

Member States and COST-countries to implement the COST-proposals.

The Committee asks that the Commission should make provision for this requirement for this proposal.

8.3. However, the Committee would like a clear statement on the future of the COST-programmes 90, 90 bis, 91 and 91 bis in relation to the FLAIR-programme.

10. **Communication to the ESC of the progress report and evaluation report mentioned in Article 4 of the programme proposal**

#### 9. Utilization and dissemination of results

10.1. The failure of the Commission to include the Economic and Social Committee in the communication of the results of review and evaluation required is drawn to the attention of the Council.

9.1. Article 130K of the Single European Act requires the Council to define the detailed arrangements for the dissemination of knowledge resulting from specific programmes.

10.2. The Committee feels that, being consulted on the proposal, it is reasonable that it should be kept in touch with the progress of the work.

Done at Brussels, 23 November 1988.

*The Chairman  
of the Economic and Social Committee*

Alberto MASPRONE

### Opinion on the Commission annual economic report 1988/1989

(89/C 23/11)

On 28 October 1988 the Council decided to consult the Economic and Social Committee on the Commission's annual economic report 1988/1989 in accordance with Council Decision 120/74/EEC of February 1974 on the achievement of a high degree of convergence of the economic policies of the Member States of the European Economic Community<sup>(1)</sup> as amended by Decision 787/75/EEC<sup>(2)</sup>, and especially Article 4 thereof.

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 15 November 1988. The Rapporteur was Mr Drago.

At its 260th plenary session (meeting of 23 November 1988), the Economic and Social Committee adopted the following Opinion by 112 votes to 5, with 2 abstentions.

#### 1. Growth, adjustment and international cooperation

European economy has thus achieved better overall results than had been forecast in the revised analyses at the beginning of the year.

1.1. The economic cycle is in a particularly buoyant phase which is conducive in different ways to sustained expansion of the economy of the industrialized nations (3,9%) and the developing countries (3,5%-4%), and to the growth of world trade (7,6%). In 1988 the

The Committee endorses the Commission's identification of the main factors which have helped achieve strong growth. However, it expresses reservations about (a) the forecasts which for years have proved inaccurate, and (b) the importance which the Commission attaches to the inflationary hazards in the world economy.

<sup>(1)</sup> OJ No L 63, 5. 3. 1974, p. 16.

<sup>(2)</sup> OJ No L 330, 24. 12. 1975, p. 52.

1.2. Despite the key contribution from all components of demand and of investment in particular, the basic economic problems highlighted in the Committee's own-initiative Opinion<sup>(1)</sup> were only partially alleviated in 1988 by the unusually favourable conditions; there was only a slight improvement in the employment situation in the Community, despite the priority which the Commission now attaches to it.

1.3. Overall, the Committee therefore considers that the measures to iron out imbalances in trade and the gradual process of adjustment between geo-economic areas are still at an early stage. It also notes that imbalances within the Community are growing, making the problem of adjustment more complex. At international level it is mainly the central banks who have restored stability to the financial markets and regulated exchange rate parities by solid coordination of interest rate policies.

Furthermore, the latent dangers inherent in excessive exchange rate and interest rate fluctuations remain; and the financial markets would again become unstable if the economic situation were to get out of control as a result of inadequate international cooperation or coordination.

1.4. In the present circumstances, the Committee considers that the commitments to keep a tight rein on exchange rates should not and cannot be expected to reduce the balance-of-payment imbalances of the United States, Japan, and West Germany single-handed. With particular regard to the United States, the Community awaits more effective action by the incoming Administration and the Congress to correct the deficits, together with policies which take more account of investment. For the purposes of a wide-ranging coordination policy, too much faith is also being placed on the statistics issued regularly by the various international bodies and forecasting institutes.

1.5. The Committee calls on the Community institutions to ensure that the domestic and external objectives of the major economic powers are compatible with the commitment made in the Plaza and Louvre agreements to cooperate on and coordinate economic policies.

At the same time, it calls on the Commission firmly to oppose (and if necessary, to respond to) the use of trade legislation, such as the United States Trade Act, in pursuit of aggressive, neo-protectionist policies at industrial and commercial levels.

