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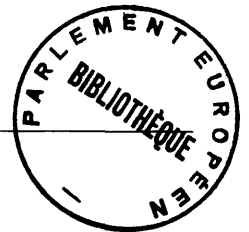
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II

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COUNCIL

COUNCIL DECISION

of 14 December 1981

adopting the annual report on the economic situation in the Community and laying down economic policy guidelines for 1982

(81/1056/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Decision 74/120/EEC of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community⁽¹⁾, as amended by Decision 75/787/EEC⁽²⁾, and in particular Article 4 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament⁽³⁾,

Having regard to the opinion of the Economic and Social Committee⁽⁴⁾,

Whereas the data necessary for the adoption of the economic policy guidelines to be followed by the Hellenic Republic for 1982 are not available; Whereas, as a result, this Decision will have to be completed by the laying down of such guidelines as soon as possible and, should it prove necessary, be the subject of review at the same time,

HAS ADOPTED THIS DECISION:

Article 1

The Council hereby adopts the annual report on the economic situation in the Community (1981), as contained in point 2 of the Annex, and lays down the guidelines to be followed by the Member States in economic policy for 1982, as contained in points 3, 4 and 5 of the Annex.

Article 2

As soon as possible, the Council shall complete this Decision by laying down the guidelines to be followed by the Hellenic Republic in its economic policy for 1982 and, should it prove necessary, shall review the whole of this Decision in the light of those guidelines.

Article 3

This Decision is addressed to the Member States.

Done at Brussels, 14 December 1981.

For the Council

The President

G. HOWE

(1) OJ No L 63, 5. 3. 1974, p. 16.

(2) OJ No L 330, 24. 12. 1975, p. 52.

(3) OJ No C 327, 14. 12. 1981, p. 39.

(4) Opinion delivered on 25 November 1981 (not yet published in the Official Journal).

ANNEX

ANNUAL ECONOMIC REPORT 1981/82

1. FOREWORD

The Commission's proposed 'Annual Economic Report' for 1981/82 is submitted to the Community institutions in accordance with the Council's 1974 Decision⁽¹⁾ 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.

2. RETROSPECT AND PROSPECTS

(i) 1981: digesting the second oil shock with an unstable dollar

It now seems likely that the volume of output will have been at best of the same order of magnitude in 1981 as in 1980, compared to the increase of 0.6 % forecast by the Commission a year ago in the last Annual Report (see Table 1). The recession lasted two quarters longer than expected.

The most conspicuous contributing factor to these differences between forecast and out-turn has been the strong appreciation of the US dollar and the related rise in world-wide interest rates. The hypothesis behind last year's forecasts included some appreciation of the US dollar against the ECU, but the 34 % increase that occurred in the 12 months to September 1981 was very much greater than expected. Interest rate declines had been expected for 1981.

As a result, the Community's import prices are likely to rise even faster in 1981 than in 1980 (16.5 % against 14.5 %), and its terms of trade loss will be greater too (4 % against 3 %). In these respects, the dollar revaluation in 1981 was on the same scale as the second oil shock in 1980

(although in other respects they are quite different, for example in demand and competitiveness effects).

The oil price in 1981 stabilized around \$ 35 a barrel on average, which is broadly what had been supposed in the forecasts of a year ago. The exchange rate movements have not entirely prevented the Community from benefiting from the stabilization of the oil price: a weaker dollar would probably also have weakened pressures to stabilize the nominal oil price.

Following from the fast-rising import prices, consumer prices are now forecast to grow considerably faster in 1981 than originally expected (11.3 %, compared to 9.7 %) in spite of the fact that wage incomes have accelerated only a little. Thus there was no overall progress in reducing inflation in 1981. The squeeze on household incomes resulted in a low level of private savings, as well as a slight fall in the real level of private consumption compared to the 2 % gain that had been expected. Investment and stockbuilding performance also were weaker than expected, influenced no doubt by the very high interest rates.

⁽¹⁾ Article 4 of Decision 74/120/EEC of 18 February 1974, as amended by Decision 75/787/EEC of 18 December 1975.

