularly private sector bank credit. The average annual money supply increased by 12,2%; the liquidity ratio remained about the same as in 1976. The December-on-December increase was 13,9%, but statistical uncertainties mean that this figure is (by about 1 percentage point) too high.

The authorities set a target of 12% for money supply growth in 1978, about the same as the expected nominal GDP growth, and thus consistent with the medium-term aim of stabilizing the liquidity ratio. The ceiling on bank credit has been adjusted to make it easier to manage monetary growth; if the 12% target is to be met, close control of Treasury money creation is required, since the policy of external borrowing contributes to the increase in liquidity.

The relative stability of interest rates recorded in 1977 has given way, since March 1978, to a downward trend.

In the *United Kingdom*, the monetary authorities first set intermediate objectives in the 1976/77 financial year; these objectives covered both money supply and, pursuant to the agreement with the IMF, domestic credit expansion (DCE).¹ The DCE objective was predominant while balance of payments problems were being faced, since a payments deficit results in destruction of liquid assets. After the improvement in the balance of payments situation, the authorities concentrated more on the money supply objective.

Experience over the past few years has led the authorities to adjust the monetary norms applied to defining the aggregate (at present: Sterling M_3) and the method for setting the target; for the 1978/79 financial year, the target was again expressed as a margin (8-12%) subject to review and adaptation after six months.

As in other countries there is a close link between monetary and budgetary policies because the public-sector deficit is one of the main elements affecting domestic credit expansion and the growth of the money supply. The extent of this depends largely on the difference between the Public-Sector Borrowing Requirement (PSBR) and the volume of national debt securities that can be placed with the non-banking private sector.

The norms laid down for the fiscal year ending in mid-April 1977 were largely respected, mainly owing to control of the PSBR. Against a norm set at UKL 9 000 million, DCE registered an outcome of UKL 4 300 million. The prescription for monetary expansion was within a 9-13% bracket; and the actual figure 7,2%. In the year ending in mid-April 1978, DCE was once more, at UKL 4 400 million, well below the norm of UKL 7 700 million; however, monetary expansion was 3 percentage points higher than the upper limit of the 9-13% prescribed target, because of rapid acceleration towards the end of the financial year. The balance of payments surplus, and in particular the inflow of capital, was one of the main factors in the growth of the money supply; the prevention of an excessive appreciation in the value of the pound was at times given priority.

Interest-rate policy is very actively exercised to control the development of the money supply and bank credit as well as to influence capital movements. The minimum lending rate (MLR), which is generally varied fairly flexibly, fell from 14 $\frac{1}{4}$ % in December 1976 to 5% in October 1977. However, the trend has been reversed since the end of 1977: the monetary authorities raised the MLR in stages from 6 $\frac{1}{2}$ % in April 1978 to 10% in June, with a view to containing monetary expansion. Over the same period, the rate on twelve-year Government bonds rose from 11,4% to 12,4%. In June, the supplementary special deposits scheme ('corset') which penalizes excessive growth of interest-bearing bank deposits was reintroduced; since then, monetary expansion has been much slower.

The intermediate objectives, established in agreements between *Italy* and the EEC in connection with loans granted to Italy, cover total credit of domestic origin² and the monetary base. Total credit is both a conjunctural and a structural indicator. Compared with most of the other member countries the ratio of total credit to GDP is especially high in Italy (25% between 1973 and 1976). This reflects the size of the borrowing requirements of the

¹ DCE is mainly composed of bank credit to the public and private sectors (domestic counterparts of the money supply).

² The concept of total credit used in Italy includes, not only public and private sector bank credit, but also funds obtained by these sectors through other financial intermediaries and the capital market.

public and enterprises sectors. In the medium term, there are reasons to expect a stabilization or even a reduction in the global credit/GDP ratio as well as a redistribution of credit in favour of the private sector. However, such developments would require a radical change in structures and behaviour.

From the short-term point of view, the objectives set for total credit must be consistent with restoring balance of payments equilibrium and slowing down the rate of inflation. In 1977 the target was exceeded by about LIT 5 000 000 million (approximately 2,5%);¹ the excess, most of which arose at the end of the year, was mainly due to the deterioration of public finances as a result of the slowdown of economic activity. This year, total credit has developed within the limits set (LIT 46 000 000 million, or about 23% of GDP).

The monetary conditions set in the agreements with the Community include limits on the creation of monetary base, to which monetary expansion is linked by a multiplier. In the medium term, the Treasury is by far the most important creator of monetary base in Italy; however, experience in 1976 and 1977 has shown that, in the short term, other sources can be very important. Consequently, the target for 1978 refers to total monetary base. Over the two years concerned, short-term rates moved steadily downwards, while rates on the capital market dropped only slightly.

In the *Netherlands* the monetary authorities took control measures in May 1977 with the purpose of halting the rapid expansion in liquidity that had raised the liquidity ratio (M_2 as a percentage of GDP) to the unprecedented level of 39,6% at the end of 1976. The medium-term aim was to reduce this ratio gradually (by about 1 percentage point a year). The specific features of control, which applied only to credits granted from short-term resources, enabled the rate of money supply growth to be cut back from 20,5% in 1976 to about 7% in 1977 with minimal effects being felt on interest rates or the distribution of credit.

The renewal of the control system, decided upon in March, limiting the increase in bank credit from monetary resources to 8% over the period from the second quarter of 1978 to the second quarter of 1979 will allow the money supply to increase more or less parallel with the value of GDP, without creating pressures on the markets; long and short-term interest rates showed a downward trend until autumn 1976 after the temporary rise in December 1977.

The policy of the *Belgian* monetary authorities is geared to credit granted to the private sector (firms and households) by the financial intermediaries; however, no target figure is set in advance, and the monetary authorities consider this concept important only in periods of restriction. Private-sector credit is regulated on the basis, among other things, of the Public-Sector Borrowing Requirement. Total domestic credit in 1977 was about the same, in absolute terms, as in 1976, but with the public sector increasing its share of this amount to about one-half. The drop in the proportion of total credit granted to firms and households is not due to restrictive monetary policy, but to the weakness of demand that has resulted from the loss of momentum of economic activity; interest rates, particularly short-term rates, moved downwards during the year (except during the short periods when exchange markets were under pressure); the downward movement has continued until autumn 1978. It is expected that, even this year, domestic credit will expand only moderately and that the proportion granted to the public sector will increase again.

Denmark's open economy and persistently high current balance of payments deficits have led the authorities to control the development of the domestic components of the money supply (domestic credit expansion: DCE), so as to attract foreign capital. Quantitative limits are therefore set in terms of the expansion of bank lending commitments, and interest rates are kept at a considerably higher level than in other countries. Since high budget deficits appeared in the financial year 1974/75, the means of covering the deficit has become a vitally important factor in regulating DCE. For this year, the authorities consider that an increase in DCE approximately equal to that recorded in 1977 is consistent with the aim of stimulating the inflow of capital. The slowdown in monetary expansion during the early part of the year was due to adjustments limiting the remuneration of short-term bank deposits; these adjustments caused a considerable volume of private funds to be transferred into less liquid assets, mainly short and medium-term Government securities.

In *Ireland*, too, monetary policy is mainly geared to influencing external reserves. In 1977, credit expansion was broadly in line with expectations and objectives, but one component, bank credit to the private sector, increased by 22%, compared with an expected 18%, whilst the creation of money by the Government was moderate, mainly as a result of placing Government securities with the private non-banking sector. The securities were easier to place because interest rates were tending downwards and because the structure of rates was favourable to capital market securities. The combined effects of the increase in credit expansion and the balance of payments on liquidity led to a growth in

¹ Increase of global credit of 17,7% instead of 15,2%.

money supply (M_3) of 16%, consistent with aims and expectations.

A 20% increase in bank credit to the private sector and the creation of about IRL 560 million by the State were regarded as consistent, for 1978, with the Government's plan for real and nominal GDP growth and with monetary expansion of about 16 to 18%. It was recognized that this fairly expansionist monetary policy could lead to some loss of reserves, the amounts of which the authorities considered tolerable. However, in the first part of the year the increase in bank credit to the private sector was substantially in excess of the targets. This led the authorities, in October, to place limitations on the banks, so as to limit the increase in credit extended to the private sector to 10% in the six months to end-March 1979.

The use of intermediate objectives for a better coordination of monetary policy

All the countries of the Community set intermediate objectives in terms of money and/or credit, but they do so in different ways. One of the main differences concerns the role of the objectives and the amount of publicity they are given. Germany, France and the United Kingdom publish the target figures in order to influence expectations. The monetary targets for Italy are published in the Community's Council Directives on economic policy conditions. The Netherlands' objective of gradually reducing the liquidity ratio is theoretically a medium-term aim, and immediate considerations may temporarily override it. In Ireland and Denmark, DCE and money supply projections are both aims and predictions which must be realized when account is taken of general objectives and constraints on general economic policy. Belgium is the only Member State that does not officially formulate any projection or objective for monetary aggregates.

There are also differences in the type of intermediate objective adopted (money supply or credit), and the way the objectives are defined. A preference for money or for credit may be partly due to theoretical considerations, but it is much more closely dependent on the balance-of-payments situation. An objective in credit terms, adopted by a country experiencing balance-of-payments difficulties would imply that the monetary authorities were refraining from compensating for the destruction of liquidity resulting from a balance-of-payments deficit; accordingly an automatic stabilization factor is introduced into the system. On the other hand, a country with a balance-of-payments surplus would be more likely to adopt an objective in terms of money supply; the realization of such an objective would imply that, in a floating exchange-rate system, the authorities were not

seeking to avoid an appreciation of their currency through intervention by the central bank; however, were this appreciation to become excessive, the authorities could intervene on the market and attempt simultaneously to compensate for the creation of liquidity resulting from such interventions by tightening up credit. Such an action has limits however, because of the fact that credit restriction is liable to provoke further capital inflows.

The differences arising from the definition of the monetary aggregate chosen are due to institutional and structural differences between the member countries. On the other hand the quite frequent changes in definition of the chosen aggregates made with a view to finding increasingly significant monetary variables, demonstrate the growing importance attached to intermediate objectives in the implementation of monetary policy. The same applies to changes in the way the objectives are expressed (annual averages, margins and so on).

Some progress is being made towards harmonization, but it is necessarily slow since it requires structural changes. Moreover, a difference in intermediate objectives may reflect a difference in the degree of priority assigned to the various final objectives of economic policy.

Nevertheless, present differences are not a great obstacle to the use of intermediate objectives on a Community level. The main condition for such use is that each country should understand the intermediate objectives of the others: such is the principal aim of the Working Party on the Harmonization of Monetary Policy Instruments.¹ Money supply and credit, the two intermediate objectives, are connected both functionally and in an accounting sense which would allow each Member State to appreciate the intermediate objective of another country in that latter's own financial context and also to compare it with its own objectives.

Briefly, total credit in its widest definition, is made up of all the funds obtained by public and private sectors from the financial intermediaries, the capital market and abroad; other definitions of credit represent only the sum of certain components of this global sum. The counterpart of total credit is represented by the formation of financial assets (money, long and short-term securities), and the difference between the two totals is the balance-of-payments on current-account position.

Despite certain differences in the method of determination certain basic elements such as the real rate of growth and a normative rate of price rise are always taken into

¹ This Working Party is dependent on the Community's Monetary Committee and Committee of Governors of the Central Banks.

account in the setting of intermediate objectives; moreover, in most countries, the Public-Sector Borrowing Requirement and its financing play an essential role in the quantification of these objectives. Consequently, the intermediate objectives are established within a general framework which allows, during the prescribed period, a link up between the orientation of monetary policy, fundamental objectives and other compartments of economic policy.

Intermediate objectives have often been advertised at national level to influence the behaviour of economic agents. However, there is no need to publicize intermediate objectives at Community level for the moment. The coordination bodies might, however, find it useful to use them, in order to bring out any inconsistencies between monetary policies. Comparing intermediate objectives could therefore facilitate more real and more effective coordination of monetary policies.

8. Balance of payments

World balance-of-payments summary

The balance of payments of the Community on current account has improved considerably over the last two years, showing a turn-round from a deficit of USD 6 500 million in 1976 to a surplus of some USD 10 000 million in 1978 (see Table 22). These figures imply a shift of about 1% of Community GDP to the external sector over that period.

The establishment of figures for world payments flows is difficult, but such data as are available suggest that the overall current-account position of the OECD countries as a whole, which in 1977 still seemed to be in durable deficit as a result of the four-fold increase in the price of oil at the end of 1973, has in fact greatly improved in 1978, largely as a result of increases in the prices of OECD merchandise exports. There has at the same time been a reduction in the surplus of the oil-exporting countries.

However, the admittedly imperfect figures suggest that the improvement in the OECD position has also resulted from a deterioration in the current-account balance of the non-oil-producing developing countries. The present equilibrium of the world economy depends to a considerable degree on a continuing flow of private lending to the non-oil-producing developing countries (and to the Soviet Union and Eastern Europe) on a scale unheard of before 1974 and would be called in question by any impediment to that flow. This flow of lending is also of interest in the Community context because a significant proportion of the loans have been made by banks resident in the EEC.

Within the OECD area, the improvement in the Com-

munity's current-account position has been overshadowed by more dramatic developments in the accounts of the US and Japan. The US, whose current-account surplus was not completely eliminated by the oil crisis and was in fact substantial in 1975, has since moved into a position of substantial deficit, which represented about 1% of GDP in 1978. The deterioration in the US current balance was more than accounted for by a deterioration in that country's merchandise trade account; and of the adverse turn-round of some USD 40 000 million between 1975 and 1978 in US merchandise trade, about two-fifths represented a worsening in the US oil bill.

The rapid decline in the US surplus in non-oil trade should also be noted, particularly as this appears to have been the major element in the further deterioration in the US current account between 1977 and 1978. One aspect of this problem has of course been the higher dollar prices paid for US imports as a result of the fall of the US currency on the exchanges, an effect which should be outweighed, in due course, by an increase in the volume of net exports as a result of improved competitiveness.

Even more striking has been the very rapid build-up of Japan's current-account surplus to almost 2% of GNP, a development virtually completely accounted for by the growth in that country's favourable balance of merchandise trade. To some extent this phenomenon can be explained by the improvement in Japan's terms of trade resulting from the revaluation of the yen, but the imbalance within the OECD cannot be explained by price factors alone and depends also in part on the relative cyclical position of the main countries.

Table 22

World current account balances 1973-1978

	(USD 000 million)					
	1973	1974	1975	1976	1977	1978 ¹
EC	1,50	-11,25	1,50	-6,50	1,25	10,00
US	7,00	1,75	18,50	4,25	-15,25	-18,00
JAPAN	0,00	-4,75	-0,75	3,75	11,00	18,00
OECD total	3,00	-32,75	-6,25	-24,50	-32,00	0,00
OPEC	9,00	61,25	28,75	39,25	34,00	28,00
Other developing countries	-8,00	-24,00	-39,50	-26,50	-26,50	-31,00
USSR and Eastern Europe	-6,00	-7,00	-15,00	-11,00	-10,00	-9,00
p.m. 1 EUA ² = USD	1,23	1,19	1,24	1,12	1,14	1,30

¹ Forecast.

² At current exchange rates.

Source: OECD Economic Outlook, except first line which is from Eurostat and Commission's departments.

Table 23**Alternative indicators of cyclical positions**

	A — Ratio of real GDP growth-rate to pre-1974 average (1967-1973 average = 100)			B — Ratio of unemployment to long-term trend, inverted (1963-1978 trend = 100)		
	EC	US	JAPAN	EC	US	JAPAN
1976	101	102	96	85	91	88
1977	98	101	95	85	106	92
1978	98	100	95	89	128	87

Source: Commission's departments.

The quantification of the cyclical position of an economy involves many problems of interpretation, and the above table therefore presents two alternative measures. In the first the rate of economic growth in 1976 to 1978 is compared to the average rate achieved by each economy in the seven years immediately preceding the oil crisis, while the second shows whether unemployment has been above or below its long-term trend. In order to make the second measure comparable with the first, the former has been inverted, i.e. unemployment greater than its trend value, which corresponds to a low cyclical point, is represented by a value below 100. Of the two indicators, the one related to unemployment is the more volatile, but they agree in indicating that for three years now the USA has been running its economy much closer to full capacity than either the EEC or Japan (see Table 23); the first indicator also implies that Japan has gone deeper into recession than the Community. The cyclical position of an economy has a considerable influence on its current account balance, a high cyclical point being associated with a high propensity to import and a weaker performance in export markets by domestic producers.

The structure of the Community's balance of payments

The most constant feature of the Community's balance of payments is the substantial outflow of unrequited transfers, representing both remittances outside the Community by migrant workers and official transfers, made principally by member governments, which represent, broadly speaking, the Community's grant-aid contribution to world development. Prior to the oil crisis the Community could expect to earn a sufficiently large surplus on trade in goods and services to finance the unrequited transfers and ensure a modest surplus on current account, but since

1973 the situation has been much less stable. In 1975 the re-emergence of a merchandise trade surplus was short-lived, fast economic growth in 1976 leading quickly to a renewed deterioration in that account. 1977 and 1978 have however seen the emergence of a more satisfactory position (see Table 24). The balance on services has remained positive, in spite of the growing interest charges incurred by some member countries on the various forms of borrowing needed to finance their post-1973 current-account deficits. This satisfactory overall performance has been due to rising net receipts from tourism and to the operations of Community financial centres, and in particular the City of London, which have acted as intermediaries for the substantial funds which OPEC countries in particular wish to keep in liquid form.

The Community is both a receiver and an exporter of direct and portfolio investment on a large scale, but in net terms these operations of the non-bank private sector have had only a secondary role in financing the Community's current-account deficits. Net flows of this type have oscillated around $\pm 1-2\ 000$ million EUA as against gross flows of 7-8 000 million EUA in each direction. The major role in financing the 1974 current-account deficit was played by drawings on official reserves, but the principal instrument used in 1976 and 1977 was the issue of bonds by the public sector—both central governments and public corporations. Another feature of the capital account in 1977 appears to have been a turn-round in the position of the banking sector (with a certain amount of official encouragement) from being a net lender to being a net external borrower. These net figures for the transactions of the banking sector conceal very large gross flows. Financial institutions in the Community have been takers of additional external deposits to the extent of about 60 000 million EUA per year recently, an increase of some 30 000 million in terms of annual flows since the desire of the

OPEC countries to save opened new opportunities for the financial centres of the Community. The line labelled 'other non-monetary transactions' in Table 24 includes a wide variety of operations of the non-bank private sector, the principal constituents being trade credit, and certain operations of oil companies in the North Sea Zone.

In 1977 the emergence of the US deficit, with OPEC remaining in substantial surplus, resulted in very large international capital flows, a substantial proportion of which came into the EC, giving rise to an unprecedented increase in the Community's international reserves. Such information as is available for 1978 indicates that, as might be inferred from estimates of a much lower OPEC surplus, the rise in EC reserves has been only slightly greater than the EC current-account surplus.

The positions of Member States

Denmark has suffered from a substantial current-account deficit for some years now—in spite of the substantial favourable impact on that account of Denmark's inclusion in the Community's agricultural system since 1973—and this deficit rose in 1976 to the equivalent of some 5% of GDP. The deficit is more than accounted for by merchandise trade, but a fall in the surplus on services account caused by rising debt service charges should be noted. The current-account deficit has been smaller in 1977 and 1978, but Denmark has nevertheless faced a substantial

financing task, in which the major role has been taken by public-sector bond issues; these operations were sufficiently successful in 1977 to permit an increase in official reserves.

The current-account surplus of the *Federal Republic of Germany* rose in 1973 and has since remained high, apparently unaffected by the oil crisis: indeed, the beginning of the recession produced a record surplus in 1974. This performance has been dominated by the large surplus on merchandise trade account, which has risen again in 1978; the deficit on services has recently shown a tendency to diminish, but this has been offset by a rise in official transfers. In merchandise trade, there was little net change in the balance in volume terms between 1973 and 1977: the oil crisis did not require any volume adjustment in the external accounts of the Federal Republic since the terms of trade, while varying strongly in given years, have overall remained virtually unchanged since 1970. In effect, the rise in value of the Deutschemark on the exchanges has enabled the rise in the dollar price of oil to be offset by a rise in the dollar price of German exports generally.

In the years before 1974 there was a strong net inflow of capital into Germany, and the world-wide demand for assets denominated in Deutschemarks was a further factor in the rise in value of the German currency. The associated purchases of reserves by the Bundesbank caused, as is well known, problems of domestic monetary

Table 24

Balance of payments of the Community 1973-1978

	1973	1974	1975	1976	1977	1978
	<i>(000 million EUA)</i>					
<i>Net balances:</i>						
Merchandise trade (fob/fob)	5,65	-2,91	8,74	-0,93	10	17
Services	2,79	2,08	1,54	4,85	2	4
Transfers	-7,24	-8,58	-9,08	-9,92	-11	-13
Current account	1,20	-9,41	1,20	-6,00	1	8
<i>Capital account:</i>						
Direct and portfolio investment	0,19	0,82	1,40	1,29	-1	-2
Public-sector transactions	0,38	-1,04	-0,31	3,40	6	-2
Other non-monetary transactions	6,07	3,20	3,41	0,13	5	6
Commercial banking operations	0,24	-1,55	-7,07	-0,88	5	-2
Errors and omissions	-1,04	1,07	1,20	1,02	8	—
Official settlements balance	-9,12	-6,91	-0,17	-1,04	24	8

Source: Eurostat and estimates of the Commission's departments for 1977 and 1978.

management and were one of the factors leading the Federal authorities to opt for a float of the Deutschmark in 1973. The result of that decision was that the Federal Republic became an exporter of capital on a scale corresponding to its current-account surplus in 1974 and 1975; conversely, renewed intervention to prevent an excessive appreciation of the Deutschmark in 1976 and 1977 was associated with a reduction in the size of net capital transactions. Behind these modest recent net capital movements, however, lie substantial gross flows. In 1977 exports of 4 900 million EUA of long-term capital, in which outward direct investment was very important, were offset by a favourable position in respect of trade credit and increases in the external liabilities of German financial institutions.