<sup>(1)</sup> ESC Opinion on the economic situation of the Community in mid-1988 (OJ No C 208, 8. 8. 1988, p. 33).

1.6. The multilateral consultation and negotiation arrangements enshrined in the General Agreement on Tariffs and Trade (GATT) must be reinforced during the present negotiations, in order to avoid the risk of a return to bilateralism which would hit the developing countries and make it even more difficult for the Uruguay Round to succeed.

1.7. In the international cooperation sphere, the Committee would accord continued priority to the following:

- conclusion of multilateral agreements to help correct the imbalances. Reliable reference frameworks are needed for monetary policies and financial innovation as well as trade policies,
- pursuit of a policy which differentiates between the debtor nations, with debt-rescheduling and the re-negotiation of debt-servicing terms,
- encourage the resumption of funding for the least-developed countries and the main debtor nations, by fostering a reduction in the nominal value of part of the multilateral, bilateral and commercial debt.

1.8. The statistics and data presented at the recent meetings of the International Monetary Fund (IMF) and the World Bank showed that the increase in the price of non-oil raw materials (up 27% in the last year) has not even partly met the growing need for funding.

The Committee therefore views with concern the delays in decisions to relieve the developing countries' debt, the possible repercussions on the international banking system, the increasing evidence of threats to the political and social stability of some countries, and the increase in world poverty.

The Committee also considers that the newly-industrializing countries must be prevailed on to shoulder greater responsibilities, in line with their potential and with their respective shares of world trade.

1.9. In the light of the results achieved, the Committee calls on the Community institutions to play a more dynamic political role, harnessing the positive macro-economic results to work in a way which (a) takes a more balanced approach to development within the Community and (b) is more in tune with the expectations of the developing nations.

## 2. The European economy: out-turn in 1988 and Commission forecasts for 1989

### a) Macroeconomic performance

2.1. In 1988, the Community gross domestic product (GDP) will grow on average by over 3,5%. The figures

for the United States and Japan will be 3,9 % and 5,6 % respectively.

In 1989, growth in the Community is likely to slow down to 2,8 % (compared with 2,3 % in the United States and 3,8 % in Japan).

2.2. This figure—the best for the last ten years—coincides with an unemployment rate equal to 11,3 % of the workforce. Unemployment should improve slightly in 1989 (10,9 %).

The Commission thus sees unemployment as the most important problem.

2.3. Despite a few cases of overheating of demand and recent acceleration of inflation, the average inflation rate (as measured by the deflator of private consumption) will remain at around 3,5 % (3,7 % in 1989).

2.4. The balance on current transactions with the rest of the world (as a percentage of GDP) will fall again, and is likely to be around 0,5 %.

#### b) *Indicators of demand*

2.5. Domestic demand has been the locomotive of economic growth. Against a background of 4,25 % growth (3,25 % for 1989), private consumption is expected to increase by 3,5 % (3 % in 1989) owing to the strong rise in some countries. At the same time, a general and unexpected surge in investment is occurring: 7 % in 1988, 5,3 % in 1989 for gross fixed capital formation.

2.6. The volume of Community exports to third countries (year-on-year variation) will rise by 6 % in 1988, and 5 % in 1989. Despite this, foreign trade will continue to deflate the growth of Community GDP (−1 % for net exports in 1988, −0,5 % in 1989).

#### c) *Indicators of supply conditions*

2.7. The Commission stresses that employment is rising at a high, stable rate of around 1 % per year. The creation of new jobs is only of partial assistance in reducing unemployment. Long-term unemployment persists (over 50 % of the total) and youth unemployment is still running very high (above 20 %).

2.8. Real unit labour costs have fallen by around six points since 1981 (the trend has been particularly marked in the poorer countries, with the exception of Greece), and are likely to fall further. Further rises in productivity can improve the employment content of investment via a further improvement in the ratio of capital: employment (an annual average increase of 2,3 % in capital stock translates into a job creation rate of 0,7 %). A more flexible approach to the organization

of working time, coupled with a reduction in costs, could help to compensate workers by granting them further cuts in individual working hours.

2.9. The fall in unit labour costs has increased the return on capital, fostering a greater share of profits in added value. Although the return on capital has not grown on the same scale as net profitability, the propensity to invest remains high. Against a background of greater competitiveness, rationalization investment has been more moderate.