TABLE 1
The Community economy: 1960 to 1982

Years	GDP volume growth	Productivity growth	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government financial deficits	Savings ratio of households	Monetary supply growth M2/M3	Unemployed in labour force
	% (3)	% (4)	% (3)	% (3)	% GDP	% GDP	%	% (5)	%
1960-1969	5.0	4.8	3.4	8.4	0.4	-0.4		8.0	2.1
1970-1979	3.3	2.9	8.8	13.0	0.1	-2.4	13.8	13.8	3.8
1979	3.4	2.6	9.6	10.6	-0.5	-3.6	17.1	11.9	5.4
1980	1.1	0.9	11.8	13.4	-1.4	-3.5	16.3	10.5	6.0
1981 last Report (1)	(0.6)	(0.9)	(9.7)	(10.3)	(-1.2)	(-3.9)	(16.9)	(9.0)	(6.8)
1981 this Report	-0.5	0.8	11.3	11.5	-1.2	-4.4	16.2	11.2	7.8
1982 (2)	2.0	2.1	10.4	10.8	-0.9	-4.1	16.1	9.9	8.5
Half years									
1981-I	-0.2	1.3	12.1	:	-1.3	:	:	:	7.4
1981-II (2)	1.1	2.3	11.1	:	-1.2	:	:	:	8.2
1982-I (2)	2.2	2.0	10.8	:	-1.0	:	:	:	8.5
1982-II (2)	2.7	2.2	9.8	:	-0.9	:	:	:	8.6

(1) Of 15 October 1980.

(2) Forecasts of the Commission staff on the basis of present or anticipated policies.

(3) Percentage change over previous period.

(4) Per occupied person, whole economy.

(5) End of period over 12 months earlier.

However, the massive improvement in the Community's international price competitiveness saw some compensating switch in demand with exports to non-EC markets now likely to increase 4.5 % for 1981 as a whole, compared to the 2.5 % expected a year ago. In spite of the worse terms of trade, the current account deficit for 1981 will remain at a similar level as in 1980.

The lower rate of activity, and accelerating labour supply, has also raised the level of unemployment, but the 7.8 % rate now estimated for 1981 as a whole exceeds the earlier forecast of 6.8 % by a wider margin than might have been expected from historical output-employment relationships.

As regards policy performance, it now seems likely that money supply will have grown 11 % on average in the Community as a whole, compared to the 9 % rate forecast for 1981 in the last Annual Report. While the Federal Republic of Germany has kept within its target range, other countries are tending to exceed the rates of growth projected in the last Annual Report.

For budgetary policy, the postponed recovery has meant automatic tendencies for deficits to rise, with

weaker tax increases and higher expenditures — typically for unemployment compensation and interest rates. While it is estimated that these influences could have added about 1.5 % of GDP to the size of budget deficits, governments took steps to limit this rise through restrictive action amounting to about 1 % of GDP, the average deficit thus reaching 4.4 % of GDP, compared to the 3.9 % expected in the last Annual Report.

The European Monetary System has continued to function satisfactorily in 1980/81 inasmuch as exchange-rate variability has remained substantially lower than in the last decade (see Table 2). The two realignments in central rates agreed on 22 March and 4 October 1981 (see Table 3) confirmed the ability of the system to make orderly adjustments in accordance with fundamental economic criteria, while preventing erratic or irrational exchange rate movements.

However, the convergence of economic fundamentals has been much weaker, and in fact seriously inadequate. The divergence in inflation rates (as measured by the standard deviation of consumer

TABLE 2
Indicators of convergence and divergence in the Community: 1960 to 1982

Years	GDP per head of total population (coefficient of variation)		Standard deviation of consumer prices % change	Standard deviation of GDP deflator % change	Exchange rate changes (mean) ⁽¹⁾		Standard deviation of net borrowing of general government % of GDP	Standard deviation of money supply % change (sd)
	Purchasing power parity	Current market of exchange			Community of Ten	European monetary system		
1960-1970	12.4	18.8	1.4	1.7	1.1	1.0	1.9	3.3
1970-1980	14.6	26.4	3.6	4.3	4.0	3.7	3.7	5.1
1979	15.7	29.5	4.8	4.9	2.7	1.8	3.7	5.4
1980	15.2	23.6	6.2	6.2	4.6	2.4	3.9	4.9
1981	15.3	20.9 ⁽³⁾	6.0	6.1	3.2 ⁽²⁾	2.1 ⁽²⁾	4.4	3.9
1982 (forecast)	15.8	—	5.5	5.6	—	—	4.4	3.8

Coefficient of variation (standard deviation divided by mean).

⁽¹⁾ Mean = mean change on previous year of currencies against the ECU.

⁽²⁾ First half of year.

⁽³⁾ At mid-1981 exchange rates.