In 1976 *France* had the largest current-account deficit in the Community, attributable in part to the poor harvest of that year, equal to some 2% of GDP, but since then a substantial turnaround has occurred in both the volume and value of merchandise trade, which is expected to show a surplus in 1978. Further support came in 1977 from a remarkable improvement on services account, with marked gains from civil engineering and professional services. These gains are expected to be held in the current year, virtually offsetting France's large net outward transfers. The overall balance of payments benefited in 1976 from a favourable shift in trade credit; but a major role had to be taken in that year by drawing on the official reserves. In 1977 the French banking system made substantial net loans and repayments to non-residents, but

Table 25

Summary balance of payments of Member States 1966-1978

		(000 million EUA)							
		1966- 1970	1971- 1972	1973	1974	1975	1976	1977	1978
DK	Current account	-0,32	-0,23	-0,38	-0,77	-0,41	-1,71	-1,5	-0,9
	Capital movements ¹	0,30	0,37	0,75	0,41	0,39	1,63	2,2	0,9
	Official settlements balance	-0,02	0,14	0,37	-0,36	-0,02	-0,08	0,7	0,0
D	Current account	1,61	0,77	3,51	8,23	3,21	3,44	3,2	5,0
	Capital movements ¹	-0,51	3,77	4,56	-8,85	-3,94	-0,32	0,7	-3,0
	Official settlements balance	1,10	4,54	8,07	-0,62	-0,73	3,12	3,9	2,0
F	Current account	-0,57	0,34	-0,55	-5,01	-0,05	-5,45	-2,9	0,6
	Capital movements ¹	0,17	2,07	-0,91	4,75	2,95	2,01	2,7	0,1
	Official settlements balance	-0,40	2,41	-1,46	-0,26	2,90	-3,44	-0,2	0,7
IRL	Current account	-0,09	-0,15	-0,19	-0,56	-0,02	-0,24	-0,2	-0,3
	Capital movements ¹	0,16	0,31	0,19	0,68	0,34	0,69	0,6	0,2
	Official settlements balance	0,07	0,16	0,0	0,12	0,32	0,45	0,4	-0,1
I	Current account	1,81	1,65	-2,06	-6,72	-0,47	-2,52	2,0	4,4
	Capital movements ¹	-1,71	-1,44	1,89	2,86	-1,75	2,73	3,0	2,1
	Official settlements balance	0,10	0,21	-0,17	-3,86	-2,22	0,21	5,0	6,5
BL	Current account	0,18	0,92	0,94	0,77	0,55	-0,29	-0,3	0,0
	Capital movements ¹	-0,10	-0,41	-0,18	-0,61	-0,15	-0,24	0,2	-0,2
	Official settlements balance	0,08	0,51	0,76	0,16	0,40	-0,53	-0,1	-0,2
NL	Current account	-0,14	0,50	1,88	1,70	1,27	2,14	0,2	-0,3
	Capital movements ¹	0,30	0,04	-1,29	-0,87	-0,98	-1,91	0,1	0,3
	Official settlements balance	0,16	0,54	0,59	0,83	0,29	0,23	0,3	0,0
UK	Current account	0,30	1,35	-1,95	-7,04	-2,88	-1,38	0,4	-0,4
	Capital movements ^{1, 2}	-0,51	0,64	2,90	4,12	1,77	-0,61	12,6	-2,6
	Official settlements balance	-0,21	1,99	0,95	-2,92	-1,11	-1,99	13,0	-3,0

¹ Including errors and omissions.

² For the sake of consistency, the UK figures for capital movements include foreign currency borrowing by the Government, and the public sector under the exchange cover scheme.

Source: Eurostat and estimates of the Commission's departments for 1977 and 1978.

this activity was more than offset by external fixed-interest finance raised at long term by French companies and by unidentified capital inflow, so that there was very little use of official reserves. The favourable balance of payments position in 1978 has been used to increase those reserves.

Ireland has a substantial deficit on merchandise trade account, as is appropriate for a country in a stage of rapid economic development, and this will amount to about 10% of gross national product in 1978. This deficit is very largely offset by other current-account items, in particular net official transfers from the Community, and by direct investment. Prior to 1977 the Irish Government was a borrower on a large scale through bond issues, but over the last two years a more important role has been played by net borrowing by the commercial banks. Further, net drawings have been made in 1978 on the official reserves, which had reached a very high level at the end of 1977.

Between 1976 and 1977 *Italy* achieved a remarkable turnaround in its current-account position, representing a nominal shift of some 2% of GDP to the external sector. While Italy's traditional surpluses on both transfer and services accounts contributed to this achievement, and in particular a rapidly growing surplus in respect of tourism, the major contribution came from the merchandise trade account, which has continued to improve and shows a substantial and unprecedented surplus for 1978. This performance is the more remarkable for the fact that Italy's terms of trade have recovered very little from the shock of the oil crisis and that this country has therefore had to achieve a substantial shift in trade volumes: export volume rose 21% from 1975 to 1977 while import volume rose 14%. The result, and particularly the slow growth of import volume, has been achieved because the economy has been in a very low cyclical position, but a situation has now been reached at which imports can be allowed to grow at the same rate as exports.

Italy was a net receiver of direct and portfolio investment on a significant scale in 1977, but this was offset by the repayment of trade credit which was taken in exceptional quantities in 1976. The most important feature of the Italian capital account in 1977 continued to be heavy net borrowing by the commercial banks, while in 1978 there have been significant net receipts of capital by the private non-bank sector. As a result of the favourable position of both current and capital accounts the Italian authorities have made large purchases of foreign currencies, which they have used both to build their reserves to record levels and repay all drawings under IMF standby agreements, the Community's medium-term financial assistance, and loans from the Deutsche Bundesbank. Community loans and borrowings under the IMF oil facility remain outstanding.

The *Netherlands* surplus on merchandise trade, which benefited greatly from the effect of the post-1973 rise in energy prices on the value of natural-gas exports, deteriorated markedly in 1977 as a result of a rapid increase in imports. Further, the surplus on services seems to be in secular decline, partly as a result of rising expenditure abroad by Dutch tourists. Given the continuing deficit on transfers, it would appear that the current account has moved from its traditional strong surplus into a slight deficit in 1978. Past current-account surpluses were used to enable the company sector to build up substantial assets abroad; in 1977 the effect of this flow was largely offset by external bond issues made by Dutch companies. There was also a substantial inflow last year in the form of record net external borrowing by the banking system, and operations of this type in 1978 should suffice to obviate any need to draw on official reserves.

The oil crisis appears to have produced a permanent change in the structure of the balance of payments of the *Belgium-Luxembourg Economic Union* (BLEU). The deficit on merchandise trade which appeared in 1975 has not subsequently been eliminated, as has occurred in certain other countries; it has in fact increased each year. It has, however, been partially offset by a rapidly increasing surplus on services account, particularly net receipts of interest, profits and dividends and net receipts resulting from governmental transactions. At the same time the transfers deficit has been rising (and notably the component attributable to the Government). There was a small current-account deficit in 1976 and 1977 but this appears to have been eliminated in 1978. Until 1976 the BLEU was regularly in deficit on the capital transactions of the company sector, substantial inward direct investment being offset by an outflow of portfolio and real-estate capital; more recently, however, the outflows associated with this sector have moderated, leaving its capital account with the external sector with a slight surplus. The banking sector was a net borrower abroad in 1977 (after three years in which it increased its net external assets) and as a result the Banque Nationale de Belgique saw its net reserves fall only slightly last year.

The *United Kingdom's* deficit on merchandise trade fell by some 2 900 million EUA between 1976 and 1977, about half of the improvement being attributable to North Sea Oil. The trade balance has however deteriorated somewhat since the end of 1977 in spite of a further improvement in the balance of trade in oil—North Sea production is expected to be the equivalent of half of the UK's consumption in 1978. The rise in the volume of imports of manufactured goods has been particularly strong this year. At one stage it was feared that North Sea Oil was leading to a current-account surplus which would cause an unrealistically high exchange rate for sterling. In fact this tendency has not

persisted, with an increase in the rate of economic growth effectively using North Sea Oil as a cushion to pay for the ensuing extra imports in a time of world recession. The current account has also been affected by a fall in the traditional surplus of invisible trade, prominent features of which have been higher payments of interest, profits and dividends and higher net transfers to the Community. The UK had a small surplus on current account in 1977 and is expected to show a small deficit in 1978.

The United Kingdom benefited from an unprecedented capital inflow in 1977 associated with Government bond sales to non-residents and a rise in external holdings of money-market assets. Transactions involving the UK non-bank private sector also showed a surplus, mainly due to net receipts resulting from the operations of oil companies. This massive inflow posed problems of monetary management for the authorities and led them to allow sterling to float upwards on the exchanges in the autumn of last year. As was to be expected, some of the 'hot money' received in 1977 has moved out again in 1978 while sterling has moved back to a around its average level in the first half of 1977. UK borrowings from the IMF (since partly repaid) meant that the rise in UK gross reserves was even larger than the balance of payments for official settlement: at the end of June 1978 UK debt to the IMF was USD 3 200 million.

Exchange rates and competitiveness

The dominant development on the exchange markets over the past year has been the fall in value of the US dollar, whose effective exchange rate¹ as calculated by Commission staff depreciated 7,1% over the year to the end of August 1978, as the markets responded to an excess supply of dollars resulting both from the US current-account deficit and a more general reluctance to hold that currency. The readiness of the US authorities to intervene to support their currency, and in particular the activation of their swap facilities with the Deutsche Bundesbank at the beginning of 1978, and willingness in principle to use IMF credit, have temporarily moderated, but did not end the dollar's virtually continuous fall. Conversely the Swiss franc appreciated very rapidly until the end of February 1978, when the authorities announced new measures limiting monetary flows into Switzerland; thereafter this

currency remained reasonably stable until August 1978, when it resumed its rise, showing an appreciation of its effective exchange rate of 26% over twelve months. Over the same period the effective exchange rate of the Japanese yen which had remained remarkably stable for several years up to the end of 1976, rose by 33% in spite of substantial intervention by the Bank of Japan which moderated its rise at the year end. These phenomena of course related to the very large current-account surpluses of both Switzerland and Japan.

Coordinated intervention by the US and Federal German authorities has ensured that the effective exchange rate of the Deutschmark rose only 4,8% over the twelve months to the end of August 1978, but even this modest appreciation has on occasion posed problems for the other countries participating in the European system of limited margin of fluctuation (the 'snake'). Towards the end of 1977 the Belgian franc and the Norwegian krone alternated at the lower intervention point, while in the early weeks of 1978 the pressure came exclusively on the latter currency until the Norwegian authorities devalued the krone by 8% on 13 February. The Danish krone remained strong for some months after the realignment of August 1977.

The French franc came under pressure on the exchanges in the weeks preceding the elections for the legislative assembly, intervention by the Banque de France limiting the fall in the effective exchange rate over the six months to March 1978 to some 8%; since the elections that rate has returned approximately to its level of August 1977. The effective exchange rate of the pound sterling rose about 5% between the end of August 1977 and the middle of February 1978, responding to the withdrawal of the Bank of England from the market, but since then revised opinions in the market about the likely UK balance of payments have brought the pound's effective exchange rate close to its level of mid-1977. Constant and massive purchases of foreign currency by the Italian authorities in order to improve their net reserves have prevented the lira from showing more than a moderate rise against the US dollar and the effective exchange rate of the lira has in fact fallen slightly over the twelve months to the end of August 1978.

It is of considerable importance to know to what extent recent developments on the exchange markets correspond to differing rates of inflation in the various countries. In order to do this it is necessary to measure *price performance*, the ratio of each country's own price index to an average index representing inflation rates among its competitors. The method used employs the same weights as those used in the calculation of effective exchange rates. The choice of price index raises problems; the figures for price performance appearing in this

¹ An effective exchange rate index measures the change in value of a currency against other currencies in general. In the Commission's work the currency of each country is compared to seventeen other currencies, the latter being weighted according to the competition which each of them presents to the exports of the first country in each of twenty-four markets.

Table 26

Recent development of effective exchanges rates, price performance and competitiveness

Indices 1972 Q1 = 100	DK	D	F	IRL	I	BL	NL	UK	CH	US	JAP
<i>Effective exchange rate</i> ¹ (quarterly averages)											
1977: I	116,3	135,0	99,0	72,1	60,8	112,9	121,0	61,5	149,1	97,7	106,2
II	113,9	136,5	98,9	72,1	60,1	114,1	122,0	61,4	148,8	97,0	110,0
III	112,6	139,3	99,6	72,4	60,0	114,9	121,8	61,7	154,9	96,3	113,4
IV	110,5	142,0	98,2	73,8	58,9	115,0	121,8	63,2	166,3	93,9	120,9
Year	113,3	138,2	98,9	72,6	59,9	114,3	121,7	61,9	154,6	96,2	112,5
1978: I	113,1	147,1	95,4	75,1	57,5	119,3	125,6	65,0	181,6	90,5	122,5
II	114,2	146,2	98,6	72,5	57,1	118,0	125,4	61,3	182,2	89,3	132,3
<i>Price performance</i>											
1977: I	102,0	78,1	92,9	122,2	164,9	87,2	86,3	139,0	75,5	98,3	98,7
II	103,4	77,2	93,5	123,2	165,8	85,6	86,5	142,1	74,2	98,7	97,1
III	102,5	76,0	94,4	124,0	166,3	84,9	86,6	145,1	73,2	99,4	94,8
IV	103,0	75,0	95,5	125,1	167,6	84,2	86,0	147,2	72,3	99,8	93,2
Year	102,7	76,6	94,1	123,7	166,3	85,4	86,5	143,5	73,8	99,1	95,7
1978: I	102,5	74,2	95,9	126,4	169,2	83,2	85,5	149,5	71,1	100,4	91,3
II	102,1	73,3	97,3	127,2	170,8	82,0	84,3	150,4	69,8	101,3	90,1
<i>Competitiveness</i> ²											
1977: I	118,6	105,5	91,9	88,1	100,2	98,4	104,4	85,5	112,5	96,0	104,8
II	117,7	105,3	92,5	88,8	99,7	97,7	105,5	87,2	110,3	95,7	106,7
III	115,4	105,9	94,0	89,8	99,8	97,6	105,5	89,5	113,4	95,7	107,5
IV	113,8	106,5	93,8	92,3	98,7	96,8	104,7	93,0	120,3	93,7	112,7
Year	116,4	105,8	93,1	89,8	99,6	97,6	105,0	88,8	114,1	95,3	107,7
1978: I	115,9	109,1	91,5	94,9	97,3	99,2	107,4	97,2	129,1	90,9	111,9
II	116,6	107,2	95,9	92,2	97,5	96,8	105,7	92,2	127,1	90,5	119,2

¹ An effective exchange rate greater than 100 indicates an *Appreciation*.

² A competitiveness index greater than 100 indicates relatively high international prices, therefore a *deterioration* in position.

Note: Indices of effective exchange rates and price performances (or relative inflation) compare, respectively, each country's own exchange rate and rate of domestic inflation — in this case based on the wholesale prices of manufactures — with the average of the corresponding indices for its main competitors. Further information about these concepts and about their relation to competitiveness appears in the text.

Source: Commission's departments.

report are based on the wholesale prices of manufactures, in so far as they are available, in order to concentrate attention on the prices of goods entering into international trade. The concept of price performance takes no account of exchange-rate changes; in order to arrive at an assessment of what has happened to the *competitiveness* of a country it is necessary to adjust its index of price performance by its effective exchange rate index and this has been done in Table 26. If exchange rate changes

completely offset changes in a country's price performance (or relative inflation), that country's index of competitiveness will remain at 100.

It emerges that the countries participating in the 'snake' system have undergone little change in competitiveness recently—in all cases not more than a 2% change from the beginning of 1977 to the second quarter of 1978. The Federal Republic lost slightly in competitiveness whereas

the BLEU has gained slightly. Over the whole period since the 'Smithsonian' agreement Denmark¹ has suffered a loss of competitiveness while the Federal Republic and the Netherlands have seen a lesser deterioration in their positions. This has reflected the willingness of the Deutsche Bundesbank to make large purchases of dollars in 1976 and 1977 and by the cooperative measures worked out to support the US dollar this year.

Exchange rate and inflationary developments over the last few years have given both the United Kingdom and France a significant competitive advantage which has, however, been somewhat eroded in 1977 and the present year. The interventions of the Italian authorities have contributed to a small gain in competitiveness by their country.

The most striking figures are, however, those relating to

the major non-Community countries. US inflation, as measured by the wholesale prices of industrial products, has not been worse than inflation similarly measured among its competitors; no depreciation of the US currency has been called for by US price performance and exchange market developments of the last twelve months have therefore markedly improved the US competitive position. Analogous estimates based on unit labour costs suggest an even greater US advantage. At the same time Switzerland and Japan, in spite of recently showing very low rates of inflation, have suffered very large losses of competitiveness.

The international financial system has thus been characterized for over a year by large exchange-rate changes and significant changes in competitiveness which have not yet rectified current-account imbalances within the OECD area, or even altered their trend. This may occur in time, but meanwhile differences in relative cyclical positions appear to be the major explanation of intra-OECD imbalances.

¹ There is some difficulty about interpreting the figures for Denmark because agricultural goods are important in the trade of that country.

9. Structural changes before and since the oil crisis of 1973

Structural change in demand and production between 1960 and 1973

The structural change which the European economies underwent in the period before the 1973 crisis closely reflected the conditions of the period: rapid growth, near-full employment, heavy foreign investment in Europe, low energy and raw materials prices, a virtual monopoly, shared with the United States and Japan, of trade in manufactures, and relative price and exchange-rate stability. Market forces, supported by overall demand management policies, generally sufficed by themselves to ensure the changes needed.

The countries of the old Community of the Six, given this context, were all able to develop their economies and adapt their structures to the requirements of economic change, without major adjustment difficulties. But growth in the United Kingdom was slower and the slowdown of activity in the industries in which the United Kingdom had traditionally been powerful was not offset by rapid growth of enough replacement industries.

None the less, the main features of the adaptation process are common to all the countries, differing only in scale.

Economic growth was rapid and relatively smooth in these countries and final demand structures changed along corresponding lines: the share of investment increased, the share accounted for by private consumer's expenditure contracted, and public consumption increased in terms of value. The sharp increase in personal incomes brought with it a harmonization, in relative terms, of the structures of household consumption, a smaller share being devoted to food and current consumption goods in general, with more being spent on durable goods and on services.

As the patterns of demand in the various countries tended to come into line, production structures also began to acquire a family resemblance. The establishment of the common market did not lead—at any rate, not at the level of the main sectors of the economy—to specialization, but in fact to relative harmonization, since each country tended to diversify and build up its industrial sector, so that its structure came gradually closer into line with those of Germany and of the United Kingdom.

However, while both these countries possessed very extensive industrial facilities at the beginning of the period, with heavy exports, only Germany pressed forward with adaptation, moving away from traditional industries to gain a strong foothold in sophisticated technology

industries, with high added value, enabling it to go on earning a heavy surplus on foreign trade even when oil prices had been quadrupled.

Examination of the high-growth industries reveals a number of industries common to all the countries—chemicals and derived products, oil products, energy industries other than coal, electrical and electronic equipment—although their growth-rates were different and are more closely related to the overall growth-rates of the domestic economy than to the growth-rates of the same industries in the other countries (see Tables 27 and 28).

To this common list of growth industries must be added in each case one or more industries in which the country concerned was lagging behind, in relative terms, at the beginning of the period. Examples are steel in Italy and in Netherlands, agricultural and industrial machinery in France, motor manufacturing in the Netherlands, equipment industries generally in Belgium, construction of means of transport (other than motor vehicles) in Germany.

The declining industries are much the same in all the countries: agriculture, coal-mining, and textiles-clothing (Italy is a special case, since in this country textiles enjoyed a sound growth-rate and remains an important industry).

Another aspect of the convergence of the various economies is the fact that in Germany and in the United Kingdom industries in respect of which the country enjoyed a privileged position at the beginning of the period (agricultural and industrial machinery in Germany, construction of means of transport other than motor vehicles in the United Kingdom) are now among the low-growth industries.

The first conclusion that can be drawn from this tendency for the economies to converge is that the countries of Europe generally tended to follow the same logic of development. They accepted (though some moved faster than others) the replacement of coal by oil and gas, and production processes run on more capital-intensive lines, entailing the more rapid development of industries producing capital goods; those industries employing relatively large amounts of capital and with high technology grew rapidly whilst those with a low added-value per person employed tended to decline.