#### d) *Economic policy indicators*

2.10. Income differences between Member States and regions, as well as differences between the GDP of the regions of individual countries, remain considerable. Average per capita GDP in the four poorest countries is only 65 % of that in the four richest countries (compared to 60 % in 1987).

2.11. Monetary policies in the Community have been influenced by international monetary developments. The appreciation in the dollar has allowed greater attention to focus on internal objectives, at a time when there is apprehension at the rising cost of raw materials, sustained demand, and stronger expansion of monetary aggregates (+ 9,9 %). Short-term interest rate hikes have proved the most popular instrument, and have been pursued with particular determination in West-Germany, the United Kingdom and Italy, albeit for different reasons. Severe dollar instability would exacerbate the conflict between domestic monetary policy objectives and the control of exchange rates within the European Monetary System (EMS).

2.12. The development of public finances has not on the whole been positive. Public debt remains at a disturbing level (60 % of GDP; around 61 % for 1989), and the general government deficit will deflate GDP by 4,5 %. Budget policy has not bolstered the internal factors which determine the Community's growth.

### 3. **The Committee's assessment of the economic policies and guidelines of the Commission**

#### a) *Economic policies and their coordination*

3.1. The Committee considers that Community economic policy should seek to consolidate and support present developments. The Committee endorses some of the guidelines drawn up by the Commission, as being

consistent with the analyses and proposals set out in the Committee's own-initiative Opinion.

The Committee stresses, however, that the persistent high unemployment in some regions is unacceptable.

3.2. The Committee agrees with the Commission that greater coordination of economic policies is needed, both to safeguard the convergence already achieved on the key goals and more particularly to achieve more sustained growth and make it easier to coordinate other policies.

With favourable economic circumstances, the transition towards the single internal market must continue to rest on macroeconomic stability and economic efficiency. These can be achieved by means of improved coordination and institutional support for the creation and management of a larger, more homogeneous market.

3.3. Potential economic growth within the Community must not be jeopardized by national economic priorities which could trigger off an overall slowdown and consolidate the fixing of exchange rate parities which are not consistent with balance. Economic and budgetary policy developments in West Germany will play a crucial role here.

3.4. Steps must thus be taken to coordinate GDP growth targets. These steps should go beyond the control of demand and the management of monetary policies. They should also aim to influence the main supply-side policies (industrial policy, competition policy, aid arrangements, tax harmonization).

3.5. With a view to consolidating the Community's future growth, particular attention must be paid to the competitiveness and supply potential which structural adjustment measures will generate. Commission action to set medium-term economic objectives could be useful here.

#### b) *Structural policies*

3.6. The Committee considers that Community and national structural policies are crucial to achieving and maintaining a high degree of economic and social cohesion. They must thus be implemented with greater urgency, in order to support dynamic economic activity and reduce the imbalance within the Community which allows the country with the strongest economy to leech

off the dynamism of its neighbours, thus reducing their scope for further domestic expansion.

3.7. Although it endorses the Commission's idea of a 'partnership' between the structural funds, the financial instruments and the new Regulation of the European Investment Bank (EIB), the Committee stresses the need to ensure the involvement and support of the socio-economic interest groups in the various procedures and stages of the measures <sup>(1)</sup>.

Moreover, bearing in mind that the doubled structural funds will still only represent 0,3% of total Community GDP, the Committee considers it of priority importance that the funds be channelled to the least-developed regions. At the same time, the Funds must also be directed at the least-favoured regions and those in industrial decline, in order to encourage the creation of new jobs in these areas.

3.8. A balanced system of national development aid in the most backward areas could sharpen up the use of the structural funds at a macroeconomic level, while making them better able to attract capital microeconomically. If capital and savings from those Member States which are running large trade surpluses could be channelled into productive local investment, the resulting impact on wages would help close the development gap and strengthen the Community's economic and social cohesion. This capital could qualify for interest rebates and/or guarantees tied to the use of the structural funds.

3.9. Community aid for infrastructure policies also needs to be swifter and more selective, improving conditions in the less-developed regions and boosting their dynamism.