Source : Commission services of the European Communities.

price rises) has risen in 1980 and 1981 to an even higher level than experienced in 1975/76 after the first oil shock. Budgetary policies have become increasingly divergent (as also indicated in Table 2 by the standard deviation of government deficits as a share of GDP) in 1980 and 1981, compared to the average for the past decade, and even more so compared to the nineteen-sixties. While structural differences in budgets between countries are to be expected, major differences in the response of budgetary policy to a shock such as the oil price increases are difficult to reconcile with the objectives of exchange rate stability in the EMS. Differences in the degree of absorption of the first oil shock in real wage levels have still persisted.

(ii) 1982: prospects for recovery

There are three major points to bear in mind about the outlook for the year ahead: the nature of the cyclical recovery that is likely to develop between now and mid-1982, the nature of the major risks that hang over this view of the short-term future, and the nature of the medium-term path of development which the Community economy may be on by the end of 1982.

It looks as though a certain cyclical recovery is now beginning. The Community's surveys of business opinion suggest this, although the speed of the

upturn still seems likely to be moderate. Taking 1982 as a whole over 1981, GDP should rise about 2%, with a somewhat faster rate building up in the course of the year (2.5-3%). Exports are expected to be the most dynamic demand component (+6%), with domestic demand growing only 1.5%. Consumer price rises should decelerate to about 10.5% for the year as a whole, and the balance of payments current deficit narrow to 0.9% of GDP. Money supply expansion may decelerate somewhat, while public deficits are expected on the basis of budget plans known to date to narrow on average slightly to 4.1% of GDP. Unemployment is expected to stabilize in the second half of 1982 at a level of about 8.5%.

Beyond the cyclical recovery phase over the next 12 months, assuming that further damaging shocks can be avoided, lies the question whether the Community economy will have moved on onto a growth trajectory that would be both sustainable and sufficiently strong to absorb unemployment. The answer is by no means clear. The last cyclical recovery (1978/79) broke down after two years of 3.5% growth and had managed just to stabilize the unemployment level over that period. While the immediate cause of the breakdown was the second oil shock, it was also true that physical capacity utilization was high in many industries, due to serious under-investment. The evidence gives a

TABLE 3
Exchange rate realignments in the European Monetary System in 1981

Currency	Revaluation (+) or devaluation (-) of bilateral central rates		Changes in effective exchange rates implied in central rate changes (2)	
	22 March 1981	4 October 1981	22 March 1981	4 October 1981
DM	0	+5.5	+1.4	+5.9
Fl	0	+5.5	+0.6	+3.7
Dkr	0	0	+0.9	-2.5
Bfrs/Lfrs	0	0	+0.6	-1.8
£ Irl	0	0	+0.6	-1.4
FF	0	-3	+1.8	-4.5
Lit	-6	-3	-6.0	-4.6
£ (1)	(+22.7)	(-9.9)	—	—

(1) The UK pound is included in the ECU, but not in the exchange rate mechanism of the EMS. For technical reasons, the pound is attributed a notional central rate in the system, and at each of the two realignments this rate was brought into line with the market rate of the pound against a reference currency prevailing on the day before the realignments (on 22 March, the Dutch guilder, and on 4 October, the Danish krone).

(2) Against currencies participating in the exchange-rate mechanism of the EMS.

rather clear warning that the cyclical recovery phase will have to be accompanied by fundamental changes in the structural performance of the Euro-

pean economy and requires considerable action on the part of the social partners if it is to lead to a reduction in unemployment.

3. AN OUTLINE OF ECONOMIC POLICY FOR THE COMMUNITY

Guidelines for economic policy in the Community for the period ahead may be defined under three headings:

- (i) Immediate issues of policy that relate to the international monetary environment and follow from the EMS realignment of 4 October 1981. Beyond questions of continuous management of monetary policy, this concerns decisions fixing budgets and, in several cases, domestic monetary policy objectives for 1982, and, generally, negotiations over pay for the next contract period;
- (ii) How the framework of institutions and ground rules for economic policy need to be improved, notably in order to reverse tendencies for the economies of Member States to diverge in their financial policies and cost performance;
- (iii) How the Community should tackle over a period of years its fundamental needs for higher levels of investment and competitive employment creation.