The pattern of convergence also shows that no country ignored deliberately and completely the development of

Table 27

Relative shares of value-added by industry and branch 1960-1973, at 1970 prices

(percentages)

No. Branches	D		F		I		UK ¹		NL		B	
	1960	1973	1960	1973	1960	1973	1960	1973	1960	1973	1960	1973
1 Agricultural products	4,1	3,1	8,9	5,6	12,3	7,8	2,8	2,9	7,5	6,1	7,8	3,7
2 Energy products	5,0	4,9	5,5	6,6	4,6	6,1	5,0	4,6	3,8	6,2	4,5	6,2
21 of which: Solid fuels	2,1	0,9	1,1	0,3	:	:	2,6	1,1	1,3	0,2	2,0	0,4
22 Crude petroleum, refined gas	0,9	1,5	2,9	4,1	:	:	0,2	0,3	1,3	3,3	1,5	2,8
23 Electricity, gas, water	2,0	2,5	1,5	2,2	:	:	2,2	3,2	1,2	2,6	1,5	3,0
3 Intermediate products	7,2	8,8	6,1	7,3	5,2	7,2	5,4	6,3	4,5	6,8	6,5	9,8
31 of which: Metal products	2,5	2,4	2,6	2,3	1,5	2,2	2,4	1,8	1,3	1,5	2,9	4,1
32 Minerals, building material	2,2	2,2	1,5	2,2	2,0	2,1	1,3	1,6	1,6	1,5	1,6	2,3
33 Chemical products	2,4	4,2	2,0	3,0	1,7	2,9	1,8	2,8	1,7	3,8	1,5	3,3
4 Equipment products	16,4	16,9	9,1	12,9	6,3	8,0	12,9	13,1	9,0	9,6	5,7	9,3
41 of which: Metal products	4,4	3,7	2,2	2,6	5,1	6,0	2,7	2,3	:	:	1,5	2,5
42 Agric. and industr. machinery	5,5	4,6	2,9	4,1			3,5	3,8	:	:	1,5	2,3
43 Prec. instr., data proces. equip.	0,4	0,9	0,6	0,9	1,2	2,0	0,6	0,9	:	:	0,1	0,1
44 Electrical equipment	2,9	3,9	1,5	2,4			2,0	2,7	2,4	3,4	1,4	2,4
45 Motor vehicles	2,7	3,3	1,6	2,0	1,2	2,0	1,4	1,7	0,4	0,5	0,7	1,4
46 Other means of transport	0,5	0,5	0,4	0,5			2,7	1,7	:	:	0,5	0,6
5 Food, drink, tobacco	5,6	5,5	5,6	4,7	4,3	4,6	3,1	3,2	5,7	5,1	5,8	5,3
6 Current consumption products	9,0	8,6	8,6	8,1	7,7	8,5	8,1	8,0	7,1	6,1	7,6	8,1
61 of which: Text., leather, cloth.	4,3	3,2	4,1	3,3	3,8	4,0	3,5	3,0	3,1	2,0	4,4	3,6
62 Paper, printed material	2,6	2,7	2,2	2,1	1,4	1,5	2,7	2,7	2,1	2,3	1,6	1,7
63 Rubber, plastics	0,7	1,2	0,8	0,9	2,4	3,0	0,6	1,0	0,4	0,6	0,3	0,9
64 Other industrial products	1,4	1,5	1,5	1,9			1,3	1,4	1,5	1,3	1,3	1,9
Tot. manufacturing industry ²	38,2	39,8	29,4	33,1	23,4	28,4	29,6	30,6	26,3	27,7	25,7	32,4
7 Building and civil engineering	8,2	8,2	8,4	9,6	10,4	7,5	6,6	6,8	6,9	7,4	3,4	7,6
81 Transport services	4,0	3,6	4,0	3,7	5,7	6,2	7,2	6,9	8,2	8,0	6,2	6,0
82 Communication services	1,4	1,8	1,2	1,6								
83 Trade services	13,0	12,4	11,1	11,6	10,4	12,0	11,1	11,2	12,12	13,7	14,5	12,4
Other market services	16,6	16,7	18,9	19,1	19,0	21,5	19,8	21,4	22,3	18,0	21,3	19,2
84 of which: Credit, insurance	2,3	3,0	:	:	3,3	4,0	4,3	5,5	4,0	3,4	:	:
85 Hotel, accomm. catering	1,7	1,2	3,3	2,9	1,6	1,7	2,3	1,9	1,4	1,2	:	:
86 Other market services n.e.c.	:	:	:	:	:	:	:	:	:	:	:	:
8 Total market services	35,0	34,6	35,2	36,0	35,0	39,7	39,9	42,0	42,6	30,7	43,3	39,9
9 Non-market services	9,6	9,6	12,7	9,1	14,2	10,5	16,1	13,1	12,9	12,9	9,8	11,1
Total services	44,5	44,1	47,9	45,1	49,3	50,2	56,0	55,1	55,5	52,6	53,2	50,1
Total	100	100	100	100	100	100	100	100	100	100	100	100

¹ United Kingdom: value-added at factor cost (other countries at market prices).² Industries 3, 4, 5, 6.

Source: report of the Group of Experts on sectoral analyses, Sectoral change in the European economies from 1960 to the recession, Brussels, January 1978 (available on request).

Table 28

Relative shares of value-added by industry and branch 1960-1973, at current prices

(percentages)

No. Branches	D		F		I		UK ¹		NL		B		
	1960	1973	1960	1973	1960	1973	1960	1973	1960	1973	1960	1973	
1 Agricultural products	5,4	3,0	9,2	5,9	14,1	8,1	4,0	2,9	8,6	5,8	6,9	3,6	
2 Energy products	6,0	4,6	7,0	6,2	5,3	5,3	5,5	4,5	5,5	6,1	7,2	5,6	
21 of which: Solid fuels	2,3	0,9	1,2	0,4	:	:	2,7	1,2	1,3	0,2	2,7	0,4	
22 Crude petroleum, refined gas	1,3	1,2	3,9	3,8	:	:	0,2	0,2	2,1	3,5	2,2	2,5	
23 Electricity, gas, water	2,4	2,4	2,9	2,0	:	:	2,5	3,0	2,3	2,5	2,4	2,7	
3 Intermediate products	8,6	7,8	7,6	7,3	7,0	6,8	7,4	5,6	5,2	6,5	7,1	8,3	
31 of which: Ores, iron and steel	2,8	2,1	3,1	2,5	2,1	2,0	2,7	1,7	1,4	1,4	3,0	3,5	
32 Minerals, building material	2,3	2,1	1,7	1,9	2,4	2,0	1,7	1,5	1,5	1,5	2,5	2,1	
33 Chemical products	3,5	3,5	2,8	2,9	2,5	2,8	2,9	2,5	2,3	3,7	1,7	2,7	
4 Equipment products	15,8	16,0	11,3	12,4	6,6	8,5	14,4	12,9	10,3	9,2	6,6	7,9	
41 of which: Metal products	4,7	3,5	2,5	2,5	4,8	6,3	2,9	2,2	:	:	1,7	2,1	
42 Agric. and industr. machinery	4,8	4,3	3,4	4,0			3,6	3,7	:	:	:	2,1	1,9
43 Prec. instr., data proces. equip.	0,4	0,8	0,6	0,8			0,6	0,8	:	:	:	0,7	0,1
44 Electrical equipment	3,2	3,9	1,9	2,2			2,6	2,4	3,6	3,2	1,3	2,0	
45 Motor vehicles	2,3	3,0	2,1	2,5	1,8	2,2	1,7	1,7	0,5	0,5	0,0	1,2	
46 Other means of transport	0,4	0,5	0,6	0,5			2,8	2,0	:	:	0,9	0,6	
5 Food, drink, tobacco	6,7	4,9	5,9	4,7	5,9	4,1	3,5	3,1	7,4	5,2	7,6	4,5	
6 Current consumption products	9,2	8,0	9,4	8,5	8,4	8,9	8,5	7,5	9,0	6,0	7,9	7,4	
61 of which: Text., leather, cloth.	4,3	2,9	4,7	3,3	4,5	4,4	4,0	2,7	4,1	1,8	4,6	3,3	
62 Paper, printed material	2,4	2,7	2,1	2,4	1,4	1,5	2,6	2,7	2,7	2,3	1,6	1,7	
63 Rubber, plastics	1,0	1,0	1,0	0,9	2,5	3,0	0,6	0,9	0,7	0,5	0,3	0,8	
64 Other industrial products	1,5	1,3	1,6	2,0			1,3	1,3	1,5	1,4	1,4	1,4	
Total manufacturing industry ²	40,3	36,7	34,2	32,9	28,0	28,3	33,7	29,0	31,8	27,0	29,2	28,1	
7 Building and civil engineering	7,5	8,4	7,8	9,6	7,6	7,8	6,3	7,6	7,0	7,8	6,5	7,4	
81 Transport services	4,6	3,6	3,9	3,4	6,1	5,4	7,2	6,9	8,6	7,4	5,6	6,7	
82 Communication services	1,5	1,9	1,3	1,6			1,9	2,5			1,3	1,4	
83 Trade services	13,7	12,6	13,0	11,6	12,1	11,2	13,0	11,3	27,4	31,9	12,2	17,6	
Other market services	13,5	18,2	14,5	19,2	16,4	22,6	17,1	20,9			21,4	18,3	
84 of which: Credit, insurance	2,3	1,9	:	:	3,0	4,7	3,9	5,7	2,9	4,1	:	:	
85 Hotels, accom., catering	1,4	1,3	2,7	2,9	1,6	1,7	1,9	1,9	1,2	1,0	:	:	
86 Other market services n.e.c.	:	:	:	:	:	:	:	:	:	:	:	:	
8 Total market services	33,3	36,3	32,7	35,7	34,6	39,1	39,2	41,6	36,2	39,3	40,4	43,9	
9 Non-market services	7,5	11,0	9,1	9,7	10,5	11,4	11,3	14,4	10,7	14,0	9,8	11,5	
Total services	40,9	47,4	41,8	45,4	45,1	50,5	50,4	56,1	46,9	53,3	50,2	55,3	
Total	100	100	100	100	100	100	100	100	100	100	100	100	

¹ United Kingdom: value-added at factor cost (other countries at market prices).² Industries 3, 4, 5, 6.

Source: see Table 27.

fundamental industries—for example in the interests of its own industry, domestic consumption or exports—by leaving to apparently better-placed countries a monopoly of development of certain activities: Italy and the Netherlands acquired steel industries, Belgium and France built up their equipment industries, and Germany and the United Kingdom developed powerful food production and processing industries.

However, the salient factor in the convergent movement of the patterns of the economies is the build-up of trade, in the first instance trade with other Community countries, and then with all other countries, as the Community gradually reduced its tariffs to reach a point at which it is now probably the world's least protected economic area.

The dismantling of barriers to trade undoubtedly had a generally favourable impact, since *per capita* income grew at a spectacular rate throughout the Community and was all the more rapid the faster the growth of trade. The country whose trade grew least fast—the United Kingdom—was also the country which came last in the growth table and last in the income expansion table.

The opening up of economies to trade exercised on the principal sectors engaged in trade a constraint of competitiveness which limited the growth of costs of production. The rate of inflation progressed less rapidly in industry in general and in those sectors most open to trade in particular. This low rate of inflation was made possible by a constant rationalization which thus implies a rapid growth in labour productivity. Faced with this constraint, the creation of employment in industry could only be achieved in those sectors in which expansion was sufficiently rapid to ensure at the same time large gains in productivity and a growth in employment. Therefore, the balance of the creation of employment in industry between 1960 and 1973 was weak and almost zero for some countries, with an overall deterioration since 1970 (except in France and Italy). As shown in Table 33 the share of employment in manufacturing industry has remained stable in the majority of countries with the exception of the UK where it registered a net decline.

The other key feature of change in the European economies is the growing share accounted for by service industries, both in respect of numbers employed (see Table 33) and in terms of added-value. As Table 28 shows (changes in added-value at current prices), by 1973 services accounted for between 45 and 55% of overall added-value in the various Member States, compared with 40 to 45% in 1960, although this advance is partly accounted for by faster price increases in the services sector than in the rest of the economy. The vigorous

expansion of this sector, a feature of all industrialized countries, is apparently a necessary concomitant of rapid economic expansion: both the growing demand for market and collective services by households and the expansion in the supply of public services were possible because of the steady improvement in individual and collective incomes generated by growth.

At the same time, industrial development was accompanied by increased consumption by firms of services connected with the development of production techniques (R & D, consultant engineering), management techniques (advertising, market research, etc.).

Services grew all the faster because the supply of production factors was ample. Both capital and labour were strongly attracted to these industries. Investment grew in them at a rate higher than that in the economy as a whole and these industries took more than their share of increase in the labour force, especially the increase in the number of women at work.

Lastly, the outstanding feature of developments between 1960 and 1973 in the production facilities of the European countries is the rapid growth of productive capital. Although no accurate measurement, homogeneous from country to country, of capital/labour substitution has yet been carried out, it is reasonable to take the view that at the level of the economy as a whole, capital replaced labour on a large scale (an increase of from 4 to 6% a year, according to country, in the capital per person employed). At the level of individual industries, the capitalization process generally involved a decline in employment in declining industries (agriculture, coal-mining, textiles) but stimulated job creation in growth industries like chemicals and certain market services, but also in building and construction. In the rest of the economy, the substitution rate was lower or below average.

Structural change in demand and production since 1973

The 1973-76 period was one of flagging growth throughout the industrial economies, of declining world trade, of sharp increases in energy costs, of a marked decline in the investment rate, and of persisting inflation in several countries; it was also one during which many industries ran into exceptionally serious difficulties. Those hardest hit included steel, certain branches of textiles, shipbuilding, and paper and printed material, whilst building and construction, which had already been declining in relative terms in several countries even before the crisis, suffered severe setbacks in all the countries.

These are all important industries from the points of view of production and employment, and there is no doubt that the problems they had to contend with helped to aggravate the general crisis besetting the European economies. The combined impact of developments having little or no relation to each other, such as population trends in Europe (helping to reduce the demand for new building), the need to contain public-sector deficits in several member countries (which tended to inhibit the expansion of public investment), new competition from countries undergoing rapid industrialization, and the renewed competitive vigour of the Community's main trading partners (United States and particularly Japan) exerted a depressive effect on all the European economies which tended to aggravate the general climate of crisis.

But the accumulation of sectoral difficulties only in part accounts for the recession. This is true in the first place because many of these difficulties were in fact the result of flagging demand and would therefore be tempered or disappear altogether with a recovery; secondly, the decline or actual disappearance of industries is a phenomenon inherent in the growth process.

In the approach adopted in this study (carried out at the level of about twenty branches for the whole economy), no single industry was found to have been 'spared' by the crisis. Although some industrial sectors made good during the short recovery of 1976, some of the production losses suffered in preceding years, those which were able to keep up to the long-term growth-rate recorded between 1960 and 1973 were few in number (see Table 29).

Slower growth meant narrower disparities between the growth-rates for the various industries. Thus, the process of steady change in the structure of the production facilities resulting from widely differing growth-rates during the ten years preceding the crisis slowed down sharply, and the pace at which the industrial structures of the European economies were tending to come into line therefore also slowed down.

Within manufacturing industry, the hierarchy of industries arranged according to growth-rates also changed appreciably. For example, the food industries sector, whose performance was only average or poor during the 1960-73

Table 29

Annual rates of growth of value-added by sector (1970-prices)

	D			F			I			UK			NL			B		
	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976
1. Agr. prod.	1,4	3,8	-1,9	1,9	2,6	-4,4	1,9	-0,1	0,6	2,7	3,5	-3,1	3,0	4,9	1,8	1,2	3,1	-7,5
2. Energy prod.	4,2	5,3	-0,6	7,4	6,1	3,8	7,5	5,4	0,6	1,9	3,3	0,9	10,2	12,5	5,5	6,3	10,8	3,6
3. Interm. prod.	6,0	5,7	0,6	7,0	6,8	0,4	8,0	6,5	3,1	4,1	4,7	-1,9	9,1	8,1	1,4	8,2	8,1	-1,7
4. Equipment prod.	4,3	2,6	1,7	8,6	7,7	5,0	7,0	3,1	1,6	2,6	2,2	-2,4	5,5	3,8	1,9	6,3	8,6	4,7
5. General con. products	4,1	4,3	0,7	5,2	4,8	1,3	6,2	5,5	2,8	2,4	4,4	-3,6	3,9	1,1	-1,1	5,3	7,8	0,4
6. Food products	4,4	3,5	3,7	4,4	5,7	5,6	6,3	4,9	3,2	2,6	2,9	0,5	4,4	4,7	2,8	4,6	4,5	2,7
Total manufact. industry	4,8	3,8	1,5	6,6	6,5	3,3	6,9	5,0	2,6	2,9	3,4	-2,6	5,6	4,5	1,4	6,8	7,6	1,5
7. Building con., civil eng.	4,4	4,6	-4,2	6,8	1,9	2,1	2,7	-0,3	-2,2	2,6	2,2	-5,9	4,9	1,0	-2,1	3,2	2,8	3,4
8. Market services	4,3	3,3	2,0	5,9	6,4	3,4	6,2	4,5	2,8	3,0	4,2	0,7	4,6	4,5	3,5	3,5	4,4	2,8
9. Non-market serv.	4,4	4,2	2,8	3,0	2,8	2,8	2,8	3,6	2,5	0,7	2,3	2,7	4,7	2,6	2,7	5,1	5,2	3,2
Total	4,4	3,9	1,1	5,7	5,4	2,8	5,3	3,8	2,0	2,6	3,5	-0,5	5,1	4,5	2,5	4,7	5,7	2,2

¹ Industries: 3, 4, 5, 6.

Source: For 1960-1973, see Table 27.

For 1970-1973 and 1973-1976, Eurostat, National Accounts, ESA 1970-1976.

period, moved to the top of the growth table in most countries during the recession. On the other hand, the performance of certain industries producing primary products, such as chemicals, whose previous growth had been rapid, was now only average or even below average.

The main features of demand from firms were a slowdown in their consumption of intermediate products, more cautious policies with regard to stocks, and a sharp fall in investment. This was bound to lead to a very poor performance by capital goods industries and inhibit the growth of output of intermediate goods.

Conversely, the maintenance of an appreciable rate of growth of private consumption (in some countries, higher than that of GDP) should have helped industries producing goods for current consumption, as it helped the agri-foodstuffs industries. Given the influence of both external demand and competition from non-member countries, however, these industries performed in almost exactly the opposite manner.

In all member countries, the current consumption goods industries were amongst those worst affected. Internal causes were partly responsible: the firms in these industries were financially more vulnerable, were generally less concentrated and were more affected by the general contraction of markets; there was a continued tendency for private consumption to favour durable goods (motor vehicles, household equipment, etc.), which are classified in the equipment products industries. However, external competition also aggravated the position of many industries by reducing their shares of the European market and more especially of external markets, thus keeping prices down and preventing firms from correcting, through price increases (which had been possible in the motor vehicle industry) financial positions compromised by weak demand.

The intermediate products industries—steel, chemicals, building materials, etc.—were amongst those hardest hit by the recession. Here again, internal factors alone cannot account for what happened: it was expected that, following a period of adaptation during which existing stocks were used up by firms, the growth of the intermediate products industries would catch up with that of the economy generally (or at least of the manufacturing sector). In fact, this happened in only one country, Italy.

The explanation lies in the trend of external trade in these products. Whereas in the past, the European countries' exports of intermediate products had tended to expand at a rate well above the rate of growth of world trade, their

export performance was much weaker between 1973 and 1976. During the same period, their imports increased at a rate almost equal to that of world trade. Italy, which achieved the best rates of growth in these industries, owed this mainly to its export successes (particularly in the steel industry) and to a much lower import elasticity than that of its partner countries (see Table 30).

On the other hand, the equipment products industries (capital goods and private consumer durables) were least affected by the crisis. Although their rate of growth fell appreciably compared with earlier trends, it remained in each country above that of the economy or industry as a whole. This can be explained only in part by the continuing satisfactory rate of purchases of durable goods by households or by the policies adopted in some countries to boost investment. The main reason was the sharp growth of external demand for capital goods—growth which was maintained for the whole of the Community (extra-Community exports) at about 19.5% per annum in value terms between 1973 and 1976. As trade in capital goods between industrialized countries had been adversely affected by the slowdown in national rates of investment, it was orders from a number of developing countries, from the USSR (increasing by 35% per annum since 1973) and especially from OPEC countries (increasing by 58%) which accounted for this Community export performance. Most European countries especially France and the Benelux countries (see Table 30) shared fully in the export boom. However, the trend was less favourable in the Federal Republic of Germany and the United Kingdom, which, while maintaining substantial surpluses on trade in these products, forfeited part of their shares of the world market (their exports growing at an annual rate of 15.1% and 15.6% respectively, compared with 19.1% for world trade), while imports made substantial progress on their domestic markets (Tables 31 and 32).