3.10. The Committee considers that technological research and development policy must also become more cohesive, and must assume a structural role. This means strengthening its links with the various levels of the education system and its use in the modernization of teaching methods.

3.11. While eschewing detailed references to earlier recommendations, the Committee stresses the potential of environmental policy and the reform of the common agricultural policy (CAP). By opening up a more dynamic role for rural society, these can help increase economic and social cohesion.

<sup>(1)</sup> See the Committee Opinion on the coordination of the structural funds of 27 October 1988 (OJ No C 337, 31. 12. 1988, p. 39).

In economic terms, incentives must be provided for technologies which do not harm the environment, but which are also innovative and can produce the type of goods and services that the public wants.

Unless suitable measures are taken, invisible costs which are difficult to assess, in various sectors, will continue to affect the nature and scale of economic development in the long term.

#### c) *Market policies*

3.12. Turning to structural measures with a macro-economic impact, the Committee notes that the implementation of a competition policy which is transparent, effectively administered, and balanced from both the financial and fiscal point of view, will help provide a more secure economic environment for companies, for employment, and for the development of the service sector.

3.13. The report on 'the cost of non-Europe' highlighted new areas of growth and competitiveness for European businesses. The various sectors of the business world, and the development of small firms, service industries and cooperatives, thus need the support of policies to encourage expansion and secure favourable conditions for industrial supply.

Productivity has increased substantially, company performance has improved significantly, and unit labour costs have fallen largely thanks to employees' efforts in the area of wage moderation. The Committee therefore considers that the time has come to improve workers' purchasing power, thus allowing a rise in private consumption.

3.14. Companies must take advantage of continuing buoyant demand to speed up the development of high-tech sectors, incorporating technologies into their production processes and introducing greater elasticity and diversification into the production of final goods.

The continuing Val Duchesse dialogue on microeconomic problems should help to resolve these issues.

3.15. The Committee also considers that the problems of employment, labour market intervention and ongoing training merit more concrete action by the institutions and the Member States. Greater business

competitiveness has not yet led to an improvement in the employment situation.

3.16. The recommendations made in the ESC Opinion on social developments in the Community in 1987<sup>(1)</sup> remain valid. The Committee stresses that the slight pick-up of employment in industry and the bigger rise in the service sector have been accompanied by a sharp rise in part-time work which—as the Commission notes—points to a certain degree of under-employment, although this is difficult to quantify.

Part-time work is obviously a positive phenomenon when it is freely chosen. However, the various forms of under-employment and undeclared work which fall outside labour legislation are a matter for concern.

The Committee also draws the Commission's attention to the large numbers of temporary jobs, filled by people who have no chance of finding other, more skilled employment.

Finally, a further boost to employment should come from measures designed to restructure and reduce working hours without sacrificing productivity.

3.17. The creation of long-term jobs in the weaker areas needs to be speeded up, in order to smooth out the 'J' profile of aggregate employment in the run-up to the internal market. At the same time, greater mobility within the Community must be accompanied by the elimination of the various handicaps which influence decisions on the siting of production centres.

3.18. Lastly, the Committee notes that marketable services have made an increased contribution to total added value and aggregate investment. These services make a considerable contribution to employment and to job creation, despite the absence of a specific assistance policy at Community level.

#### d) *Monetary policy; budget policy*

3.19. With a view to more coherent management of the Community economy, the Committee urges the Member States to achieve the necessary degree of correspondence between their monetary and budgetary policies.

With the prospect of complete liberalization of capital movements and integration of the financial markets, coordination is needed when determining monetary and credit targets, in order to permit joint action on the external elements of the monetary base, and better determine the components of internal credit.

<sup>(1)</sup> OJ No C 208, 8. 8. 1988.

3.20. Within the European exchange rate and EMS agreements, competitiveness should not be decided by a position of dominance based on exchange-rate constraints. Better management of exchange rates is thus needed, including decisions on interest rates.

3.21. The Committee considers that the cohesion of the EMS is still too vulnerable to factors outside the EMS area. Active use of interest rate differentials could help achieve the corrections which would be needed to cope with any renewed instability of the dollar.

Nevertheless, a new monetary order between the main trading currencies is the only way to restore greater reliability to macroeconomic policy objectives.