(i) Immediate issues of policy management following the October EMS realignment

The realignment of EMS central rates of 4 October was an act of sound management of the system. While the divergences that caused it need to be combated more effectively, the adjustment was fully in conformity with the rules of the system; participating countries remain well-shielded as between themselves from erratic or overshooting exchange rate movements. For the period immediately ahead, economic policy needs to be adapted in two ways:

- (a) the Community needs to fix on a strategy capable of navigating successfully through an extremely unsettled international monetary environment;
- (b) domestic policies for 1982 need to be set to make a success of the exchange rate changes, and to set the Community onto a firmer recovery path in the course of the next year.

To make a successful strategy for 1982 requires that domestic policies be set in the Community in a way that supports these elements of external policy

and is also coherent as between Member States in the light of the EMS realignment and the need for better convergence.

To do this in practice is a highly complex matter, and one that necessarily involves controversial issues. The key decisions are being made in the set of draft budgets for 1982 some of which are already before national parliaments, in fixing targets for domestic monetary aggregates for 1982 in the course of the autumn in some of the larger Member States, and in the forthcoming negotiation of principal wage contracts for the period ahead — in some cases annual as in Germany, in some cases for up to three years as in Italy. The complexity follows from the fact that in the optimal Community policy these three main decision-making variables — budgets, money, and incomes — have to be set consistently *inter se* within countries as well as between countries. Moreover there are several types of institutions involved in these three domains, and understandably so (the following section returns to institutional questions).

The first particularity of the outlook for 1982 is the inter-relationship between budget and monetary policy. A budget policy allowing the deficit to rise is likely now to be relatively heavily offset in its stimulative effects on economic activity by increasing interest rates; conversely, budget policy action to reduce deficits is likely to be considerably offset in its contractionary effects by falling interest rates.

The second particularity is the need to follow through the EMS realignment with internal policy adjustments. For revaluing countries, stabilization policy is strengthened, the prospects for interest reductions are improved and thence should follow a support for the real economy. The devaluing countries should exploit the opportunity now to make a more rapid external adjustment, which requires that they intensify efforts to avoid cost increases, that budgetary policy be controlled more strictly, and that monetary policy be managed so as to maintain durably the new central rates.

In the present circumstances, the probable reduction in the German budget deficit could contribute significantly to a reduction in German interest rates, which are high in real terms. The size of the impact on interest rates, while difficult to quantify, could be especially important because of the international monetary context already discussed.

But for this to be the case there are still further conditions to be fulfilled:

- (i) avoidance of 'overkill' in public finance stabilization; and
- (ii) convergence in the approach of all Member States, which means consistent, but not identical policy adjustments.

There may be a danger of 'overkill' to the extent that budgetary action would reduce demand and thence create a weaker level of activity which automatically increases the budget deficit again, so leading to a new round of restrictive action, in order to adhere to fixed targets for the budget balance. Almost invariably action to reduce budget deficits will have some demand contractionary effect, but this may be offset by monetary and external demand effects. The risks of a recession are great when the budgetary action is excessively heavy in relation to the desired interest rate reduction, or when it is accompanied by a serious overvaluation of the exchange rate, or cost increases that make the economy uncompetitive. Thus judgements on whether restrictive budget policy actions are 'deflationary' are not simple. Much depends on the monetary context, and on whether the social partners support or defy policies of stabilization and adjustment in their income settlements.

Convergence in the approach of Member States towards budgetary policy is necessary if all are to benefit from the interest rate reductions that are desired. If not, the benefits will be at best unevenly distributed, and worse, the whole strategy risks being destabilized *inter alia* through creating renewed exchange-rate tensions. In the case of the Netherlands, the proposed 1982 budget would appear to be rather convergent on the German strategy as regards the budget balance, although taxation and public expenditure levels remains very much higher in the Dutch case. In 1981, seriously divergent trends were seen in Belgium, Denmark, Ireland and Italy as budget deficits attained extremely high levels. In 1982 budget policy should in these countries at least begin to return towards more modest magnitudes. The draft budgets so far published are hardly more than first steps in this direction. In no circumstances should the governments let these levels be surpassed, as in fact happened in 1981 in relation to the initially targeted levels. On the contrary, the realignment now makes it possible to envisage more ambitious budget consolidation targets. France is in a particular situation: in 1980 it was the only country to have a negligible budget balance. Since then its deficit has been increasing quite rapidly, but the draft 1982

budget deficit remains below the Community average as a share of GDP. The Government must control very carefully the extent of its budget policy change. Moreover, the EMS realignment now permits exports to take over some of the demand stimulus initially envisaged for the 1982 budget.