In these two countries, external demand therefore compensated only slightly for the depressing effect of the fall in business investment. Germany and the United Kingdom therefore fared worst of the six major European countries in terms of the growth of their equipment products industries and of their economies generally; however, Germany remained on a par with the United States as the leading world exporter.

The analysis of the overall trend of the market services sector does not show any special features during the period 1973-76. Demand for market services is made up largely of intermediate consumption by firms and of final consumption of households. Despite a long-term shift in the pattern of household consumption towards services, the overall growth of the sector remains fairly closely related to that of industrial output. An analysis of the period

Table 30

Growth of foreign trade 1973-1976 (in current USD)

	World trade ¹	(percentages)											
		D		F		I		UK		NL		B	
		Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Agricultural prod.	10,4	9,9	8,6	13,2	6,6	4,7	14,3	8,9	6,8	14,9	17,7	15,0	14,9
Food	10,1	10,8	16,3	11,3	9,4	7,1	14,6	3,4	13,7	16,4	14,6	15,5	12,0
<i>Intermediate prod.</i>	14,2	13,0	13,3	14,2	14,3	11,7	19,7	11,7	11,5	16,4	17,3	13,7	9,4
of which:													
ores, iron, steel	10,9	9,7	11,0	12,1	14,2	9,2	26,9	11,4	6,1	11,4	12,4	10,4	3,5
chemical products	17,2	18,7	14,7	16,5	15,1	15,0	17,2	16,1	17,1	18,3	18,5	18,3	18,5
<i>Equipment prod.</i>	19,1	17,3	15,1	16,4	22,1	12,0	18,9	12,2	15,6	15,1	19,8	14,7	18,3
of which:													
motor veh.	19,5	18,2	14,3	22,9	19,9	17,7	19,4	15,1	13,8	19,5	22,7	18,3	19,2
electrical and electronic equipment	20,3	17,2	15,8	19,1	22,0	11,9	16,7	5,5	21,3	17,2	18,9	14,4	17,4
<i>Current consumption products</i>	13,0	14,2	14,4	17,6	9,0	9,4	17,8	8,0	12,5	17,0	10,9	14,8	9,2
of which:													
Textiles, clothing	10,5	13,5	11,9	16,1	5,4	8,8	14,4	8,8	8,6	16,5	8,0	12,5	8,0

¹ The sum of the total exports of OECD countries + the sum of the imports of these countries from non-OECD countries.

Source: OECD, External Trade Statistics.

1973-76 confirms this close relationship, since in most countries the growth of market services was very close to that of these two aggregated. The trend towards the 'tertiarization' of the economy was therefore not more pronounced during the recession than before.

In the case of non-market services, the changes in volume

terms are not easily interpreted owing to the conventional method of estimating them (this sector is also dealt with in Chapter 6). However, except, perhaps, in the United Kingdom, their rate of growth does not appear to have been much higher than that of GDP. The non-market services sector therefore played only a modest anti-cyclical role in the recession, at least until 1976.

Table 31**Levels of import penetration in industry (imports/production + imports — exports)**

	(percentages)														
	D			F			I			UK			NL		
	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976
Intermediate products	16,2	15,1	18,1	21,4	22,2	25,0	24,9	25,0	:	24,9	27,1	28,7	:	:	:
Equipment products	12,5	13,6	18,3	16,2	18,2	21,0	22,1	23,6	:	14,8	22,3	26,1	:	:	:
Current consumption products	11,3	13,6	16,4	11,5	13,7	16,8	10,8	11,6	:	17,4	19,9	21,9	:	:	:
Food	9,0	9,7	10,6	8,8	10,1	10,7	10,4	15,6	:	15,6	17,0	14,7	18,1	17,8	24,9
Total industry	12,7	13,3	16,3	14,8	16,4	18,9	17,1	18,8	17,9	17,9	21,5	23,0	43,3	42,4	53,7

Table 32**Proportion of production exported in industry (exports/production)**

	(percentages)														
	D			F			I			UK			NL		
	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976
Intermediate products	18,3	19,9	23,8	20,5	20,9	23,7	15,5	18,1	:	23,5	28,0	29,6	:	:	:
Equipment products	28,1	32,0	38,8	18,5	20,3	26,1	31,0	22,9	:	27,2	29,1	35,6	:	:	:
Current consumption products	8,4	10,0	12,2	11,9	13,9	14,0	18,2	17,1	:	13,6	12,6	15,5	:	:	:
Food	2,8	4,5	5,7	8,4	11,5	11,5	3,9	4,9	:	5,6	6,6	+0,3	30,1	28,8	37,1
Total industry	17,0	19,3	23,4	15,4	17,2	20,1	18,1	15,8	20,9	19,0	20,3	23,7	40,0	42,8	54,4

Note: Production is defined here as: value-added plus intermediate consumption.

Source: OECD External Trade Statistics, national sources and Commission staff estimates.

Structural change in employment and labour productivity since 1973

The generally very unfavourable employment trend and the resultant unemployment have been the most serious aspects of the recession. Table 33 pinpoints two main factors—both linked to the slowdown in growth—which have contributed to the general increase in the number of unemployed: the reduction in the numbers employed in industry and in building and construction and the sharp deceleration in the rate of growth of jobs in the tertiary sector. Although it has caught the public eye much less

than the situation in industry, the slowdown in the growth of jobs in the tertiary sector has had at least as marked a quantitative impact on the disequilibrium of employment generally. The unfavourable employment trends which were already discernible before the recession were thus accentuated during the period 1973-76. Since the very beginning of the 1970s, only the tertiary sector had been a net creator of jobs in the Community as a whole. Despite the remarkable growth of manufacturing industry during the period 1970-73, the number of jobs in this sector was already declining (except in Italy and France where the rate of growth of GDP was strongest).

During the recession, the number of jobs in industry had to be adjusted, with time-lags and to varying extents according to country and industry, to the downward trend of production. The redundancies were heaviest—and came most rapidly—in Germany, where the number of wage and salary-earners in industry fell very sharply (by 3,7% per annum between 1973 and 1976) and where labour productivity (measured by the value-added per employee) not only did not slacken, but actually increased at a sharper rate than in previous years (see Table 34). A similar movement was observed in Belgium and the Netherlands, where productivity in industry forged ahead (at a rate of between 4½% and 5% per annum), entailing heavy losses of jobs (3,7% and 1,6% respectively). Owing to a still fairly rapid growth of industry in France, the productivity performance there remained fairly good (4,3% per annum), with relatively few job losses (1% per annum), whereas in the United Kingdom employment and labour productivity fell (by 2,5% and 0,1% per annum respectively). In Italy, however, the position was the opposite of that in Germany: with an almost identical rate of growth in industry, the number of jobs continued to increase, while labour productivity fell.

Structural factors, such as the varying mobility of labour or the capacity for adapting the industrial apparatus, certainly contributed to these great differences in the adjustment of industrial employment. Assessments of the scale of the crisis and expectations regarding recovery probably varied from one country to the next. However, the revaluation of the German, Belgian and Dutch currencies undoubtedly acted as a constraint on industry in these countries and as an incentive to managements to seek a high rate of labour productivity, so that employment necessarily suffered.

The retention of labour was most marked in the intermediate products sector, particularly in the ores and steel branch. In all European countries, output fell so sharply that, in spite of heavy redundancies, productivity per employee marked time or increased very slowly. In most countries, therefore, there were extensive reserves of productivity available in these industries at the end of 1976.

Conversely, in the branches producing goods for current consumption, employment levels were adjusted very

Table 33

Annual rates of growth of employment by sector

	(percentages)																	
	D			F			I			UK			NL			B		
	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976
1. Agricultural products	-4,6	-3,9	-2,1	-3,9	-4,2	-4,0	-5,3	-4,0	-2,8	-3,6	-3,0	-2,8	-3,1	-2,1	-1,5	-5,8	-6,1	-3,9
2. Energy products	-3,0	-2,5	1,4	-1,0	-2,3	-0,5	2,1	-0,6	3,5	-3,4	-4,7	-0,7	-3,7	-2,9	-3,2	-5,6	-2,8	-3,1
3. Intermediate products	-0,3	-0,9	-3,2	0,8	0,9	-0,7	0,6	0,2	1,8	-0,6	-2,5	-2,2	1,8	:	:	-0,1	-1,1	-1,7
4. Equipment products	1,3	-0,1	-3,4	2,2	2,2	0,0	3,3	1,9	1,7	-0,2	-2,4	-2,3	1,0	:	:	2,2	1,2	-1,8
5. Current consumption products	-1,2	-1,6	-5,3	-0,1	0,2	-2,5	0,1	-0,8	0,0	-1,0	-1,6	-3,1	-1,7	-4,8	-5,2	-0,1	-0,4	-5,3
6. Food	-0,2	-1,0	-2,0	-0,2	0,0	-0,6	0,1	-0,8	0,1	-0,2	-1,6	-1,8	-0,5	-1,3	-2,8	-0,9	-1,1	-2,8
Total manufacturing industry ¹	0,3	-0,7	-3,7	0,6	1,1	-1,0	1,3	0,2	0,8	0,1	-2,1	-2,5	0,9	-2,1	-2,6	-0,7	-0,1	-3,1
7. Building and civil engineering	0,3	-0,2	-7,4	1,8	-0,4	-2,0	-0,1	-4,2	-1,3	-0,7	3,3	-3,4	1,4	-2,2	-2,5	1,2	-1,5	1,3
8. Market services	0,9	+1,6	-0,7	2,9	2,6	1,7	1,2	1,5	2,4	1,4	1,1	-0,3	2,4	1,5	1,0	1,1	2,5	1,5
9. Non-market services	2,5	3,2	2,3	2,1	2,1	1,2	2,8	3,0	2,3	1,6	2,7	3,0	1,2	1,8	1,7	2,4	1,9	1,2
Total	0	0,6	-1,9	0,9	0,9	-0,1	-0,4	-0,2	0,8	0,2	0,3	-0,4	0,9	-0,1	-0,3	0,7	0,7	-0,2

¹ Branches 3, 4, 5, 6.
Source: see Table 29.

Table 34

Annual rates of growth of value-added per person employed, by industry (1970 prices)

	(percentages)																	
	D			F			I			UK			NL			B		
	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976	1960-1973	1970-1973	1973-1976
1. Agricultural products	6,3	7,9	0,3	6,3	7,1	-0,4	6,9	4,0	3,5	6,9	6,7	-0,3*	6,2	7,1	3,4	5,3	9,8	-3,7
2. Energy products	7,5	8,0	-2,0	6,6	8,7	4,4	4,4	6,0	-2,8	5,5	8,4	1,6	14,4	15,8	9,0	17,8	13,9	6,9
3. Intermediate products	6,2	6,7	4,0	6,6	5,8	1,1	6,8	6,2	1,3	3,8	7,3	0,3	7,3	:	:	7,7	9,3	0,0
4. Equipment products	3,3	2,7	5,3	6,8	5,4	5,0	3,2	1,2	-0,1	2,5	4,7	-0,2	4,6	:	:	6,7	7,3	6,6
5. Current consumption products	5,0	6,0	6,4	5,7	4,5	3,8	5,8	6,4	2,8	3,2	4,6	2,4	4,9	6,1	4,4	4,5	8,3	6,0
6. Food	5,0	4,5	5,8	4,8	5,8	6,3	5,8	5,7	3,1	2,7	3,4	-0,5	4,9	6,2	5,8	4,5	5,7	5,7
Total manufacturing industry ¹	4,5	4,6	5,5	6,0	5,4	4,3	5,6	4,8	1,8	3,0	5,6	-0,1	6,5	6,8	4,1	6,1	7,8	4,7
7. Building and civil engineering	3,3	4,9	3,5	4,9	2,4	4,2	2,9	4,0	-1,0	2,2	-1,1	-2,6	3,3	3,3	0,5	2,8	4,3	2,1
8. Market services	3,4	1,7	2,8	3,0	3,8	1,7	4,4	3,0	0,4	1,6	3,0	0,4	2,2	3,0	2,4	2,4	1,9	1,3
9. Non-market services	1,8	1,0	0,5	0,9	0,8	1,5	:	0,5	0,2	:	-0,4	-0,2	3,4	0,8	1,0	3,1	3,3	1,9
Total	4,2	3,3	3,1	4,9	4,5	2,9	5,2	4,1	1,2	2,2	3,3	-0,1	4,3	4,6	2,8	4,2	4,9	2,4

¹ Branches 3, 4, 5, 6.

Source: see Table 29.

rapidly and labour productivity maintained a good rate of increase, especially in Germany and Belgium. These differences of behaviour must be attributed to the varying sizes of firms in the various industries. In the intermediate products industries, more dominated than others by large firms, the opportunities for borrowing or for attracting subsidies enabled managements (frequently backed by the authorities and under pressure from the unions, which tend to be relatively stronger in big firms) to hoard labour they might otherwise have shed. There was less room for manoeuvre in the consumer industries, where there are

many more small firms, which had either to rationalize or go out of business altogether.

In the equipment products industries, the same differences occurred between countries as for industry generally. Germany and Belgium (no figures are available for the Netherlands) seem to have given priority to maintaining productivity improvements, whereas productivity fell in Italy and the United Kingdom, although in the latter country numbers employed also fell sharply.

Statistical Annex

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Annex - Table 1

GDP 1958-1978, '000 millions national currencies, at current prices

	DK	D	F	IRL	I ¹	NL	B	L	UK
1958	34,477	246,628	244,380	0,557	18,758	35,010	506,564	22,817	22,797
1959	38,085	264,908	264,987	0,598	19,772	36,819	522,483	23,259	23,923
1960	41,098	302,800	296,506	0,634	21,632	41,840	557,018	25,574	25,489
1961	45,616	331,800	323,459	0,683	24,118	44,173	592,441	25,058	27,209
1962	51,387	360,880	361,164	0,739	27,117	47,554	633,714	26,648	28,486
1963	54,705	382,470	404,881	0,794	31,053	51,592	681,300	28,068	30,276
1964	62,529	420,280	449,157	0,904	33,941	60,708	762,525	32,394	33,047
1965	70,251	459,270	483,488	0,962	36,530	67,802	829,955	33,688	35,521
1966	76,798	488,340	523,416	1,015	39,521	73,829	892,114	35,011	37,850
1967	84,597	494,460	565,389	1,109	43,517	80,997	955,350	35,442	39,960
1968	94,101	534,900	614,517	1,251	46,953	89,811	1 022,336	38,879	43,146
1969	107,389	596,950	700,689	1,445	51,691	101,715	1 134,165	45,169	46,109
1970	119,067	578,750	782,560	1,620	57,937	114,573	1 262,110	53,395	50,724
1971	131,633	754,880	872,433	1,854	63,056	129,650	1 382,972	55,144	56,826
1972	151,484	825,990	981,115	2,220	69,080	146,730	1 542,627	61,404	62,881
1973	174,634	918,600	1 114,200	2,681	82,503	168,110	1 751,922	75,521	71,963
1974	193,969	987,130	1 278,302	2,930	101,723	190,290	2 057,045	91,452	81,932
1975	215,666	1 030,020	1 450,932	3,664	115,072	209,690	2 262,781	84,521	103,139
1976	248,982	1 125,400	1 669,308	4,492	143,849	237,990	2 577,300	92,681	121,978
1977	276,243	1 198,500	1 870,341	5,380	172,988	261,120	2 791,200	98,529	139,789
(1978)	302,800	1 277,100	2 121,300	6,272	200,850	280,300	2 972,600	105,498	157,660

¹ Italy: '000 billions LIT.

Annex - Table 2

GDP 1958-1978, '000 millions EUA, at current prices and exchange rates

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	4,551	53,543	52,980	1,423	27,366	8,401	9,238	0,416	58,203	216,122
1959	5,220	59,717	50,817	1,585	29,952	9,174	9,894	0,440	63,420	230,219
1960	5,633	68,259	56,861	1,683	32,769	10,425	10,548	0,484	67,571	254,233
1961	6,188	77,030	61,383	1,793	36,154	11,331	11,101	0,470	71,379	276,828
1962	6,954	84,333	68,380	1,934	49,556	12,279	11,847	0,498	74,556	301,340
1963	7,493	89,379	76,658	2,079	46,443	13,322	12,737	0,525	79,241	327,786
1964	8,462	98,214	85,040	2,376	50,762	15,676	14,255	0,606	86,494	361,877
1965	9,507	107,326	91,541	2,518	54,634	17,508	15,516	0,630	92,969	392,148
1966	10,393	114,119	99,100	2,659	59,108	19,064	16,678	0,655	99,065	420,841
1967	11,397	116,091	107,549	2,062	65,389	21,013	17,944	0,666	103,082	445,993
1968	12,195	129,971	120,976	2,919	73,016	24,113	19,873	0,756	100,643	484,462
1969	14,008	148,265	132,449	3,394	80,910	27,488	22,191	0,884	108,259	537,879
1970	15,530	181,417	137,381	3,804	90,683	30,962	24,693	1,045	119,090	605,055
1971	16,979	207,063	151,145	4,326	97,397	35,448	27,188	1,084	132,590	673,220
1972	19,448	230,929	173,428	4,945	105,584	40,759	31,252	1,244	140,065	747,656
1973	23,548	280,365	203,777	5,337	115,154	49,033	36,650	1,580	143,261	858,705
1974	26,720	320,131	222,939	5,747	131,130	59,424	44,333	1,971	160,713	973,108
1975	30,279	337,779	272,771	6,544	142,144	66,889	49,656	1,855	184,168	1 092,085
1976	36,822	399,722	312,320	7,223	154,651	80,534	59,708	2,147	196,293	1 249,420
1977	40,294	452,553	333,628	8,230	171,822	93,254	68,274	2,410	213,842	1 384,307
(1978)	43,161	497,008	369,568	9,516	188,176	101,571	74,012	2,627	239,213	1 525,190

Annex - Table 3

GDP per capita 1958-1978, EUA, at current prices and exchange rates

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	1 008	986	1 183	499	553	751	1 024	1 337	1 122	947
1959	1 148	1 088	1 123	557	601	808	1 091	1 407	1 216	1 000
1960	1 230	1 231	1 245	594	653	908	1 157	1 538	1 286	1 095
1961	1 340	1 371	1 330	636	716	974	1 211	1 473	1 348	1 181
1962	1 496	1 484	1 455	684	798	1 041	1 285	1 544	1 396	1 272
1963	1 580	1 557	1 603	730	907	1 114	1 372	1 612	1 476	1 370
1964	1 793	1 694	1 760	826	984	1 293	1 522	1 835	1 601	1 500
1965	1 998	1 831	1 877	876	1 051	1 424	1 642	1 891	1 710	1 611
1966	2 167	1 929	2 016	922	1 129	1 531	1 754	1 955	1 813	1 716
1967	2 355	1 958	2 171	987	1 242	1 668	1 878	1 986	1 877	1 808
1968	2 506	2 184	2 424	1 002	1 378	1 895	2 072	2 246	1 825	1 954
1969	2 864	2 468	2 632	1 159	1 518	2 135	2 309	2 611	1 955	2 154
1970	3 151	2 991	2 715	1 289	1 690	2 376	2 562	3 077	2 145	2 406
1971	3 421	3 379	2 949	1 453	1 803	2 687	2 811	3 142	2 380	2 657
1972	3 896	3 745	3 354	1 641	1 940	3 058	3 218	3 573	2 506	2 931
1973	4 689	4 524	3 910	1 749	2 097	3 649	3 762	4 480	2 557	3 346
1974	5 296	5 159	4 250	1 860	2 366	4 388	4 537	5 515	2 867	3 775
1975	5 984	5 463	5 775	2 093	2 546	4 897	5 067	5 176	3 286	4 226
1976	7 258	6 496	5 905	2 284	2 753	5 847	6 081	6 024	3 504	4 828
1977	7 909	7 371	6 286	2 575	3 043	6 731	6 942	6 788	3 822	5 340
(1978)	8 446	8 139	6 942	2 955	3 316	7 288	7 506	7 400	4 280	5 879

Annex - Table 4

GDP volume growth 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	2,6	3,4	3,0	-2,1	4,9	-1,0	-0,7	—	0,4	2,2
1959	6,4	6,6	2,6	4,5	6,1	3,9	2,3	3,8	3,8	4,7
1960	6,6	10,5	7,6	5,8	6,7	9,9	5,8	5,6	5,0	7,7
1961	6,4	5,1	5,6	5,0	8,2	2,9	5,0	3,4	3,3	5,1
1962	5,7	4,4	6,7	3,2	6,2	4,3	5,2	1,6	1,0	4,4
1963	0,6	3,0	5,2	4,8	5,6	3,3	4,4	2,2	3,9	4,0
1964	9,3	6,7	6,2	3,8	2,6	8,6	7,0	7,3	5,6	5,9
1965	4,6	5,6	4,8	1,9	3,2	5,3	3,6	1,8	2,3	4,2
1966	2,7	2,5	5,3	0,9	5,8	2,8	3,2	1,7	1,9	3,5
1967	4,7	-0,2	4,7	5,8	7,0	5,3	3,9	0,2	2,6	3,1
1958-1967	5,0	4,8	5,2	3,1	5,6	4,5	4,0	3,0	3,0	4,5
1968	4,2	6,3	4,3	8,2	6,3	6,7	4,2	4,1	3,4	5,1
1969	6,9	7,8	7,2	5,9	5,7	6,8	6,6	8,3	1,4	5,9
1970	2,6	6,0	5,9	3,2	5,0	6,9	6,4	2,8	2,5	5,1
1971	2,4	3,2	5,4	4,1	1,6	4,4	4,1	4,5	2,8	3,5
1972	5,5	3,7	5,9	5,7	3,1	3,9	5,6	6,2	2,4	4,0
1973	5,2	4,9	5,4	4,6	6,9	5,9	6,5	11,3	6,6	5,8
1974	0,6	0,5	2,8	2,1	4,2	4,2	4,7	5,0	-0,6	1,7
1975	-1,2	-2,1	0,3	1,2	-3,5	-0,9 (b)	-2,1	-11,0	-1,6	-1,6
1976	6,3	5,6	4,6	2,9	5,7	4,5 (b)	5,7	2,9	2,6	4,7
1977	1,8	2,8	3,0	5,5	1,7	2,4 (b)	1,3	1,3	0,7	2,2
1968-1977	3,4	3,9	4,5	4,0	3,7	4,5	4,3	3,4	2,0	3,6
(1978) (c)	0,3	2,7	3,0	6,0	2,2	1,9	2,0	2,5	3,2	2,6