Lastly, the Committee reiterates the need for common rules on the various links between financial markets and between currency and finance.

3.22. The Committee agrees with the Commission's priorities for and analysis of budget policies. It too sees a need to harmonize indirect taxation, and for adjustments to improve supply and demand conditions in order to support growth.

3.23. Careful adjustment of income and expenditure can produce synergy. Account must be taken of the differing foreign trade balances and, more important, of the present differences in current balances within the Community.

In the present climate of overall growth, the Committee sees signs of a potential structural inversion of economic development and growth.

#### 4. The institutional aspect

4.1. The steps taken by the institutions in 1988 should spur the Member States to work for a high degree of consensus conducive to a real 'European initiative', much more concrete than the simple cooperation strategy prepared during 1985.

The Committee notes however that there is now general agreement in the Member States that more sustained European growth is crucial to an improvement in the employment situation. However, not all countries are showing the degree of commitment which their respective potential would allow.

4.2. The priorities set at the Brussels and Hanover summits will call for ever-increasing commitment in the next few years from the Member States; these have not

displayed enough economic dynamism at a time when the two sides of industry have shown, as at the Val Duchesse dialogue, that it is possible to build a European social dialogue.

The Committee feels that the degree of consensus achieved on the need for dynamic Europe-wide growth provides the bedrock for the economic and social cohesion which is vital to the successful completion of the internal market.

Growth and jobs, development and balance between regions, economic and social cohesion, and the completion of the internal market, are all interdependent.

Anything less than total success in any one of these areas would halt progress towards economic and monetary union.

4.3. Greater economic cohesion between the Member States is, as we have said before, contingent on real coordination of economic, and not just monetary policies. The Committee also supports the creation of an EEC financial area and the adoption of directives aimed at bringing about the unrestricted provision of services. It also favours a study on the setting-up of an autonomous European central bank.

4.4. At the same time, efforts should continue to achieve greater convergence of Member States' economic performances, so as to reduce the present disparities and thus together derive greater benefit from the indispensable higher growth of the richer countries which have a healthier economy.

The Commission dwells too much on the respective roles of those countries which stimulated the economy and those which should have done more in 1988. The emphasis should be on the role of the stronger economies which, by virtue of their scale, should provide ongoing stimuli and commitments.

4.5. As regards social cohesion, the ESC will issue an Opinion on the package of proposals which the Commission has undertaken to prepare. For the moment, the Committee would point out that social cohesion is threatened by the serious under-development of some regions (income ratios of 1:5; 30% unemployment in some areas; 20% of the EEC's population living in regions whose per capita GDP, expressed in terms of equal purchasing power, is 25% below the EEC average). Two other problems requiring greater

consideration are the concentration of wealth and a better distribution of incomes.

4.6. The economic and social disadvantages suffered by the least prosperous areas of the Community must be tackled, first and foremost by achieving greater convergence of economic policies and by exploiting internally-generated potential.

At the same time, the Committee stresses that direct, sustained involvement of the various social partners will be necessary in order to achieve the degree of social cohesion sought by the Commission. Any guidelines for progress on working conditions, social protection, safety, consultation and information, will have to involve a gradual alignment of the various national situations, whilst avoiding social dumping and/or the possible relocation of production centres.

In the Committee's view, the lower real wages and less comprehensive social legislation in some regions and production areas should not be viewed as comparative advantages, but as transitional stages in the completion of the internal market.

As part of the gradual upward convergence of social standards, social dialogue should also give thought to the content of possible European-level agreements and contracts.

4.7. The Committee will issue its own statement on the completion of the internal market and its potential. For the moment, it would point out that the improved performance of the European economy (which has been further bolstered by internally-generated factors) stems partly from the expectations kindled by the completion of the internal market.

However, the Committee still has reservations and concern about the lead given by the Council. Although it has approved one third of the proposals presented by the Commission, the Council is finding it difficult to achieve the convergence which is vital on some of the key aspects of the harmonization process, leaving aside the qualitatively important progress made in the institutional procedures.

4.8. The Committee urges the Commission, the Council and the European Parliament to revamp the budget from 1989 on, so that the allocation of funds is more in keeping with the policies recognized as priorities for boosting growth and jobs.