Within the structure of budgets adopted for 1982, a common priority for all Member States is to find room for necessary expenditure on employment programmes and for the stimulation of investment. In order to respect overall financial constraints, this will require changes in existing programmes of current public expenditure. Important changes can be made without weakening vital public services. For example, the demographic changes at present under way mean that resources should be shifted from schooling to vocational training as the 'bulge generation' advances. However, social security budgets need to be examined with a view to containing their growth, re-examining their methods of financing and reinforcing the efficiency of their coverage.

In setting monetary targets for 1982, it would in principle be advisable to improve the degree of prior consultation within the Community, before the central banks decide their policies in full conformity with their national institutional positions. In 1981, it seems likely that many central banks, with the exception of the Bundesbank, will overshoot their targeted rates of monetary or credit expansion, or the rates forecast by the Commission in last year's Annual Economic Review. For 1982 the monetary aggregates must be controlled within limits that will favour a distinct lowering of the rate of inflation, which in turn would aid the lowering of nominal interest rates without endangering the new EMS central rates.

There is a consensus in the Community over the need to act urgently and decisively to reduce unemployment. The right financial strategy will help. Direct labour market measures need to be intensified within this financial strategy, and these are further discussed below. The experience of the Federal Republic of Germany after the first oil shock and of Japan, more recently, both show how a rapid and major adaptation of labour costs to the needs of a new situation can enable major economic difficulties to be overcome. In the present situation, Europe has become much more competitive because of the combination of exchange rate changes externally against the dollar and yen, and internally within the EMS. This

presents an enormous opportunity for European industry, and employment creation. In the next pay negotiations the social partners will have to decide whether to confirm this improved competitive potential, and at the same time help inflation and interest rates to come down; to do so requires in several countries accepting real pay increases for a period below the growth of productivity so that the economy is returned to a radically higher investment and growth performance.

(ii) Overcoming obstacles to a better convergence of monetary and budgetary policies and incomes

A combination of convergence in nominal exchange rates, but divergence in budgetary, price and cost developments, has developed over the past two years. These contradictions can be sustained for some time, but only at the cost of increasing economic distortions, such as widening balance of payments, imbalances and rising real interest rates in countries with high budget deficits or attempts to control capital movements. But at some stage they must be offset by exchange rate changes, as recent experience confirmed.

The lack of balanced progress in stabilization policy already led the Commission, in its communication of 1 July to argue in favour of accelerated programmes of economic adjustment in several countries, with the emphasis on urgently required public finance and income stabilization measures. This general communication was followed up with a communication on the principles of indexation, and two recommendations on economic policy in Belgium and Italy.

There is considerable agreement on the need to support common monetary stabilization efforts with convergence in budgetary policy and income trends. This being so, it is necessary to give greater attention to how institutional or even managerial factors affect the reactions of the economy to events that can induce the divergence process, notably the reactions of:

- (a) employers and employees to a price shock in their pay negotiations;

- (b) the monetary authorities to demands for increased credit; and
- (c) the budgetary authorities to tendencies for results to deviate from initial plans.

As regards pay, the systems prevailing in the Community range from those in which the wage bargain is fixed in nominal terms for at least a year; to those in which an indexation mechanism automatically passes prices through into wages within as little as two months delay.

On the issue of indexation the Annual Report adopted by the Council last year indicates the high degree of consensus among governments on the need to avoid passing through the oil price increases into incomes. Some countries accustomed to indexation have taken some steps to limit their automatic pass-through of oil prices and indirect tax increases (Netherlands, Denmark). But in other countries existing practices have not changed (see the Commission's recommendations to Belgium and Italy). The Council notes that the Commission followed up on the concern expressed by the European Council in March with a general communication that concludes on four main points :

- (i) where the principle of wage indexation is accepted, the regulation index should exclude the impact of factors outside corporate control (terms of trade, indirect taxation, etc.);
- (ii) wage adjustments should only be made with delay, and not more than twice a year;
- (iii) where the inflation rate is appreciably above the Community average, the aim should be to limit indexation to an agreed rate, for example to the Community average inflation rate;
- (iv) a simple and temporary technique for adapting to an inflationary shock could be to forgo entirely a certain number of indexation adjustments.