Annex - Table 5
Industrial production (a) 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	3,0	2,6	4,0	3,0	3,6	2,2	-4,7	-4,3	-1,3	1,7
1959	11,5	7,1	1,1	8,8	10,6	8,7	4,6	4,5	5,2	5,7
1960	8,7	11,7	8,9	6,9	16,7	10,0	6,8	9,0	6,8	10,1
1961	5,1	6,1	5,5	8,5	9,5	3,6	6,2	2,9	0,0	4,8
1962	8,9	8,4	5,1	7,2	7,8	3,5	5,7	-4,2	1,1	5,7
1963	1,3	3,5	6,0	5,9	7,8	5,1	7,4	1,0	4,0	4,8
1964	11,7	7,8	6,2	7,6	1,3	9,7	6,5	9,2	7,9	6,8
1965	6,6	5,3	1,6	4,2	3,8	4,4	2,5	0,8	3,3	3,8
1966	2,9	1,2	5,9	3,2	12,0	4,2	2,0	-3,2	1,4	3,6
1967	3,9	-2,6	2,4	7,9	8,9	2,7	1,8	-0,6	0,2	1,1
1958-1967	6,4	5,1	4,7	6,3	8,2	5,4	3,9	1,5	2,9	4,8
1968	7,4	9,4	3,5	10,5	6,7	9,2	5,5	6,0	6,7	7,0
1969	12,4	12,9	10,9	7,2	3,0	10,8	9,7	12,8	3,3	9,0
1970	2,5	6,2	5,6	4,4	6,4	8,7	3,1	0,5	0,5	4,9
1971	2,4	1,5	6,4	3,7	-0,5	6,0	1,7	-1,3	-0,2	2,3
1972	4,4	4,1	5,5	4,2	4,9	4,7	7,5	4,2	2,2	4,4
1973	3,4	7,1	6,7	9,9	9,7	7,2	6,2	12,0	8,2	7,4
1974	-1,1	-1,1	2,5	2,9	3,9	5,0	4,0	3,5	-1,8	0,6
1975	-5,7	-6,2	-7,2	-6,1	-8,8	-4,8	-9,8	-21,9	-4,9	-6,6
1976	11,4	7,4	8,6	8,5	11,6	5,9	7,7	6,3	1,1	7,3
1977	0,3	2,8	1,6	8,1	0,0	0,8	0,0	0,5	1,7	1,7
1968-1977	3,5	4,5	4,4	5,3	3,7	5,4	3,6	2,3	1,7	3,8
(1978)	1,0	2,2	4,0	10	1	0	1,5	3,6	2,1	2,3

Annex - Table 6
GDP price deflator 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	1,8	3,4	11,8	5,8	2,5	1,8	1,5	—	4,0	4,8
1959	3,6	0,8	5,7	2,7	-0,7	1,2	0,8	-1,8	1,1	1,7
1960	1,8	3,4	4,0	0,3	2,5	3,4	0,7	4,1	1,5	2,8
1961	4,3	4,3	3,3	2,5	3,1	2,6	1,3	-5,2	3,3	3,4
1962	6,6	4,2	4,6	4,8	5,9	3,2	1,7	4,7	3,7	4,3
1963	5,8	2,9	6,6	2,6	8,5	5,0	3,0	3,1	2,3	4,5
1964	4,6	3,0	4,5	9,7	6,5	8,4	4,6	7,6	3,3	4,3
1965	7,4	3,5	2,7	4,4	4,3	6,1	5,1	2,2	5,1	4,1
1966	6,8	3,7	2,8	4,7	2,3	5,9	4,2	2,2	4,6	3,7
1967	5,2	1,4	3,1	3,2	2,9	4,1	3,1	1,0	2,9	2,6
1958-1967	4,8	3,1	4,9	4,1	3,8	4,2	2,6	2,0	3,2	3,6
1968	6,8	1,8	4,2	4,2	1,5	3,9	2,7	5,4	4,4	3,1
1969	6,8	3,5	6,4	9,1	4,2	6,1	4,0	7,3	5,4	4,9
1970	8,1	7,3	5,4	8,6	6,8	5,4	4,6	15,0	7,3	6,6
1971	8,0	7,7	5,8	9,9	7,2	8,4	5,2	-1,1	9,0	7,3
1972	9,1	5,6	6,2	13,2	6,2	8,9	5,6	4,8	8,0	6,6
1973	9,6	6,0	7,7	15,5	11,7	8,2	6,8	10,5	7,4	7,9
1974	10,4	6,9	11,6	7,1	18,3	8,6	12,1	15,4	14,6	11,6
1975	12,5	6,7	13,2	23,6	17,2	11,2 (b)	13,0	3,8	27,9	14,7
1976	8,6	3,4	10,0	19,1	18,2	8,6 (b)	7,3	6,6	15,3	10,1
1977	9,0	3,6	8,7	13,6	18,3	7,2 (b)	6,8	5	14,0	9,5
1968-1977	8,9	5,3	7,9	12,4	11,0	7,6	6,8	7,3	11,3	8,2
(1978) (c)	9,5	3,8	10,1	10,0	13,6	5,4	4,4	4,4	9,3	7,7

Annex - Table 7

Consumer prices 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	0,5	2,5	12,1	3,8	2,3	1,6	0,1	:	2,7	4,3
1959 (a)	2,5	1,0	5,8	0,4	-0,7	1,2	-0,3	:	1,0	1,8
1960 (a)	2,9	1,0	3,6	0,9	1,4	2,5	2,4	:	1,1	1,7
1961	3,6	3,6	3,1	2,4	2,1	2,1	2,7	0,5	2,9	3,0
1962	6,2	3,2	4,2	3,5	5,6	2,7	1,0	0,9	3,9	3,8
1963	5,7	2,9	5,7	2,2	7,4	3,9	3,7	2,9	1,8	4,0
1964	4,0	2,6	3,7	7,4	5,2	6,9	4,1	3,1	3,5	3,8
1965	6,1	3,4	2,4	4,9	3,9	4,1	4,6	2,7	5,0	3,8
1966	6,5	3,8	3,0	3,1	2,9	5,5	4,1	3,3	4,1	3,7
1967	6,0	1,7	3,0	3,1	2,9	3,1	2,5	2,2	2,8	2,6
1958-1967	4,4	2,6	4,7	3,2	3,3	3,4	2,5	2,2	2,9	3,3
1968	6,9	1,8	5,0	4,7	1,6	2,8	2,9	2,5	4,7	3,3
1969	6,0	2,3	6,8	7,4	2,9	6,5	2,9	2,3	5,6	4,4
1970	7,3	3,5	4,7	8,2	5,4	4,4	2,5	4,6	6,0	4,9
1971	7,0	5,4	5,5	8,9	5,8	8,1	4,9	4,6	8,5	6,4
1972	7,9	5,6	5,9	8,7	6,5	8,4	4,8	4,8	6,7	6,2
1973	9,8	7,1	6,9	11,3	12,2	8,9	5,8	5,5	8,2	8,3
1974	12,3	7,0	13,4	17,0	21,0	9,7	12,2	9,5	16,5	13,2
1975	9,5	6,2	11,7	20,9	17,6	10,7 (b)	12,1	10,7	23,6	13,4
1976	10,1	4,5	9,9	18,0	17,9	9,2 (b)	7,7	9,8	15,5	10,7
1977	10,1	3,8	9,1	13,6	18,0	6,8 (b)	6,6	6,7	14,2	9,9
1968-1977	8,7	4,7	7,9	12,6	10,9	7,5	6,2	6,1	11,0	8,1
(1978) (c)	9,0	2,5	9,2	8,0	12,5	4,4	4,0	3,1	8,6	6,9

Annex - Table 8

Private consumption in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	67,8	62,8	63,2	84,4	67,8	60,6	68,5	59,4	66,7	65,0
1959	66,1	61,6	62,5	80,2	66,6	60,0	69,5	60,3	66,8	64,3
1960	65,9	59,8	61,4	80,5	65,9	58,3	68,7	56,2	66,1	63,2
1961	65,9	59,7	61,6	79,0	64,7	59,4	67,4	60,4	65,1	62,7
1962	65,6	59,5	61,8	78,3	64,7	60,1	66,3	59,9	65,9	62,9
1963	65,2	59,7	62,4	77,6	65,8	61,6	66,7	61,2	65,8	63,2
1964	64,1	58,5	61,4	76,3	65,1	59,0	63,7	59,3	64,2	62,0
1965	62,6	59,1	61,0	75,9	64,9	58,9	63,8	61,1	63,7	61,8
1966	60,1	59,7	61,0	75,2	66,1	58,5	63,4	61,8	63,3	62,0
1967	60,3	60,9	61,1	73,7	66,0	57,6	62,4	62,1	63,1	62,3
1958-1967	64,3	60,3	61,7	78,1	65,8	59,4	66,0	60,1	65,1	62,9
1968	59,2	60,0	61,2	74,2	65,1	56,6	63,3	60,8	62,9	61,8
1969	57,7	59,2	61,2	72,6	64,5	56,8	61,8	55,9	62,6	61,3
1970	57,4	57,7	60,2	70,9	65,0	56,7	59,4	51,9	62,0	60,4
1971	55,6	57,9	60,6	69,7	65,1	56,2	59,7	55,6	61,8	60,4
1972	53,2	58,3	60,5	66,3	65,5	56,0	59,5	54,7	63,0	60,6
1973	54,3	57,7	60,1	64,6	65,1	55,4	59,8	47,5	62,3	60,0
1974	54,6	58,2	61,2	68,3	65,6	55,2	59,1	45,8	63,2	60,6
1975	55,7	61,3	62,0	64,6	67,3	57,4	60,6	58,2	61,5	61,9
1976	56,1	60,9	62,3	63,6	65,7	56,5	61,3	59,2	60,5	61,4
1977	56,2	61,3	62,1	63,2	65,8	57,2	60,0	60,0	60,0	61,5
1968-1977	56,0	59,2	61,1	67,7	65,5	56,4	60,4	54,7	62,0	61,0
(1978)	55,8	61,1	61,9	63,2	65,1	57,6	59,7	58,8	61,1	61,3

Annex - Table 9

Public consumption in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	12,8	10,6	13,1	12,6	12,1	14,3	11,9	11,9	16,3	13,2
1959	12,5	10,7	13,6	12,4	12,2	13,4	12,4	10,8	16,5	13,3
1960	12,3	10,7	13,0	12,4	12,2	13,4	12,4	9,6	16,5	13,2
1961	13,8	11,1	13,1	12,5	12,0	14,0	11,9	9,9	16,7	13,3
1962	14,1	11,9	13,3	12,5	12,4	14,5	12,3	10,7	17,1	13,7
1963	14,3	12,6	13,4	12,7	13,3	15,4	13,0	12,1	16,9	14,1
1964	14,4	11,9	13,3	13,3	13,7	15,5	12,5	10,6	16,5	13,8
1965	15,1	12,7	13,1	13,6	14,5	15,5	12,8	10,6	16,8	14,1
1966	17,3	12,1	13,0	13,6	14,2	15,9	13,1	11,2	17,2	14,1
1967	18,0	12,6	13,0	13,3	13,6	16,2	13,5	11,7	18,0	14,4
1958-1967	14,4	11,6	13,2	12,9	13,0	14,8	12,6	10,9	16,8	13,7
1968	18,7	11,8	13,5	13,3	13,6	15,9	13,6	11,7	17,7	14,2
1969	18,9	12,0	13,3	13,5	13,3	16,0	13,6	10,7	17,3	14,0
1970	20,0	12,1	13,4	14,8	12,7	16,3	13,4	10,0	17,7	14,1
1971	21,3	12,8	13,4	15,4	14,1	16,7	14,1	11,0	18,0	14,7
1972	21,3	12,8	13,2	15,6	14,6	16,7	14,5	11,2	18,5	14,7
1973	21,0	13,2	13,2	16,1	14,0	16,3	14,5	10,3	18,4	14,6
1974	23,0	14,1	13,6	18,1	13,5	17,0	14,6	10,7	20,2	15,4
1975	24,7	14,6	14,4	19,5	13,8	18,4	16,5	14,2	22,1	16,3
1976	24,0	14,0	14,6	19,5	13,2	18,3	16,5	14,4	21,8	16,0
1977	24,0	13,9	14,9	19,2	13,7	18,5	16,7	15,3	21,0	15,9
1968-1977	21,6	13,1	13,7	16,3	13,6	17,0	14,8	11,8	19,2	15,0
(1978)	24,0	13,8	14,9	19,2	14,2	18,6	17,2	15,4	20,2	15,9

Annex - Table 10

Fixed investment in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	17,3	22,4	20,3	14,2	20,8	23,0	17,0	22,9	15,7	19,6
1959	18,8	23,6	20,1	13,9	21,1	23,8	17,8	22,3	15,9	20,0
1960	19,4	24,3	20,1	14,3	22,3	24,0	19,3	21,3	16,4	20,6
1961	20,9	25,2	21,2	16,2	22,9	24,7	20,7	25,3	17,3	21,6
1962	20,8	25,7	21,4	17,8	23,2	24,4	21,3	26,8	17,0	21,8
1963	19,8	25,5	22,1	19,5	23,6	23,7	20,7	31,4	16,7	21,9
1964	22,0	26,6	22,9	20,4	21,9	25,4	22,4	34,9	18,3	22,7
1965	21,7	26,1	23,3	21,3	19,0	25,0	22,4	29,2	18,3	22,3
1966	23,7	25,4	23,7	19,7	18,5	26,1	22,9	28,0	18,3	22,2
1967	23,9	23,1	23,8	19,7	19,2	26,2	22,9	25,1	18,8	21,8
1958-1967	20,7	24,8	21,8	17,5	21,2	24,6	20,6	26,4	17,2	21,4
1968	23,0	22,5	23,3	20,8	20,2	26,8	21,5	23,0	19,0	21,7
1969	24,4	23,4	23,4	23,2	20,9	24,5	21,3	23,1	18,7	22,0
1970	24,7	25,6	23,4	22,6	21,3	25,7	22,7	23,7	18,7	22,8
1971	24,4	26,4	23,6	23,8	20,3	25,8	22,1	28,9	18,6	23,0
1972	24,9	25,9	23,7	23,4	19,7	23,7	21,4	27,6	18,6	22,8
1973	25,4	24,5	23,8	25,3	20,8	23,0	21,5	25,2	19,7	22,8
1974	24,7	21,9	24,3	26,1	22,4	21,8	22,7	24,4	20,7	22,4
1975	22,1	20,8	23,2	23,4	20,6	21,0	22,6	27,8	20,0	21,4
1976	24,2	20,7	23,3	24,5	20,0	19,7	22,0	26,9	19,2	21,1
1977	23,3	20,8	22,6	25,9	19,8	20,8	21,6	28,0	18,2	20,9
1968-1977	24,1	23,2	23,5	23,9	20,6	23,2	21,9	26,2	19,1	22,1
(1978)	21,9	21,4	22,1	27,2	18,9	21,0	21,4	27,6	17,8	20,7

Annex - Table 11

Net stockbuilding in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	-0,5	1,5	3,2	-1,4	0,8	0,3	0,8	1,8	0,5	1,6
1959	2,3	1,5	2,2	4,0	1,0	0,7	0,2	2,0	0,7	1,4
1960	3,6	2,9	3,0	2,0	1,6	3,3	-0,1	-0,3	2,2	2,5
1961	1,4	1,9	1,7	1,4	2,0	2,7	0,5	1,5	1,0	1,6
1962	2,5	1,5	2,3	1,6	1,7	1,5	0	1,4	0	1,3
1963	0,2	0,6	1,5	0,9	1,3	1,1	0,4	0,7	0,5	0,9
1964	1,5	1,4	2,4	1,2	0,5	3,0	1,5	-0,3	2,2	1,8
1965	2,1	2,2	1,6	2,3	0,7	1,9	0,8	0,9	1,4	1,6
1966	0,6	1,0	2,0	0,8	0,9	1,3	1,0	0,6	0,9	1,2
1967	-0,1	-0,2	1,8	-0,4	1,5	0,9	0,4	0,3	0,8	0,8
1958-1967	1,3	1,4	2,2	1,2	1,3	1,7	0,6	0,9	1,0	1,5
1968	0,5	2,0	1,8	1,1	0	0,6	0,9	0,6	1,1	1,3
1969	1,2	2,6	2,6	2,4	0,9	2,4	1,9	0,4	0,9	1,9
1970	1,0	2,3	2,7	1,7	1,8	2,5	1,6	2,1	0,8	2,0
1971	0,6	0,5	1,5	0,4	0,7	1,4	1,5	2,2	0,1	0,8
1972	0,2	0,3	1,9	1,1	0,6	0,7	0,5	2,2	0	0,7
1973	1,4	0,8	2,4	1,8	3,6	1,8	1,2	5,4	1,9	1,8
1974	1,0	0,6	2,4	3,7	4,5	2,9	2,2	3,0	1,4	1,9
1975	-1,5	-0,3	-0,4	-1,2	-0,4	-0,7	-0,7	1,0	-1,3	-0,6
1976	0,6	1,2	1,1	0,7	3,9	1,4	0,4	-0,2	0,3	1,3
1977	0,2	1,9	0,9	0,8	1,4	1,5	0,3	0	0,9	1,0
1968-1977	0,4	1,1	1,7	1,2	1,7	1,4	1,0	1,8	0,6	1,2
(1978)	-0,2	0,7	0,7	0,4	1,4	1,2	0,2	-0,2	1,1	0,8

Annex - Table 12

Total exports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	33,8	18,5	12,3	30,4	12,5	48,3	31,9	77,3	21,5	18,9
1959	33,0	19,6	13,8	29,7	12,9	49,6	30,8	79,0	21,0	20,0
1960	32,8	19,0	15,0	31,4	14,7	50,2	32,9	88,9	21,3	20,5
1961	30,4	18,1	14,5	34,1	15,0	47,8	33,7	87,2	20,7	19,9
1962	29,1	17,4	13,3	31,7	14,9	47,2	34,0	82,6	20,3	19,2
1963	30,9	17,9	13,2	33,0	14,3	47,1	34,6	78,5	20,1	19,2
1964	30,4	18,1	13,1	32,9	15,1	45,8	35,9	78,9	19,4	19,2
1965	30,8	18,1	13,8	34,7	17,2	45,0	36,3	76,5	19,5	18,6
1966	30,0	17,1	13,8	37,0	17,7	45,4	36,2	74,1	19,6	19,6
1967	28,8	20,5	13,7	37,7	17,3	42,9	36,3	72,3	19,3	20,2
1958-1967	31,0	18,4	13,6	33,2	15,1	46,9	34,2	79,4	20,3	19,5
1968	29,4	21,3	13,7	38,7	18,5	43,4	38,7	75,1	21,6	21,3
1969	29,1	21,7	14,6	37,1	19,3	45,1	41,9	79,9	22,6	22,2
1970	29,6	21,1	16,3	36,8	19,3	47,2	43,9	87,4	23,4	22,9
1971	30,5	20,8	17,1	36,0	19,8	47,7	43,4	85,8	23,5	23,1
1972	30,3	20,7	17,2	34,8	20,5	47,3	43,6	80,1	22,2	22,8
1973	32,1	21,9	18,2	38,2	20,4	49,6	47,6	86,4	24,5	24,4
1974	35,0	26,3	21,6	43,6	24,5	56,5	53,4	97,3	28,6	28,9
1975	34,2	24,8	19,8	45,0	25,0	51,9	46,2	86,0	26,5	26,9
1976	33,4	26,0	20,3	48,8	26,7	54,3	48,2	85,4	29,1	28,7
1977	33,5	25,9	20,0	51,6	26,1	50,1	47,1	80,8	31,1	28,5
1968-1977	31,6	22,9	17,7	40,7	21,8	49,2	45,2	84,2	25,1	24,8
(1978)	28,8	25,3	19,6	53,6	25,4	47,2	45,9	80,5	30,5	27,6