It should be emphasized here that the level of budget allocations will determine:

— the role which expectations play in investment decisions,

— the effects expected from back-up measures,

— the evolution of trade policies towards non-EEC countries,

— the possibilities for completing the internal market and achieving a high level of economic and social cohesion.

## 5. Procedures and structure for a more effective annual economic report

5.1. To foster greater economic cooperation and ensure closer Community-wide cohesion, the Committee considers that when dealing with Member States' economic policies, the Commission and Council should sharpen up the guidelines and directions contained in the annual economic report, as well as the monitoring procedures.

5.2. First, an initial check could be made on the consistency and compatibility of the various economic policies if by 1992 the Member States managed to adopt the same timetable for submitting budgetary estimates and guidelines for financial and tax policy.

Simultaneous moves by the twelve Member States to produce forecasts and guidelines, coupled with contemporaneous approval of the Commission's annual economic report, would make it easier to compare the results achieved within the economic cycle and over the same time span.

5.3. Second, the Committee would draw attention to the need for a review of the economic consultation procedure adopted by Council Decision 74/120/EEC of 18 February 1974. This review should bring the procedure into line with the requirements of the Twelve and the procedures and aims set out in the Single Act, and should give the Commission certain supervisory powers on the coordination of economic and monetary policies.

5.4. The Commission, for its part, can sharpen up the guidelines in its annual economic report, accompanying them with specific 'Black Papers' identifying the current discrepancies between expressed aims and actual results. This could help highlight the underlying trends in the Member States and, without casting any political judgments, stimulate the search for suitable joint corrective measures to achieve greater control over the main macroeconomic variables, while respecting the priorities of the Community as a whole.

5.5. Finally, bearing in mind that, in the Committee's view, the priority aim is still to achieve the highest possible level of employment and skills against a background of stable growth and balanced development, the Commission should endeavour to back up the report on 'the Cost of non-Europe' with similar forecasts regarding jobs.

The need for greater transparency during the transition towards a full internal market could be met by developing a dynamic input-output model to assess, using alternative technological scenarios, the input and structure of employment, the employment levels in different regions, and the technological changes necessary in education and training.

Done at Brussels, 23 November 1988.

*The Chairman  
of the Economic and Social Committee*

Alberto MASPRONE

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**Opinion on the proposal for a Council resolution  
on the fight against racism and xenophobia<sup>(1)</sup>**

(89/C 23/12)

On 11 July 1988, the Council decided to consult the Economic and Social Committee under Article 198 of the Treaty establishing the European Economic Community on the abovementioned proposal.

The Section for Social, Family, Educational and Cultural Affairs which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 10 November 1988. The Rapporteur was Mrs Flather.

At its 260th plenary session (meeting of 23 November 1988), the Economic and Social Committee adopted the following Opinion by 105 votes in favour and 3 abstentions.

**1. General comments**

1.1. The contemporary European idea was born out of resistance to nationalistic tyranny, xenophobia and racism. It is right and proper, therefore, that the European Community should concern itself with efforts to combat any upsurge of racism in our midst. The Committee welcomes the Commission initiative, and yet, in keeping with earlier related Opinions<sup>(2)</sup>, expresses deep disappointment that only a proposal for a Council Resolution is presented rather than an effective policy displaying a real political commitment to combat racism.

1.2. It is both ironic and sad that, as progress is rapidly being made towards '1992' and the abolishing of commercial frontiers between Member States, human barriers and racial tensions have still to be broken down within the Community. The Committee insists that all EC nationals, including those who are from ethnic minorities, are assured a share of and a future in a 'People's Europe', that rights of residence, of freedom of movement and employment, and the mutual recognition of diplomas and qualifications are applied across the board.

<sup>(1)</sup> OJ No C 214, 16. 8. 1988, p. 32.

<sup>(2)</sup> ESC Opinion on migrant workers (OJ No C 343, 24. 12. 1984); ESC Opinion on guidelines for a Community policy on migration (OJ No C 186, 26. 7. 1985).

1.2.1. The Commission rightly focuses on combating racism and xenophobia and on the need to safeguard fundamental rights, as stressed by the recent Single