As regards monetary policy, the range of policy reactions is between the case in which the monetary authorities commit themselves to nominal targets, and are expected to act to adhere to them, and the case in which the monetary authorities could — on past performance — be more expected to supply

relief to enterprises in difficulty or financing to the government where market conditions become difficult. Problems of divergent monetary policy have so far been relatively limited to the extent that the members of the EMS who were before members of the Snake have accepted the required monetary discipline. Thus the problems among these countries are more often those arising from the combination of effective monetary control and ineffective efforts at pay moderation and budgetary control. But there are also examples in the Community where the operating responsibilities of the monetary authorities need to be clarified, for example in Greece. In Italy certain reforms are now being implemented. Moreover, in the period ahead, there is the need to prevent the erosion of monetary disciplines maintained until now (France).

As regards budgetary policy, the factors leading to divergent results are the most complex. The variables here are :

- (a) the speed with which the essential statistics become available;
- (b) the managerial capacity of the budget system to control over-runs;
- (c) the legislative procedures for control and adjustment; and
- (d) the willingness of the political authority to mark out clearly its budgetary objectives and give credibility to them.

In practice, over the past year, a major issue has been that of judging when the so-called 'automatic stabilizers' needed to be resisted with offsetting expenditure cuts or legislative changes. The normative qualities of this term need correcting for countries whose starting position is one of serious financial disequilibrium, for example, countries with very large public deficits (Belgium, Denmark, Italy, Ireland). The presumption should rather be that economies with high public deficits are prone to being gravely destabilized, especially when large deficits are associated with high inflation or high real interest rates. The dangers inherent in the 'automatic stabilizers', and notably the speed and ease with which a budgetary deficit have been seen recently to slide out of control up to enormous magnitudes, underlines the priority that several countries need give to reforming their systems of budget control. Indeed the four countries mentioned, whose public deficits have now reached, or are close to, 10 % of GDF, are now massively out of line with the average of the Community.

(iii) The challenge of building-up investment and employment

The rise in the rate of unemployment to 8 % is now the most dramatic of the Community's economic problems. The weakness of its investment performance, which has fallen about 2 % as a share of GDP in the years since the first oil shock, compared to the five years preceding it, and the rise in the rate of demographic increase in the labour force to nearly 1 % per year, points to the magnitude of the task of creating new jobs for a large fraction of those now unemployed. These problems are at the core of the proposed fifth medium-term programme for 1981 to 1985 which the Commission sent to the Council in July (1).

The reduction of unemployment in the Community cannot satisfactorily be achieved without a massive renewal and expansion of the stock of productive capital. While relatively high rates of interest over a medium-term period may induce some helpful substitution of labour for capital, the strategy that the Community should follow still requires investment in new equipment. The only industrial strategy that can go with a weak investment performance is one which consists of down-grading productivity, technological quality and income levels relative to international competitors; this is not a strategy upon which the Community wishes to converge.

The challenge of building-up employment and investment involves the use of several instruments of policy and several indirect prerequisites of success. At any event, however, a reversal of recent investment trends will be an extremely difficult task.

A first fundamental factor, the cost of labour in relation to that of competitors, has been considerably transformed over the past year as a result of the depreciation of the ECU against the dollar and the yen. Thus the Community's average unit labour costs (relative to its competitors, expressed in dollars) is likely to decline 14.5 % in 1981, as against increases of 14 % for the US and 10.5 % for Japan (see Table 14). The Community must for the time being take the opportunity to achieve a rapid balance of payments adjustment. To this end, the increased competitiveness of the Community's producers must be translated into a rapid expansion of sales to regain lost market shares within the Community and on third markets. Increased sales must

now assure a build-up in the volume of profits, and then lead on to new wave of investment to increase capacity and employment. This full cycle of results takes several years to build up.

A second fundamental factor is the cost and availability of capital. To achieve a reduction on average in the rate of interest is of vital importance for stimulating investment, but this cannot be done simply nor by decree. As regards very high real rates of interest, for example of the order of 5 to 9 % in some countries (notably Belgium, Denmark, Germany and the Netherlands), compared to the long-term average of about 2.5 %, these must be reduced substantially for a strong investment performance to take root. Relief from such very high real rates should in the first instance come from an adjustment to more normal international monetary conditions, but for some Community countries it will require stronger action to reduce budget deficits.

However, unduly low or even negative real rates of interest cannot be a sound prescription for investment and growth. Savings performance needs to be strengthened, and increased resources must be channelled into risk-bearing private uses — compared to government bonds which at present dominate many capital markets.