Annex - Table 13

Intra-Community exports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	14,4	5,4	2,4	18,8	2,7	19,1	14,9	2,8	4,9
1959	14,3	5,8	3,3	17,2	3,2	20,7	16,1	2,9	5,5
1960	14,0	6,0	4,1	19,1	4,0	21,9	19,0	3,0	6,0
1961	12,4	6,1	4,4	21,6	4,3	21,6	19,4	3,3	6,2
1962	11,8	6,1	4,3	18,5	4,5	22,0	21,0	3,6	6,3
1963	12,4	6,8	4,4	20,1	4,3	22,7	23,3	3,8	6,7
1964	12,0	6,8	4,5	20,8	4,9	23,2	24,4	3,8	6,9
1965	11,3	6,7	4,8	19,0	5,7	22,8	25,2	3,6	7,1
1966	11,5	7,2	4,9	19,7	5,9	21,8	25,4	3,6	7,2
1967	9,7	7,7	4,7	21,7	5,6	21,3	24,5	3,5	7,2
1958-1967	12,4	6,5	4,2	19,7	4,5	21,7	21,3	3,4	6,4
1968	9,6	8,3	5,0	21,4	6,2	22,8	26,9	4,0	7,9
1969	9,2	8,9	5,8	20,1	6,7	24,7	31,1	4,5	8,8
1970	9,0	8,5	6,8	21,2	6,8	26,3	32,4	4,6	9,1
1971	8,8	8,8	7,1	21,6	7,3	27,7	31,6	4,7	9,4
1972	8,9	8,5	7,5	22,6	7,9	27,3	32,9	4,7	9,6
1973	10,4	9,1	8,0	24,4	7,9	28,9	35,0	5,6	10,5
1974	11,0	10,5	9,2	25,8	8,9	33,1	36,2	6,7	12,1
1975	11,1	9,4	7,6	31,4	9,0	30,4	32,0	6,2	10,9
1976	10,8	10,4	8,1	31,9	10,3	32,6	35,2	7,5	12,2
1977	10,4	10,3	8,4	36,5	10,7	29,2	32,7	8,6	12,2
1968-1977	9,9	9,3	7,4	25,7	8,2	28,3	32,6	5,2	10,3
(1978)	10,2	10,0	8,6	37,3	10,5	27,1	31,7	8,6	12,0

Annex - Table 14

Extra-Community exports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	10,5	10,3	6,2	4,3	5,8	14,7	13,3	11,5	9,4
1959	10,7	10,4	6,8	4,4	5,8	15,0	13,6	11,3	9,6
1960	10,9	9,9	7,3	4,6	6,6	14,7	13,6	11,4	9,6
1961	10,5	9,3	6,6	5,1	6,6	14,0	12,6	10,8	9,1
1962	10,4	8,6	5,7	4,7	6,2	13,0	11,8	10,2	8,1
1963	11,2	8,5	5,5	5,0	5,9	12,0	10,8	10,2	8,1
1964	11,1	8,6	5,4	4,1	6,0	11,3	10,8	10,0	8,1
1965	11,2	8,9	5,5	3,7	6,6	11,4	11,7	10,2	8,3
1966	11,1	9,3	5,3	4,8	6,8	11,3	11,5	10,2	8,4
1967	10,9	9,9	5,2	7,1	6,9	11,2	13,2	9,6	8,4
1958-1967	10,9	9,4	6,0	4,8	6,3	12,9	12,3	10,5	8,7
1968	11,4	10,3	5,2	7,6	7,4	10,9	11,6	10,8	8,8
1969	11,8	10,2	5,2	7,7	7,5	10,8	11,5	11,4	8,9
1970	12,1	9,9	5,8	7,6	7,4	10,9	11,8	11,2	9,0
1971	11,8	10,1	5,8	7,1	7,5	10,4	11,5	11,5	9,1
1972	11,8	9,6	5,8	6,4	7,8	9,6	11,7	10,8	8,8
1973	12,4	10,3	6,2	7,7	7,8	10,9	12,9	11,7	9,4
1974	14,5	12,9	8,1	9,0	10,7	13,6	15,6	13,4	11,8
1975	13,5	12,1	7,9	8,1	11,0	12,4	13,4	13,0	11,2
1976	12,8	12,4	7,9	10,2	11,3	11,7	12,6	13,6	11,3
1977	13,1	12,6	8,3	11,2	12,3	12,3	13,2	15,0	11,9
1968-1977	12,5	11,0	6,6	8,3	9,1	11,4	12,6	12,2	10,0
(1978)	11,3	12,3	7,7	11,0	11,8	11,1	12,8	14,6	11,4

Annex - Table 15

Total imports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	31,1	15,0	12,8	36,2	12,0	45,3	30,1	74,1	21,1	18,2
1959	32,6	16,1	12,3	36,2	11,8	46,3	31,8	75,1	21,3	18,7
1960	33,8	16,5	13,2	36,6	14,9	48,1	33,9	76,0	22,6	19,8
1961	31,8	15,8	13,0	39,1	15,0	47,5	34,8	80,2	21,0	19,1
1962	32,0	16,1	12,6	38,3	15,5	46,6	34,3	81,5	20,4	19,7
1963	30,3	16,3	12,8	40,1	16,9	47,7	35,8	83,3	20,4	19,2
1964	32,2	16,5	13,3	40,4	15,0	47,8	36,6	85,1	21,0	18,9
1965	32,1	17,8	12,9	43,7	14,4	45,6	36,2	78,3	20,1	19,3
1966	31,3	17,5	13,6	42,9	15,5	46,1	37,2	75,7	19,6	19,5
1967	30,6	16,8	13,4	40,7	16,1	43,9	36,2	71,7	20,2	19,3
1958-1967	31,8	16,4	13,0	39,3	14,6	46,5	34,6	78,0	20,8	19,2
1968	30,6	17,7	13,8	45,0	15,9	43,5	38,6	71,2	22,4	20,2
1969	31,2	18,8	15,2	46,1	17,4	45,3	41,1	70,0	22,1	21,2
1970	32,3	19,0	15,8	44,8	18,7	49,0	41,6	75,1	22,5	22,0
1971	32,0	18,8	16,1	43,2	18,6	48,0	41,4	82,7	21,9	21,8
1972	29,4	18,6	15,9	40,2	19,5	44,4	40,4	75,9	22,3	21,6
1973	33,9	18,9	17,6	45,0	22,7	46,3	45,6	74,3	23,6	23,2
1974	37,6	21,9	23,1	58,8	29,4	53,6	53,0	80,7	33,9	29,2
1975	34,9	22,1	19,0	50,7	25,0	48,9	46,0	87,4	28,4	26,1
1976	38,0	23,7	21,5	56,4	28,1	51,0	49,3	86,4	30,3	28,3
1977	36,8	23,5	20,5	60,4	26,8	49,4	47,9	84,7	30,2	27,9
1968-1977	33,5	20,2	17,6	48,6	21,7	47,8	44,3	78,6	25,4	23,9
(1978)	30,2	22,8	19,2	63,4	25,1	46,9	46,8	82,5	29,9	26,7

Annex - Table 16

Intra-Community imports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	15,8	4,4	2,5	23,7	3,1	19,1	15,9	3,3	5,0
1959	17,2	5,2	2,9	22,7	3,5	20,6	17,4	3,3	5,5
1960	16,3	5,2	3,5	22,2	4,7	22,0	19,0	3,6	6,0
1961	15,2	5,1	3,7	25,0	4,8	24,1	20,1	3,6	6,1
1962	14,8	5,4	4,0	24,2	5,4	23,8	20,5	3,5	6,3
1963	13,6	5,5	4,5	26,3	6,2	24,9	22,0	3,6	6,7
1964	14,3	5,8	4,8	26,3	5,3	25,2	22,9	4,0	6,9
1965	13,6	6,8	4,7	25,8	4,7	24,3	23,1	3,8	7,1
1966	13,0	6,6	5,2	24,7	5,2	24,0	24,8	4,0	7,3
1967	12,2	6,4	5,3	23,9	5,6	22,7	23,0	4,3	7,2
1958-1967	14,6	5,6	4,1	24,5	4,9	23,1	20,9	3,7	6,4
1968	12,2	7,1	5,9	27,4	5,7	23,1	24,8	4,8	7,9
1969	12,8	8,1	7,1	28,2	6,6	24,7	27,6	4,7	8,9
1970	13,3	8,0	7,3	28,8	7,4	26,4	28,2	4,8	9,2
1971	11,9	8,8	7,4	26,9	7,4	25,2	30,5	5,1	9,5
1972	11,1	8,4	7,7	26,2	8,0	23,6	30,4	5,6	9,6
1973	13,0	8,2	8,2	30,1	9,6	24,6	33,2	7,2	10,5
1974	14,9	8,7	9,5	34,1	11,2	26,9	36,1	8,5	11,9
1975	13,4	8,9	7,9	32,3	9,4	24,2	32,5	7,6	10,8
1976	15,1	9,5	9,1	36,8	8,5	24,7	35,0	8,2	11,6
1977	14,8	9,7	9,1	42,6	10,4	23,7	33,3	10,0	12,2
1968-1977	13,3	8,5	7,9	31,3	8,4	24,7	31,2	6,7	10,2
(1978)	13,0	9,5	8,3	45,8	10,1	23,1	32,2	10,4	12,0

Annex - Table 17

Extra-Community imports in GDP 1958-1978, percentage shares (current prices)

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	11,0	8,8	7,0	11,1	7,5	19,1	13,2	12,9	10,0
1959	11,8	8,8	6,3	11,6	6,8	18,4	13,6	13,1	9,9
1960	14,2	8,8	6,9	12,9	9,0	19,2	15,1	14,2	10,7
1961	13,1	8,2	6,5	13,5	8,7	18,1	14,2	12,6	9,8
1962	13,9	8,3	6,2	12,2	7,5	17,1	14,0	12,2	9,6
1963	13,3	8,2	6,1	12,8	9,1	16,8	14,0	12,3	9,5
1964	14,7	8,1	6,2	12,8	8,1	16,8	14,3	13,3	9,7
1965	14,2	8,4	5,8	12,8	7,9	15,6	13,7	12,4	9,4
1966	14,0	8,2	6,0	12,6	8,4	15,3	14,0	11,8	9,3
1967	13,9	7,7	5,5	14,0	8,5	14,6	13,2	11,8	9,0
1958-1967	12,4	8,4	6,3	12,6	8,2	17,1	13,9	12,7	9,7
1968	14,0	7,9	5,3	13,9	8,0	14,4	14,5	13,5	9,2
1969	14,2	8,3	5,7	13,9	8,5	14,4	14,8	13,4	9,5
1970	14,9	8,1	6,2	12,8	8,8	16,0	15,0	13,0	9,6
1971	14,3	8,0	6,0	13,4	8,3	16,1	13,2	12,1	9,2
1972	13,1	7,2	6,0	11,6	8,3	14,3	12,3	12,1	8,8
1973	15,4	7,5	6,5	11,9	10,1	15,7	13,8	14,8	9,8
1974	17,9	9,5	10,5	17,6	15,2	20,0	18,5	19,8	13,5
1975	15,8	9,0	8,3	14,4	12,5	18,4	15,9	15,7	11,5
1976	17,0	10,3	9,3	16,2	16,7	20,0	16,7	17,3	13,1
1977	16,3	10,0	9,4	15,9	13,8	19,6	16,0	16,0	12,4
1968-1977	15,3	8,6	7,3	14,2	11,0	16,9	15,1	14,8	10,7
(1978)	13,2	9,4	9,0	14,9	13,0	17,3	15,5	16,6	11,9

Annex - Table 18

Balance of payments: current balance in GDP, 1958-1977, percentage shares

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	2,9	2,5	-0,4	-1,6	2,0	4,5	3,9	1,7	1,7
1959	0,4	1,6	1,5	-6,4	2,5	4,8	0,7	0,7	1,5
1960	-1,1	1,6	1,4	-0,6	0,9	3,2	1,0	-1,1	0,7
1961	-1,8	0,9	1,8	-0,7	1,3	1,5	0,4	0	0,9
1962	-3,5	-0,5	1,3	-3,6	0,6	0,6	0,6	0,5	0,3
1963	0,3	0,2	0,5	-4,4	-1,4	-1,4	-0,7	0,4	0,1
1964	-2,2	0,1	-0,1	-4,4	1,3	1,3	0	-1,1	-0,2
1965	-1,7	-1,4	0,8	-4,6	3,8	3,8	0,9	-0,1	0,3
1966	-1,9	0,1	0,2	-2,5	3,4	3,4	-0,5	0,3	0,5
1967	-2,4	2,0	0,2	1,1	2,3	2,3	1,0	-0,8	0,7
1958-1967	-1,1	0,7	0,7	-2,8	1,7	2,4	0,7	0,1	0,7
1968	-1,8	2,2	-0,9	-2,0	3,5	3,5	0,1	-0,7	0,7
1969	-2,9	1,3	-1,5	-5,6	2,8	2,8	0,3	1,0	0,5
1970	-3,5	0,5	-0,1	-4,8	0,8	0,8	2,7	1,4	0,4
1971	-2,5	0,4	0,3	-4,2	1,6	1,6	2,9	1,9	0,8
1972	-0,3	0,3	0,2	-2,4	1,7	1,7	3,2	0,2	0,7
1973	1,7	1,3	-0,3	-3,6	-1,8	-1,8	2,5	-1,4	0,1
1974	3,0	2,6	-2,3	-9,8	-5,1	2,9	1,7	-4,4	-1,0
1975	-1,5	1,0	0	-0,3	-0,3	1,9	1,1	-1,6	0,1
1976	-5,0	0,9	-1,8	-3,3	-1,6	2,7	-0,5	-0,7	-0,5
1977	-3,8	0,7	-0,9	-2,3	1,2	0,2	-0,4	0,1	0,1
1968-1977	-2,6	1,1	-0,7	-3,8	0,3	1,6	1,4	-0,4	0,2

Annex - Table 19

Structure of EC exports by country and region, 1958 and 1976, percentages of total

to	Exports of		DK		D		F		IRL		I		NL		BLEU		UK		EC	
	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976
DK					2,96	2,59	0,75	0,79	0,05	0,63	0,77	0,85	2,63	1,72	1,64	1,44	2,37	2,55	2,00	1,77
D	20,05	14,60			10,46	17,28	2,22	8,78	14,29	19,19	18,98	31,46	17,57	23,42	4,20	7,15	6,71	12,82		
F	2,97	4,17	7,58	13,15					0,79	5,18	5,31	15,24	4,87	10,82	10,60	21,17	2,42	6,67	4,59	10,38
IRL	0,30	0,42	0,25	0,27	0,16	0,32				0,13	0,24	0,45	0,38	3,50	0,27	3,50	4,86	1,16	0,94	
I	5,31	4,50	5,02	7,42	3,37	10,89	0,43	2,34				2,74	5,25	2,27	4,77	2,11	3,22	3,08	5,92	
NL	2,19	3,19	8,10	9,71	2,03	5,10	0,51	5,98	2,05	4,14				20,70	17,07	3,14	5,85	5,41	7,07	
BLEU	1,24	1,68	5,69	7,92	6,34	10,16	0,80	4,55	2,27	3,91			14,97	15,58			1,93	5,46	4,89	7,43
UK	25,91	17,11	3,95	7,76	4,89	6,03	78,76	49,42	6,83	4,86	11,90	8,45	5,71	6,07					5,72	5,69
Total intra-Community trade	57,92	45,70	34,49	45,85	27,98	50,61	83,54	76,92	31,64	48,47	56,53	73,69	52,81	74,25	19,64	35,78	34,28	52,08		
Other European OECD-countries	17,58	29,53	25,17	19,82	11,14	12,23	1,87	4,45	18,69	13,68	13,19	9,15	11,07	18,02	10,31	15,64	15,46	14,88		
USA	9,34	5,83	7,31	5,63	5,93	4,52	5,85	7,01	9,71	6,55	5,64	2,89	9,42	3,57	8,83	9,60	7,79	5,59		
Canada	0,68	0,78	1,19	0,78	0,83	0,78	0,67	1,13	1,19	0,96	0,79	0,37	1,13	0,36	5,77	2,45	2,34	0,59		
Japan	0,20	1,41	0,95	1,09	0,32	0,75	0,05	1,28	0,32	0,87	0,41	0,48	0,60	1,40	0,61	1,40	0,59	0,93		
Australia	0,26	0,42	1,02	0,69	0,46	0,27	0,08	0,97	0,79	0,70	0,68	0,41	0,55	0,29	7,11	2,68	2,50	0,82		
Developing countries of which:	9,65	12,50	22,30	17,85	48,38	24,17	1,57	7,29	27,86	21,86	18,14	10,58	18,80	9,86	33,81	25,97	28,49	18,61		
OPEC		4,19		8,10		9,11		3,48		11,63		4,36		4,02		11,16		8,09		
Other developing countries		8,31		9,75		15,06		3,81		10,23		6,22		5,84		14,81		10,52		
Centrally planned economies	3,80	3,56	5,00	6,90	3,70	5,76	0,21	0,64	4,69	5,96	1,98	2,15	3,75	2,64	3,09	3,00	3,75	4,88		
Rest-world and unspecified	0,61	0,69	2,62	1,39	1,27	0,91	6,19	0,31	4,99	0,95	2,68	0,28	1,90	0,47	10,87	3,48	4,79	1,26		
World (excl. EEC)	42,08	54,30	65,51	54,15	72,02	49,39	16,46	23,08	68,36	51,53	43,47	26,31	47,19	27,75	80,36	64,22	65,72	47,92		
World (incl. EEC)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100		

Annex - Table 20

Structure of EC imports by country and region, 1958 and 1976, percentages of total

to	Imports of		DK		D		F		IRL		I		NL		BLEU		UK		EC	
	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976
DK			3,35	1,50	0,63	0,61	0,70	0,87	2,19	0,89	0,67	0,74	0,53	0,45	3,07	2,20	2,04	1,11		
D	19,84	20,85			11,64	19,21	4,00	6,88	12,13	16,97	19,48	23,78	17,16	22,39	3,60	8,60	8,33	13,05		
F	3,43	3,80	7,59	11,63			1,60	4,70	4,86	13,55	2,79	6,93	11,60	16,26	2,67	6,63	4,29	8,46		
IRL	0,01	0,17	0,10	0,36	0,05	0,28			0,05	0,21	0,05	0,40	0,10	0,40	2,90	2,76	0,91	0,71		
I	1,70	2,84	5,46	8,51	2,35	8,92	0,85	2,55			1,77	3,33	2,15	3,82	2,04	3,59	2,57	5,34		
NL	7,34	5,48	8,03	13,77	2,53	6,08	2,86	3,18	2,58	4,70			15,72	17,59	4,22	5,45	5,29	8,19		
BLEU	3,81	3,84	4,53	8,60	5,37	9,59	1,83	1,94	2,02	3,68	17,85	13,98			1,61	2,99	4,46	6,73		
UK	22,82	10,22	4,38	3,85	3,59	4,90	56,41	49,27	5,50	3,50	7,39	6,12	7,40	6,73					5,14	4,72
Total intra-Community trade	58,92	47,18	33,41	48,20	26,13	49,55	68,21	69,38	29,30	43,47	49,97	55,25	54,63	67,63	20,09	32,20	33,00	48,16		
Other European OECD-countries	19,51	26,70	17,55	12,16	8,55	8,82	4,43	5,40	12,50	8,04	7,84	6,43	8,19	5,64	14,11	12,04	12,69	9,97		
USA	9,10	5,15	13,57	7,91	10,04	7,33	6,98	8,55	16,23	7,88	11,31	9,06	9,92	6,12	9,34	11,37	11,16	8,22		
Canada	0,25	0,38	3,10	1,05	1,02	0,95	2,97	1,29	1,44	1,30	1,43	0,69	1,42	1,04	8,17	3,63	3,71	1,42		
Japan	1,48	2,88	0,61	2,45	0,18	1,91	1,07	2,22	0,41	1,35	0,82	1,58	0,63	1,58	0,94	2,74	0,69	2,08		
Australia	0,03	0,09	1,21	0,70	2,42	0,72	1,21	0,15	3,01	0,90	0,20	0,31	1,73	0,59	5,40	1,25	2,71	0,73		
Developing countries of which:	6,06	12,14	24,43	20,44	46,71	26,26	9,67	8,58	31,18	28,19	25,02	23,54	19,50	14,51	34,98	25,80	30,41	22,70		
OPEC		5,40		10,23		17,71		4,10		18,42		15,76		7,44		13,84		13,56		
Other developing countries		6,74		10,21		8,55		4,48		9,77		7,78		7,07		11,96		9,17		
Centrally planned economies	4,59	4,85	5,31	4,97	3,30	3,48	1,24	2,37	3,60	6,09	2,61	2,61	2,01	1,85	3,19	3,78	3,55	4,01		
Rest-world and unspecified	2,17	0,63	0,84	2,12	1,68	0,98	4,26	2,06	2,36	2,78	1,83	0,50	1,73	1,04	3,82	7,20	2,28	2,71		
World (excl. EEC)	41,08	52,82	66,59	51,80	73,87	50,45	31,79	30,62	70,70	56,53	50,03	44,75	45,37	32,37	79,91	67,80	67,00	51,73		
World (incl. EEC)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100		