Governments should be examining the case for adapting rules governing business taxation, capital markets, and aids affecting investment and savings. The inflationary environment in addition creates serious problems for adequate capital cost evaluation and efficiency of incentive schemes and tax regimes. For example, where profitability is low or even negative and the prospects are depressed, the value of any investment incentive is correspondingly weakened, especially those of depreciation allowances. As inflation has increased, the incentive value of depreciation allowances has declined. Moreover, inflation and low profitability have tended to reduce the availability of risk capital required for increasing employment. Policy towards investment aids is too complex a subject, and too varied between countries, to allow simple generalizations. Two propositions, nonetheless, would seem to hold. Firstly, given the present priority need to induce a massive new build-up of investment, the level of financial incentive towards capital formation and innovation should be maintained in real terms if not increased. But secondly, experience has shown that multiple systems of aids directed at different policy objectives can become contradictory and cost-ineffective. Economies in obtaining better value for money in investment aids

(1) The complete texts and related analyses are published in *European Economy* No 9, July 1981.

remains a promising pursuit for the authorities concerned.

The reduction of unemployment must come essentially from job creation in new growth industries and service sectors. In many of the newest and promising industries — microelectronics for example — the Community's world position is not as strong as it should be. To build up its new industrial base the enterprises, governments and Community have to work together in a comprehensive strategy, involving research and development, corporate organization, commercial and public procurement policies. There are already examples of success, with the Airbus winning back substantial world market shares in its segment of the aerospace industry. The Community must give the highest priority to stimulating the capacity of European industry to become a major world force in the principal advanced technologies of the decades ahead.

In industrial policy the Community has to make up what individual Member States alone cannot achieve by comparison with the United States and Japan. The exploitation of Europe's continental dimension should not necessarily rely on public intervention at the Community level. However, all the Community's relevant policy responsibilities should be turned to facilitating this process. First the openness of the internal market needs further to be improved. Secondly, the use of State aids must be controlled to prevent segmentation of the market and national discrimination. Thirdly, the Community should act whenever necessary to stimulate the formation of an advanced European industrial capacity. Fourthly, the Community's own financing possibilities should continue to build up support for investment and structural adaptation in the areas of accepted Community priorities. This concerns both loan funds and the structural funds of the Community budget whose policies are at present under review. The Community should furthermore encourage the development of small and medium-sized enterprises, in part by facilitating their access to Community finance through the technique of global loans to the appropriate financial intermediaries.

Many detailed initiatives are now being taken in Member States to help the process of small-scale employment creation. This welcome trend should take account of the contribution that different types of enterprises, including cooperatives, can make in creating jobs, particularly through the

exploitation of local economic potential, thereby opening up important scope for more flexible adaptation of the economy to meet market opportunities.

The needs for a stronger Community energy policy provide a vital component of the strategy for building up investment and employment. A comprehensive outline has been proposed recently in a Commission communication 'The Development of an Energy Strategy for the Community' (COM(81) 540, 23 September 1981). The Council notes that the main priorities for action by the Community suggested by the Commission are :

- (i) ensuring an adequate level of investment both in alternatives to oil and in the more rational use of energy. Forecasts for energy-related investment suggest that its volume will rise from around 1.6 % of GDP now to 2.2 % on average for the present decade, which would represent 9 to 10 % of total investment, implying expenditure of some 500 billion ECU. The Commission has doubts whether these forecasts can be achieved without new action within the Community. But even if they were achieved, the level of energy investment would still only amount to about half the relative effort of the United States and two-thirds that of Japan (in all cases measured in the basis of energy investment as a share of GDP);
- (ii) the development of a common approach to energy price and taxation. In the latter field the Commission has made more detailed proposals in a communication on the 'Taxation of Oil Products' (COM(81) 511, 9 September 1981), suggesting principles for a coordinated approach involving the setting of target zones for tax pressure on the main oil products, and principles for the elimination of exemptions, subsidies or reduced rates for specific users. A constructive use of energy tax instruments could be one of the most powerful possible policy actions to induce the economy to make employment-intensive investment;
- (iii) the establishment of credible measures for sub-crisis management for oil supply in the Community;
- (iv) the reinforcement of common policies in the fields of research, development and technological demonstration;

- (v) the further development of common initiatives in external energy relations, especially in relation to the developing world;

It will take time for the fundamental economic remedies to unemployment to build up their effects.