Annex - Table 21

Population, 1958-1978, '000s

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	4 515	54 292	44 789	2 853	49 476	11 185	9 024	311	51 870	228 315
1959	4 547	54 876	45 240	2 846	49 831	11 347	9 072	313	52 157	230 229
1960	4 581	55 433	45 684	2 832	50 198	11 483	9 119	315	52 559	232 204
1961	4 617	56 175	46 163	2 818	50 523	11 637	9 166	319	52 954	234 372
1962	4 647	56 837	46 998	2 830	50 843	11 801	9 218	323	53 414	236 911
1963	4 684	57 389	47 816	2 850	51 198	11 964	9 283	326	53 691	239 201
1964	4 720	57 971	48 310	2 864	51 600	12 125	9 367	330	54 033	241 320
1965	4 758	58 619	48 758	2 876	51 987	12 293	9 448	333	54 378	243 450
1966	4 797	59 148	49 164	2 884	52 332	12 455	9 508	335	54 653	245 276
1967	4 839	59 286	49 548	2 900	52 667	12 597	9 557	335	54 933	246 662
1968	4 867	59 500	49 914	2 913	52 987	12 726	9 590	337	55 157	247 990
1969	4 891	60 067	50 138	2 929	53 317	12 873	9 613	339	55 372	249 718
1970	4 929	60 651	50 772	2 950	53 661	13 032	9 638	340	55 522	251 495
1971	4 963	61 284	51 251	2 978	54 005	13 194	9 673	345	55 712	253 405
1972	4 992	61 669	51 701	3 014	54 412	13 330	9 711	348	55 882	255 059
1973	5 022	61 976	52 118	3 051	54 913	13 438	9 742	353	56 021	256 633
1974	5 045	62 054	52 460	3 089	55 413	13 543	9 772	357	56 053	257 787
1975	5 060	61 829	52 705	3 127	55 830	13 660	9 801	358	56 042	258 412
1976	5 073	61 531	52 891	3 162	56 170	13 774	9 818	356	56 001	258 777
1977	5 095	61 396	53 078	3 192	56 460	13 853	9 835	355	55 956	259 220
1978	5 110	61 066	53 239	3 222	56 750	13 937	9 860	355	55 894	259 433

Annex - Table 22

Employment, 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	0,7	0,4	-0,3	-1,5	0,0	-0,9	-1,1	0,0	-1,1	-0,3
1959	3,1	0,9	-0,9	-0,7	0,0	1,0	-0,6	0,0	0,3	0,2
1960	2,8	1,4	0,1	-0,5	-0,2	1,9	0,3	-1,5	-0,1	0,5
1961	1,5	1,4	0,1	-0,2	0,2	1,5	0,8	0,2	1,2	0,8
1962	1,5	0,4	0,2	0,7	-1,0	2,0	1,6	0,3	0,7	0,3
1963	1,2	0,2	1,0	0,6	-1,5	1,4	0,7	-0,6	0,1	0,1
1964	2,1	0,1	1,1	0,5	-0,4	1,8	1,3	0,8	1,1	0,6
1965	1,8	0,6	0,4	-0,2	-1,9	0,9	0,2	0,3	0,9	0,2
1966	1,7	-0,3	0,8	-0,3	-1,5	0,8	0,5	0,3	0,6	0,0
1967	2,1	-3,3	0,3	-0,6	1,1	-0,3	-0,3	-1,8	-1,5	-0,9
1958-1967	1,9	0,2	0,3	-0,2	-0,5	1,0	0,3	-0,2	0,2	0,2
1968	0,3	0,1	-0,1	0,3	-0,1	0,9	-0,1	-0,2	-0,7	-0,1
1969	0,9	1,6	1,7	0,3	0,5	1,7	1,7	0,7	0,2	1,0
1970	1,4	1,3	1,3	-1,2	0,4	1,2	-0,5	2,6	-0,5	0,6
1971	0,3	0,3	0,4	0,2	-0,2	0,6	1,0	2,7	-1,4	-0,1
1972	0,3	-0,2	0,6	-0,5	-1,3	-0,9	-0,1	2,7	-0,1	-0,2
1973	0,7	0,3	1,3	0,7	0,7	0,0	1,3	2,1	2,4	1,1
1974	-0,5	-1,9	0,6	0,9	1,4	0,0	1,4	2,6	0,4	0,1
1975	-2,1	-3,4	-1,3	-1,5	0,5	-0,7	-1,4	0,2	-0,5	-1,3
1976	1,2	-0,9	0,2	-1,4	0,8	-0,3	-0,6	-1,5	-0,9	-0,3
1977	0,3	-0,3	0,1	0,2	0,4	0,3	-0,5	-0,8	0,2	0,1
1968-1977	0,3	-0,3	0,5	-0,2	0,3	0,3	0,2	1,1	-0,1	0,1
(1978)	-0,1	-0,2	-0,1	1,1	0,2	0,1	-0,7	-1,0	0,5	0

Annex - Table 23

Numbers unemployed, 1958-1978, as a percentage of civil active population (a)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	3,0	2,9	0,5	5,5	9,8	2,0	2,9	0,1	1,9	3,7
1959	0,0	2,1	0,7	5,2	8,7	1,5	3,8	0,1	1,9	3,2
1960	1,5	1,0	0,7	4,7	7,2	0,7	3,1	0,1	1,6	2,5
1961	1,2	0,7	0,6	4,2	6,6	0,5	2,5	0,1	1,4	2,2
1962	1,1	0,6	0,7	4,2	5,5	0,5	2,0	0,1	1,9	2,0
1963	1,5	0,7	0,7	4,5	5,2	0,6	1,5	0,2	2,3	2,1
1964	0,9	0,6	0,6	4,3	5,3	0,5	1,5	0	1,6	1,9
1965	0,7	0,6	0,7	4,5	5,8	0,6	1,8	0	1,4	1,9
1966	0,8	0,6	0,7	4,3	5,5	0,8	2,0	0	1,4	1,9
1967	1,0	1,8	1,0	5,0	5,0	1,7	2,6	0,1	2,2	2,4
1958-1967	1,2	1,2	0,7	4,6	6,5	0,9	2,4	0,1	1,8	2,4
1968	1,7	1,3	1,3	5,2	4,7	1,5	3,1	0,1	2,3	2,3
1969	1,4	0,7	1,1	5,1	4,4	1,1	2,3	0	2,3	2,0
1970	1,0	0,6	1,3	5,8	4,4	1,0	2,2	0	2,5	2,0
1971	1,2	0,7	1,6	5,6	5,1	1,3	2,2	0	3,2	2,5
1972	1,2	0,9	1,8	6,5	5,2	2,3	2,8	0	3,5	2,7
1973	0,7	1,0	1,8	6,0	4,9	2,3	2,9	0	2,5	2,5
1974	2,0	2,2	2,3	6,3	4,9	2,9	3,2	0	2,4	2,9
1975	4,6	4,2	3,9	8,8	5,3	4,1	5,3	0,2	3,8	4,4
1976	4,7	4,1	4,3	9,8	5,6	4,4	6,8	0,3	5,3	4,9
1977	5,8	4,0	4,9	9,7	6,4	4,3	7,8	0,6	5,6	5,3
1968-1977	2,4	2,0	2,4	6,9	5,1	2,5	3,9	0,1	3,4	3,2
(1978)	6,6	3,9	5,1	8,9	7,0	4,2	8,3	0,9	5,7	5,5

Numbers unemployed, 1976-1978, as a percentage of active population (b)

1976	5,1	4,1	4,4	9,5	6,0	4,3	6,7	0,3	5,2	5,0
1977	5,9	4,0	5,1	9,4	7,2	4,2	7,3	0,5	5,6	5,5
1978	7,2	3,9	5,5	8,9	7,2	4,2	8,2	1,0	5,8	5,7

Annex - Table 24

Current receipts of general government (taxation, social security contributions and other) in GDP percentage shares, 1958-1978

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	27,7	35,9	34,9	26,5	28,3	33,0	25,7	33,5	32,7	33,0
1959	28,0	36,4	35,0	25,8	29,1	33,3	26,2	31,7	32,5	33,2
1960	28,1	35,8	34,2	25,4	30,1	34,0	27,6	33,6	30,7	32,7
1961	27,4	36,7	35,3	26,3	29,5	35,0	28,6	35,0	32,5	33,9
1962	28,7	37,3	35,6	25,7	30,5	34,5	29,4	33,8	34,2	34,6
1963	29,4	37,2	36,5	26,7	31,1	35,7	29,5	34,4	32,8	34,4
1964	30,3	36,8	37,4	27,5	32,0	35,8	30,2	33,9	32,6	35,0
1965	31,7	36,0	37,8	28,6	31,9	37,4	30,9	34,9	34,4	35,2
1966	34,0	36,6	37,6	30,6	31,8	39,3	32,6	36,8	35,4	35,9
1967	34,6	37,2	37,7	31,3	33,1	40,7	33,4	37,2	37,2	36,7
1958-1967	30,0	36,6	36,2	27,4	30,7	35,9	29,4	34,5	33,5	34,5
1968	37,5	36,9	37,9	31,7	33,8	41,9	34,0	41,2	38,9	37,3
1969	37,7	38,7	38,8	32,3	33,2	42,7	34,5	40,4	41,0	38,7
1970	42,2	37,9	39,3	33,9	32,9	43,9	35,4	41,1	42,4	38,7
1971	45,4	38,9	38,7	35,1	34,6	46,1	36,0	44,8	40,5	39,1
1972	45,8	39,3	38,6	34,4	34,6	47,2	36,0	46,5	38,8	38,9
1973	45,4	41,8	38,6	36,0	33,6	48,9	36,9	46,5	38,4	39,7
1974	48,3	42,0	39,8	35,6	34,3	50,7	39,4	44,1	39,2	40,6
1975	45,1	41,5	41,5	34,2	34,7	51,9	42,8	51,3	40,5	41,2
1976	47,5	42,9	43,7	37,9	36,3	53,6	43,1	54,7	40,0	42,6
1977	45,2	44,0	43,2	38,2	37,7	53,9	43,6	55,8	40,1	43,1
1968-1977	44,0	40,4	40,0	34,9	34,6	48,1	38,2	46,6	40,0	40,0
(1978)	45,8	43,4	43,1	35,5	38,5	54,9	45,5	55,6	38,9	42,9

Annex - Table 25

Expenditure of general government in GDP percentage shares, 1958-1978

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	26,0	34,3	35,1	28,2	29,7	34,7	27,9	34,5	32,2	32,9
1959	25,2	34,3	33,3	27,4	30,6	32,8	29,6	35,2	32,4	32,5
1960	25,1	32,5	33,6	27,5	30,4	33,2	30,3	30,5	32,2	32,2
1961	27,3	33,6	34,8	29,3	29,7	35,0	29,8	30,3	33,8	33,2
1962	28,1	35,7	36,1	29,2	30,6	35,6	30,5	32,2	34,7	34,5
1963	28,6	36,1	36,9	30,1	31,4	37,6	31,5	32,8	35,1	35,1
1964	28,4	35,7	37,0	31,4	31,8	37,6	30,8	32,1	35,4	35,1
1965	29,9	36,4	37,5	32,7	35,0	38,7	32,3	33,5	36,5	36,2
1966	31,7	36,7	37,3	33,2	35,1	40,7	33,4	35,2	36,1	36,3
1967	34,3	38,5	37,9	34,4	34,8	42,5	34,5	38,1	38,7	37,7
1958-1967	28,5	35,4	36,0	30,3	31,9	36,8	31,1	33,4	34,7	34,6
1968	36,3	37,7	38,8	34,8	36,3	43,5	36,3	43,7	39,9	38,4
1969	36,3	37,6	39,2	36,3	35,9	43,9	36,1	39,8	42,0	38,9
1970	40,0	37,4	38,3	38,1	35,4	45,5	36,5	38,0	39,8	38,2
1971	42,4	39,2	38,0	39,0	39,2	47,4	38,1	42,1	39,1	39,4
1972	42,0	39,4	38,0	38,8	41,2	47,8	39,2	44,0	40,9	40,1
1973	39,5	40,1	38,1	40,7	41,5	49,1	39,5	44,3	41,9	40,6
1974	42,8	43,3	39,2	44,7	39,7	50,6	41,3	39,6	43,7	42,3
1975	47,3	47,4	43,7	48,1	46,0	54,9	46,6	51,1	45,3	46,4
1976	48,1	46,5	44,0	48,1	45,8	55,6	48,0	55,5	44,9	46,3
1977	45,6	46,6	44,5	47,2	46,8	55,4	48,6	55,2	43,4	46,3
1968-1977	42,0	41,5	40,2	41,6	40,8	49,4	41,0	45,3	42,1	41,7
(1978)	46,5	46,6	44,9	47,3	49,5	57,8	50,6	55,9	43,1	46,9

Annex - Table 26

Net lending or net borrowing of general government in GDP percentage shares, 1958-1978

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	1,7	1,6	-0,2	-1,7	-1,4	-1,7	-2,2	-1,0	0,5	-0,1
1959	2,8	2,1	1,7	-1,6	-1,5	0,5	-3,4	-3,5	0,1	0,7
1960	3,0	3,3	0,6	-2,1	-0,3	0,8	-2,7	3,1	-1,5	0,5
1961	0,1	3,1	0,5	-3,0	-0,2	—	-1,2	4,7	-1,3	0,7
1962	0,6	1,6	-0,5	-3,5	-0,1	-1,1	-1,1	1,6	-0,5	0,1
1963	0,8	1,1	-0,4	-3,4	-0,3	-1,9	-2,0	1,6	-2,3	-0,7
1964	1,9	1,1	0,4	-3,9	0,2	-1,8	-0,6	1,8	-2,8	-0,1
1965	1,8	-0,4	0,3	-4,1	-3,1	-1,3	-1,4	1,4	-2,1	-1,0
1966	2,3	-0,1	0,3	-2,6	-3,3	-1,4	-0,8	1,6	-0,7	-0,4
1967	0,3	-1,3	-0,2	-3,1	-1,7	-1,8	-1,1	-0,9	-1,5	-1,0
1958-1967	1,5	1,2	0,2	-2,9	-1,2	-0,9	-1,7	1,1	-1,2	-0,1
1968	1,2	-0,8	-0,9	-3,1	-2,5	-1,6	-2,3	-2,5	-1,0	-1,1
1969	1,4	1,1	-0,4	-4,0	-2,7	-1,2	-1,6	0,6	-1,0	-0,2
1970	2,2	0,5	1,0	-4,2	-2,5	-1,6	-1,1	3,1	2,6	0,5
1971	3,0	-0,3	0,7	-3,9	-4,6	-1,3	-2,1	2,7	1,4	-0,3
1972	3,8	-0,1	0,6	-4,4	-6,6	-0,6	-3,2	2,5	-2,1	-1,2
1973	5,9	1,7	0,5	-4,7	-7,9	-0,2	-2,6	2,2	-3,5	-0,9
1974	4,6	-1,3	0,6	-9,1	-5,9	0,9	-1,9	4,5	-4,0	-1,7
1975	-1,7	-5,9	-2,3	-13,9	-12,3	-2,9	-3,8	0,2	-4,8	-5,2
1976	-0,7	-3,6	-0,4	-9,4	-9,7	-2,0	-5,0	0,0	-5,0	-3,7
1977	-0,4	-2,6	-1,3	-9,0	-9,1	-1,6	-5,1	0,6	-3,2	-3,3
1968-1977	2,0	-1,1	-0,2	-6,7	-6,2	-1,3	-2,8	1,3	-2,1	-1,7
(1978)	-0,7	-3,1	-1,8	-11,8	-11,0	-3,0	-5,1	0,0	-4,2	-4,0

Annex - Table 27

Growth of money supply (M₂) 1958-1978, percentage changes on preceding year

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	:	:	6,5	3,8	:	13,9	6,7	:	:
1959	:	:	13,8	2,0	14,3	4,2	5,0	:	:
1960	:	10,9	16,2	5,5	13,3	4,5	4,0	:	:
1961	:	14,8	16,7	6,9	15,8	4,9	10,3	:	:
1962	:	10,4	18,7	7,1	16,7	6,6	7,3	:	:
1963	:	9,9	14,1	5,5	12,8	9,8	10,3	:	:
1964	:	9,4	9,8	10,1	8,7	10,4	7,6	5,8	8,3
1965	:	10,6	10,9	4,1	15,4	6,2	8,7	6,7	9,8
1966	13,0	8,3	10,6	17,9	13,8	5,9	8,5	3,2	7,5
1967	9,9	12,0	13,1	11,8	13,4	10,9	7,6	9,3	11,5
1958-1967	:	:	13,0	7,5	:	7,7	7,6	:	:
1968	14,4	11,8	11,6	15,6	11,4	14,8	9,4	8,5	11,1
1969	10,4	9,4	6,1	10,8	11,4	10,2	9,6	2,1	7,5
1970	2,9	9,0	15,2	6,8	13,6	11,0	9,3	9,5	11,1
1971	8,8	13,3	18,2	11,9	17,0	9,0	13,5	13,3	14,5
1972	15,0	14,3	18,6	14,3	18,2	11,9	17,3	27,1	18,2
1973	12,7	9,0	15,0	25,7	23,0	21,9	14,6	27,2	16,5
1974	8,9	8,4	18,1	20,2	15,4	20,1	11,1	10,3	12,8
1975	25,5	8,5	15,9	20,7	23,5	5,7	17,2	6,6	12,7
1976	11,3	8,4	12,8	14,3	21,1	22,7	13,4	8,9	11,1
1977	9,8	11,1	13,9	16,3	21,9	5,5	10,0	10,1	12,5
1968-1977	12,0	10,3	14,5	15,7	17,7	11,2	12,5	12,4	12,8

Annex - Table 28

Short-term interest rates, 1958-1978, percentages

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	:	3,6	6,5	6,4	3,9	3,0	2,9	:	:
1959	:	3,2	4,1	5,8	3,6	1,9	1,9	:	:
1960	:	5,1	4,1	6,5	3,6	2,1	3,9	5,0	4,4
1961	:	3,6	3,6	6,6	3,6	1,1	4,4	5,2	3,9
1962	:	3,4	3,6	6,2	3,5	1,9	3,1	4,1	3,6
1963	:	4,0	4,0	5,8	3,6	1,9	3,3	3,7	3,7
1964	:	4,1	4,7	6,3	3,6	3,4	4,4	4,8	4,2
1965	:	5,1	4,2	7,3	3,6	3,9	4,6	5,9	3,1
1966	:	6,6	4,8	7,6	3,6	4,7	5,3	6,1	5,3
1967	:	4,3	4,8	7,7	3,6	4,6	5,2	5,9	4,6
1958-1967	:	4,3	4,4	6,6	3,6	2,8	3,9	:	:
1968	:	3,8	6,1	8,4	3,6	4,4	4,1	7,0	5,0
1969	:	5,8	9,0	9,0	3,7	5,6	7,1	7,7	6,6
1970	:	9,4	8,7	9,5	6,5	6,0	7,8	7,0	7,9
1971	:	7,1	5,8	8,5	5,7	4,3	5,0	5,5	5,9
1972	6,3	5,6	5,0	7,2	5,5	2,2	3,8	5,6	5,2
1973	8,1	12,1	8,9	9,9	6,2	4,1	6,3	9,5	9,3
1974	13,3	9,9	12,9	12,1	15,6	6,9	10,3	11,3	11,5
1975	14,5	5,0	7,9	11,0	9,2	4,4	6,8	10,2	7,5
1976	10,3	4,2	8,6	11,2	15,9	5,8	9,9	11,5	8,5
1977	14,5	4,4	9,1	9,7	15,0	3,9	7,1	7,7	7,8
1968-1977	:	6,7	8,2	9,7	8,7	4,8	6,8	8,3	7,5

Annex - Table 29

Long-term interest rates, 1958-1978, percentages

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	:	6,5	7,6	:	6,7	4,3	5,5	5,0	6,1
1959	:	5,8	6,3	:	5,7	4,1	5,0	4,8	5,2
1960	6,0	6,3	5,7	:	5,3	4,2	5,6	5,4	5,6
1961	6,6	5,9	5,5	:	5,3	3,9	5,9	6,2	5,7
1962	6,6	6,0	5,4	:	5,8	4,2	5,2	6,0	5,9
1963	6,5	6,1	5,3	:	6,1	4,2	5,3	5,6	5,6
1964	7,1	6,2	5,4	:	7,0	4,9	6,5	6,0	6,0
1965	8,6	6,8	6,3	:	6,7	5,2	6,4	6,4	6,5
1966	8,7	7,8	6,6	:	6,4	6,2	6,7	6,8	6,9
1967	9,1	7,0	6,7	:	6,5	6,0	6,7	6,7	6,7
1958-1967	:	5,8	6,1	:	6,1	4,7	5,9	5,9	:
1968	8,7	6,7	7,0	:	6,5	6,2	6,5	7,4	6,9
1969	9,7	7,0	8,2	:	6,7	7,0	7,3	8,9	7,7
1970	11,1	8,2	8,6	:	8,6	7,8	7,8	9,2	8,5
1971	11,0	8,2	8,4	9,2	8,0	7,1	7,3	9,1	8,3
1972	11,0	8,2	8,0	9,1	7,3	6,7	7,0	9,1	8,1
1973	12,6	9,5	9,0	10,7	7,3	7,3	7,5	10,9	9,1
1974	15,9	10,6	11,0	14,6	9,4	8,9	8,8	15,0	11,1
1975	12,7	8,7	10,3	14,0	10,6	8,0	8,5	14,7	10,4
1976	14,9	8,0	10,5	14,6	12,2	8,1	9,1	14,3	10,4
1977	16,2	6,4	11,0	12,9	14,6	7,3	8,8	12,3	9,9
1968-1977	12,4	8,2	9,2	:	9,1	7,4	7,9	11,1	9,0

Annex - Table 30

Gross external financial reserves, 1958-1978, annual averages, '000 million u.a./EUA

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	0,20	6,09	0,87	0,26	1,96	1,37	1,41	2,64	14,80
1959	0,30	4,89	1,62	0,26	2,99	1,46	1,37	2,80	15,69
1960	0,27	5,89	2,06	0,31	3,08	1,59	1,38	3,19	17,77
1961	0,27	7,10	2,97	0,33	3,44	1,87	1,63	3,47	21,08
1962	0,25	6,75	3,81	0,34	3,73	1,97	1,77	3,40	22,02
1963	0,32	7,22	4,63	0,37	3,91	2,01	1,90	3,27	23,63
1964	0,52	7,71	5,26	0,43	3,28	2,12	2,03	3,04	24,39
1965	0,53	7,48	6,13	0,42	4,20	2,39	2,31	2,65	26,11
1966	0,57	7,52	6,69	0,44	4,83	2,39	2,33	3,30	28,07
1967	0,54	7,96	6,78	0,48	5,13	2,48	2,47	2,96	28,80
1958-1967	0,38	6,86	4,08	0,36	3,66	1,97	1,86	3,07	22,24
1968	0,46	8,95	5,51	0,43	5,42	2,47	2,21	2,68	28,13
1969	0,37	9,66	3,87	0,59	5,13	2,47	2,67	2,46	27,22
1970	0,40	9,70	4,51	0,73	4,83	2,87	3,24	2,73	29,01
1971	0,48	15,91	6,11	0,80	5,96	3,36	3,10	4,04	39,76
1972	0,71	19,99	8,29	0,93	5,78	4,04	3,41	5,96	49,11
1973	0,88	26,03	8,62	0,85	5,03	4,70	3,98	5,19	55,28
1974	0,76	27,67	7,05	0,93	5,17	5,18	4,15	5,76	56,67
1975	0,70	26,21	8,49	1,06	4,89	5,69	4,72	5,18	56,94
1976	0,80	30,31	8,99	1,47	4,87	6,13	4,58	4,86	62,01
1977	1,57	30,91	8,74	1,72	8,00	6,70	4,92	11,99	74,55
1968-1977	0,71	20,53	7,02	0,95	5,51	4,36	3,70	5,09	47,87

Annex - Table 31

EUA yearly average rates (currency amount for 1 EUA)

	DK	D	F	IRL	I	NL	BLEU	UK	US
1958	7,57507	4,60614	4,61264	0,311678	685,438	4,16745	54,8350	0,391678	1,09670
1959	7,29535	4,43605	5,21454	0,377215	660,126	4,01357	52,8101	0,377215	1,05621
1960	7,29535	4,43605	5,21454	0,377215	660,126	4,01357	52,8101	0,377215	1,05621
1961	7,37224	4,30742	5,26950	0,381191	667,084	3,89854	53,3667	0,381191	1,06734
1962	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901	0,382073	1,06981
1963	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901	0,382073	1,06981
1964	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901	0,382073	1,06981
1965	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901	0,382073	1,06981
1966	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901	0,382073	1,06981
1967	7,42293	4,25924	5,25703	0,387652	665,506	3,85461	53,2404	0,387652	1,06482
1968	7,71663	4,11554	5,07967	0,428702	643,052	3,72456	51,4442	0,428702	1,02889
1969	7,66640	4,02622	5,29027	0,425912	638,866	3,70032	51,1093	0,425912	1,02219
1970	7,66675	3,74138	5,67767	0,425931	638,895	3,70049	51,1116	0,425931	1,02223
1971	7,75264	3,64566	5,77214	0,428583	647,414	3,65750	50,8663	0,428583	1,04776
1972	7,78909	3,57681	5,65717	0,448541	654,264	3,59991	49,3611	0,448941	1,12178
1973	7,41598	3,27644	5,46775	0,502321	716,460	3,42853	47,8009	0,502321	1,23173
1974	7,25927	3,08352	5,73386	0,509803	775,743	3,20224	46,3994	0,509803	1,19270
1975	7,12266	3,04939	5,31923	0,559814	809,545	3,13490	45,5690	0,560026	1,24077
1976	6,76176	2,81545	5,34486	0,621920	930,150	2,95515	43,1654	0,621578	1,11805
1977	6,85567	2,64831	5,60607	0,653701	1 006,785	2,80010	40,8826	0,653701	1,14112
(1978) (a)	7,02507	2,57018	5,73995	0,659085	1 067,35	2,75964	40,1640	0,659079	1,24542

Annex - Table 32

Budgetary expenditure of the European Communities, 1958-1979, in '000s u.a./EUA (a)

	ECSC operational budget	European Development Fund	Euratom (b)	EC general budget					Total EC	Total
				FEOGA (c)	Social Fund	Regional Fund	Industry Energy Research	Adm. and others (d)		
1958	21 700	—	7 858	—	—	—	—	5 935	5 935	35 493
1959	30 700	51 200	39 071	—	—	—	—	25 245	25 245	146 216
1960	23 500	63 200	19 990	—	—	—	—	28 272	28 272	134 962
1961	26 500	172 000	72 489	—	8 600	—	—	25 447	34 047	305 036
1962	13 600	162 300	88 561	—	11 300	—	—	81 026	92 326	356 787
1963	21 900	55 500	106 382	—	4 600	—	—	79 468	84 068	267 850
1964	18 700	35 000	124 372	—	7 200	—	—	85 853	93 053	271 125
1965	37 300	248 800	120 000	102 695	42 891	—	—	55 524	201 110	607 210
1966	28 100	157 800	129 200	310 287	26 160	—	—	65 782	402 229	717 329
1967	10 400	105 800	158 482	561 968	35 600	—	—	77 532	675 100	949 782
1968	21 200	121 000	73 400	2 250 368	42 959	—	—	115 313	2 408 640	2 624 240
1969	40 700	104 800	59 200	3 818 012	50 501	—	—	182 675	4 051 188	4 255 888
1970	56 200	10 500	63 400	5 228 253	63 999	—	—	156 148	5 448 400	5 578 500
1971	37 400	236 100	—	1 883 586	56 473	—	65 010	284 272	2 289 341	2 562 841
1972	43 700	212 700	—	2 477 557	97 498	—	75 145	424 349	3 074 549	3 330 949
1973	86 900	210 000	—	3 768 837	269 220	—	69 144	533 813	4 641 014	4 937 914
1974	92 000	157 000	—	3 651 336	292 116	—	82 770	1 011 945	5 038 167	5 287 167
1975	127 400	71 000	—	4 586 563	360 215	150 000	99 036	1 017 795	6 213 609	6 412 009
1976	94 000	320 000	—	6 033 288	176 746	300 000	113 315	1 329 225	7 952 574	8 366 574
1977 (e)	93 000	800 000	—	6 667 639	55 276	400 000	166 998	1 303 886	8 483 247	9 376 247
1978 EUA	:	:	—	9 131 959	559 107	525 000	295 336	1 851 253	12 362 655	:
1979 EUA (draft)	:	:	—	10 069 824	748 182	390 000	516 265	2 135 048	13 859 319	:

Annex - Table 33
Budgetary receipts of the European Communities, 1958-1978, in '000s u.a./EUA (a)

	ECSC Levies and other	European Dev. Fund contri- butions	Euratom contri- butions (research only)	EC budget					Total EC	Total
				Miscellan. and contri- butions under special keys	Own resources					
					Miscella- neous	Agri- cultural Levies	Import duties	GNP contri- butions or VAT (b) (c)		
1958	43 963	116 000	7 858	—	16	—	—	5 919	5 935	173 756
1959	49 612	116 000	39 071	—	97	—	—	25 148	25 245	229 928
1960	53 325	116 000	19 990	—	212	—	—	28 060	28 272	217 587
1961	53 112	116 000	72 489	—	2 842	—	—	31 205	34 047	275 648
1962	45 264	116 000	88 561	—	2 120	—	—	90 206	92 326	342 151
1963	47 061	—	106 382	—	6 685	—	—	77 383	84 068	237 511
1964	61 262	—	124 372	—	2 915	—	—	90 138	93 053	278 687
1965	66 146	—	98 752	—	3 530	—	—	197 580	201 110	366 008
1966	71 249	—	116 494	—	3 905	—	—	398 324	402 229	589 972
1967	40 324	40 000	158 482	—	4 188	—	—	670 912	675 100	913 906
1968	85 366	90 000	81 985	—	—	—	—	—	2 408 640	2 665 991
1969	106 802	110 000	62 719	—	78 548	—	—	3 972 640	4 051 188	4 330 709
1970	100 001	130 000	67 651	—	121 056	—	—	5 327 344	5 448 400	5 746 052
1971	57 900	170 000	—	69 515	—	713 800	582 200	923 826	2 289 341	2 517 241
1972	61 100	170 000	—	80 935	—	799 600	957 400	1 236 614	3 074 549	3 305 649
1973	120 300	150 000	—	510 986	—	477 963	1 564 749	2 087 316	4 641 014	4 911 314
1974	124 600	150 000	—	65 256	—	323 625	2 684 446	1 964 840	5 038 167	5 312 767
1975	189 500	220 000	—	320 512	—	590 078	3 151 023	2 151 996	6 213 609	6 623 109
1976 (d)	129 600	311 000	—	282 772	—	1 163 665	4 064 558	2 482 121	7 993 116	8 433 716
1977	123 000	410 000	—	283 048	—	1 778 495	3 927 209	2 494 495	8 483 247	9 016 247
1978	:	147 000	—	135 900	—	2 063 000	4 833 000	5 330 800	12 362 700	:
1979 (draft)	:	:	—	158 500	—	2 144 100	4 745 500	6 811 219	13 859 319	:

Annex - Table 34
Borrowing operations of the European Communities and of the European Investment Bank, 1958-1977 (in millions u.a./EUA (a))

	ECSC	EIB	Euratom	EEC
1958	50,0	:	:	:
1959	:	:	:	:
1960	35,0	:	:	:
1961	23,2	21,4	:	:
1962	69,8	32,3	:	:
1963	33,2	35,2	4,5	:
1964	127,8	66,8	8,0	:
1965	54,3	65,0	11,0	(b) :
1966	103,0	138,5	13,7	:
1967	58,0	194,5	2,6	:
1968	108,0	212,5	:	:
1969	52,0	146,0	:	:
1970	60,0	168,9	:	:
1971	102,3	412,9	0,6 (b)	:
1972	230,0	462,0	:	:
1973	262,9	608,0	:	:
1974	527,7	825,5	:	:
1975	731,3	813,7	:	:
1976	956,2	731,9	:	1 249,3
1977	727,4 (c)	1 029,5	99,2	571,4

Annex - Table 35
Net outstanding borrowing of the European Communities and of the European Investment Bank, 1958-1977 (in millions u.a./EUA (a))

	ECSC	EIB	Euratom	EEC
1958	212,2	:	:	:
1959	208,6	:	:	:
1960	236,4	:	:	:
1961	247,8	21,4	:	:
1962	304,3	53,7	:	:
1963	321,7	88,4	:	:
1964	436,0	153,7	:	:
1965	474,7	217,2	:	:
1966	559,7	355,0	:	:
1967	601,3	547,8	:	:
1968	685,9	736,8	:	:
1969	718,6	882,6	:	:
1970	740,6	1 020,0	:	:
1971	801,7	1 423,3	:	:
1972	963,0	1 784,3	:	:
1973	1 172,3	2 286,5	:	:
1974	1 617,1	3 123,8	:	:
1975	2 393,1	3 926,0	:	:
1976	3 476,5	4 731,8	:	1 160,8
1977	3 955,9 (c)	5 420,5	110,0	1 499,8

Note to the Statistical Annex

General remarks:

Unless otherwise specified, aggregates are defined as in the ESA (European system of integrated economic accounts). Where possible, the tables include the latest information available. Thus, data may differ from those given in publications by the Statistical Office of the European Communities.

Unless otherwise specified, the data for 1978 refer to the whole year; as the report was completed at the end of September (the cut-off date for data), forecasts are used for the latter part of the year.

Remarks on the Tables:

Tables	Notes	
1 - 3		<p>Sources: 1958-76: Eurostat <i>National Accounts ESA</i>, 1977, except for Denmark from 1966 (<i>Statistiske Efterretninger 1978</i>, No 20, Danmarks Statistik) and for Ireland from 1970 (<i>CSO, National Income and Expenditure 1976</i>).</p> <p>1977: Eurostat, national sources and Commission estimates.</p> <p>1978: Commission departments.</p>
4, 6, 7		<p>Sources: 1958: Tables 4 and 7, and 1958-60, Table 6: Eurostat, <i>National Accounts, 1972</i>, (non-ESA system).</p> <p>1959-76: Tables 4 and 7.</p> <p>1960-76: Table 6.</p> <p>Eurostat <i>National Accounts ESA</i>, 1977 for all countries except Denmark and Ireland (see sources for Tables (1 - 3)).</p> <p>1977: Eurostat, national sources and Commission departments.</p> <p>1978: Commission departments.</p>
4, 6, 7	(a) (b) (c)	<p>1970 price base except for 1958 (1963 price base).</p> <p>1975 price base for the Netherlands.</p> <p>Previous year's prices and exchange rates.</p>
5	(a)	<p>Sources: 1958-77: Eurostat <i>General Statistics</i>.</p> <p>1978: Commission departments (value-added).</p> <p>Not including building.</p>
7 - 11		<p>Sources: 1958-60: Eurostat, <i>National Accounts</i>, 1972 (the series have been linked to the 1961-76 ESA series).</p> <p>1961-76: Eurostat, <i>National Accounts ESA</i>.</p> <p>1977: Eurostat, national sources and Commission estimates.</p> <p>1978: Commission departments.</p>
12, 15		<p>Coverage: Goods, services (including tourism), not including factors payments.</p> <p>Sources: 1958-67: Eurostat, <i>National Accounts</i>, 1972, except for the FR of Germany and the United Kingdom, where national sources were used.</p> <p>1968-77: OECD, <i>National Accounts</i>.</p> <p>1978: Commission departments.</p>

Tables	Notes
13, 14, 16, 17	<p><i>Coverage:</i> Merchandise: imports cif at national frontier exports fob at national frontier.</p> <p><i>Sources:</i> 1958-75: Eurostat, <i>Foreign trade</i> (monthly bulletin) special edition 1958-75, and <i>National Accounts ESA</i>. 1976-77: Eurostat, <i>Foreign trade</i> (monthly bulletin) No 5 1978 and <i>National Accounts ESA</i>. 1978: Commission departments.</p>
18	<p><i>Sources:</i> 1958-60, Eurostat, <i>National Accounts</i>, 1972. 1961-76, Eurostat, <i>National Accounts ESA</i>.</p>
19, 20	<p><i>Sources:</i> Eurostat, <i>Foreign Trade by Country</i> and OECD, <i>Overall Trade by Countries</i>.</p>
21, 22	<p><i>Sources:</i> 1958-76: Eurostat, <i>National Accounts ESA</i>.</p>
23	<p>(a) <i>Sources:</i> 1958-77: Eurostat (SOEC definition). 1978: Average January-August.</p> <p>(b) Economic budgets drawn up by Commission departments, which are consistent with national definitions. These differ from SOEC definitions both with respect to the active population and in some cases with respect to the unemployed.</p>
24, 25, 26	<p><i>Sources:</i> 1958-73: OECD, <i>National Accounts</i>. 1974-78: Economic budgets drawn up by Commission departments.</p>
27	<p><i>Sources:</i> DK: money supply M_2, national definition, Danmarks Nationalbank, <i>Monetary Review</i>. D: money supply M_3, national definition, Deutsche Bundesbank, <i>Monatsbericht</i>. F: money supply M_2, national definition, Conseil National du Credit, <i>Rapports</i>. IRL: money supply M_3, national definition, Central Bank of Ireland. Estimates for the periods of bank strikes and industrial action, i.e. March-September, 1966 and March 1970 - March 1971. I: primary and secondary liquid assets (M_2), national definitions, Banca d'Italia, <i>Supplemento al Bollettino</i>. NL: domestic liquidity, Nederlandse Bank, <i>Kwartaalbericht</i>. B: 1958-69: money supply including other commitments towards firms and individuals, Banque Nationale de Belgique, <i>Bulletin</i>. 1970-77: deposits up to one year held by firms and individuals with national financial bodies, Banque Nationale de Belgique, <i>Bulletin</i>. UK: money supply sterling M_3: CSO, <i>Economic Trends</i>, <i>Annual Supplement</i>, 1977 and <i>Economic Trends</i>, July 1978.</p>
28	<p><i>Sources:</i> DK: money market rates, annual average daily rate: OECD, <i>Main Economic Indicators</i>. D: three-months' money Deutsche Bundesbank, <i>Monatsbericht</i>. F: daily rates for loans against non-government securities between banks on the money market: Conseil National de Credit, <i>Rapports</i>. IRL: prime lending rate (average rate of last Friday of each month). Central Bank of Ireland.</p>

Tables	Notes
29	<p>I: yield on twelve-month treasury bonds: Banca d'Italia, <i>Supplemento al Bolletino</i>. NL: three-month treasury bonds: Nederlandse Bank <i>Kwartaalbericht</i>. B: three-month treasury bonds: Nationale Bank van België, <i>Bulletin</i>. UK: Treasury bill rate: OECD, <i>Main Economic Indicators, Historical Statistics 1960-75</i>, and CSO, <i>Economic Trends</i>. EC: average weighted by GDP of each country.</p> <p>Sources: DK: 1960-70: yields on mortgage debentures: OECD, <i>Main Economic Indicators</i>. 1971-77: average of yields on State bonds and ordinary and special mortgage loans: Danmarks Nationalbank, <i>Monetary Review</i>. D: interest rate on capital (Kapitalzins) Deutsche Bundesbank, <i>Monatsbericht</i>. F: long-term interest rate: stock exchange yield on public and semi-public sector bonds. 1958 and 1959: public-sector industrial bonds. From 1965, issues subject to withholding tax. IRL: Government bond yield. Average of the last Thursday of each month. I: yield on bonds: Banca d'Italia, <i>Supplemento al Bolletino</i>. NL: yield on Nederland 1948 bonds (3,25 %): Nederlandse Bank, <i>Kwartaalbericht</i>. B: yield on Government securities maturing after more than five years: Nationale Bank van België, <i>Tijdschrift</i>. UK: British Government securities 2,5 % consols yield: CSO, <i>Economic Trends</i>, July 1977 and <i>Economic Trends, Annual Supplement 1977</i>. EC: average weighted by GDP of each country.</p>
30	<p>Sources: OECD, <i>Main Economic Indicators</i>, converted to u.a./EUA.</p>
31	<p>(a) Sources: Commission departments average to August 1978. Coverage: Out-turns except authorizations for 1978 and 1979.</p>
32	<p>Sources: 1958-77: Management accounts. 1978: General EC budget adopted by the Parliament on 21 December, 1977. 1979: Draft general EC budget, June 1978, doc. COM (78) 250. (a) u.a. until 1977, EUA 1978 onwards. (b) Incorporated in the EC budget from 1971. (c) This column includes, for the years to 1970, substantial amounts carried forward to following years. In 1977 appropriations for the Social Fund carried forward. (d) Including the European Parliament, the Council, the Court of Justice, the Court of Auditors and the administrative part of the ECSC budget. (e) In 1977 appropriations for the Social Fund carried forward from 1976 and subsequently cancelled amounted to 227 716 611 u.a. while total expenditure for 1977 amounted to only 173 799 040 u.a. giving the net figure shown here.</p>

Tables

Notes

33

Sources: 1958-77: Management accounts.
 1978: General EC budget adopted by the Parliament on 21 December, 1977.
 1979: Draft general EC budget, June 1978, Doc. COM (78) 250.
 u.a. until 1977, EUA 1978 onward.
 GNP until 1978, VAT from 1979 onward.
 This column includes for the years to 1970 surplus revenue from previous years carried forward to following years.
 As a result of the calculations to establish the relative shares of the Member States in the 1976 budget, an excess of revenue over expenditure occurred amounting to 40 543 573 u.a. This was carried forward to 1977.

- (a)
- (b)
- (c)
- (d)

34, 35

Coverage: Actual figures, except for 1978 and 1979, where appropriations are given.

Sources: ECSC: *European Investment Bank, 20 years 1958-78*.
 Euratom: D. Strasser, *Les Finances de l'Europe*, Presse Universitaire de France, 1975 and Euratom prospectus.
 EEC: Commission departments.
 ECSC: 1958-74: u.a.
 1975-77: EUA.
 EIB: 1961-73: u.a.
 Euratom: 1963-71: u.a.
 1977: EUA.
 Withdrawals from credit lines opened with Eximbank (USA).
 Provisional figures.

- (a)
- (b)
- (c)

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