However, a start has been made in the Community towards building up recognition of the scope for a common and constructive approach, notably at the joint Council meeting of Finance and Social ministers in June of this year. The conclusions of the Presidency at that meeting accorded with the views of the Commission that a comprehensive policy response is required to the twin challenges of reducing inflation and unemployment. There is agreement for example on the need to pursue employment expansion in areas of technological innovation and the energy sector, and small-scale job creation. The financial burden placed on employers by particular methods of financing social security needs to be reviewed, and a more transparent and coherent analysis is needed of the impact of public expenditure on employment and growth. There is also agreement on the need for direct actions to ease unemployment.

With regard to the particularly acute problem of youth unemployment, the Commission has carried

the debate a step further in proposing a common objective in its foreword to the fifth medium-term programme: setting up over the five years ahead machinery and arrangements to ensure that, on leaving school, all young people obtain either a paid job or access to a vocational training course or both together. The Council notes that the Commission proposed in particular to:

- (i) compare national experiences in this field;
- (ii) require national programmes be submitted to the Community by a given date;
- (iii) decide on partial funding for such schemes from the European Social Fund;
- (iv) provide for the examination of results achieved at regular intervals.

The adaptation of working time can also help ease the problem of unemployment, while matching social demands for more flexible work arrangements — for example part-time work, early retirement, etc. However, great care has to be taken to avoid changes in working conditions that could risk significantly increasing hourly labour or capital costs, and to avoid sharply deviating trends as between Member States especially in ways which would risk affecting competitive conditions.

4. ECONOMIC POLICY IN THE MEMBER STATES

The economic situation has deteriorated in *Belgium* in 1981: the fall in the level of economic activity and employment has been accompanied by an acceleration of consumer price inflation and a deterioration in the current account of the balance of payments.

The Commission of the European Communities considered this situation one of great concern and, on 22 July 1981, addressed a recommendation to the Belgian Government which advocated corrective measures to be taken in the monetary, budgetary and revenue fields.

Guidelines were adopted by the Belgian authorities, at the beginning of the month of August 1981, in establishing the central government budget for 1982, which effectively took account of the limit for 1982, on the current account budget deficit of Bfrs 200 billion, requested by the Commission. The arrangements should make it possible to reduce the borrowing requirement of general government, as a percentage of gross domestic product, from 15.5 % in 1981 to 13.5 % in 1982.

The most recent information concerning the execution of the 1981 budget suggests that net borrowing will be significantly above the provisional estimates

made in the middle of the year. In other respects the guidelines adopted by the Belgian authorities have led to an increase in the burden of taxation and less restraint on expenditure than the Commission recommendation suggested.

Under these conditions, the management of the budget in 1982, if it is to adhere to the limits and priorities indicated above, will have to aim at strictly containing expenditure, and to be implemented with sufficient flexibility to permit compensatory adjustments within the overall budget.

In other respects, political events have not yet made it possible to implement the budgetary guidelines and to follow through the dialogue established with the social partners concerning income moderation and the possible relaxation of the indexation of certain incomes, as suggested by the Commission.

It is in the interests of a lasting improvement in the employment situation that budgetary decisions be taken as soon as possible and that a renewal of negotiations may lead to concrete results.

Reinforcing Belgium's competitive position, a primary factor for a recovery in growth, is principally determined by a lowering of costs relative to major competitors as well as by the restructuring of productive potential, requiring strong investment

growth. The adjustment of the central rates of the European Monetary System, decided on 4 October 1981, does not diminish the fact that the essential adjustments must take place within the Belgian economy.

TABLE 4
Belgium: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance (3)	Savings ratio of households	Money supply growth M2H (4)
	% (2)	% (2)	%	% (2)	% (2)	% GDP	% GDP	%	%
1960-1969	4.8	4.0	2.2	3.2	7.6	+0.2	-1.5	13.0	8.2
1970-1979	3.4	3.1	4.9	6.5	12.3	+0.4	-4.3	16.8	10.9
1979	2.3	1.4	8.6	3.9	6.0	-2.9	-6.8	14.8	6.0
1980	2.4	2.6	9.3	6.4	8.8	-5.2	-9.1	15.6	2.7
1981 (1)	-1.0	1.4	11.6	7.5	8.8	-7.2	-12.4	16.1	6.1

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) National accounts basis, excluding loans advances and equities (net).

(4) End of year. Up to 1978: 'money stock and financial assets with a maturity of less than one year with mainly money-creating institutions'. Since 1979: 'harmonized M2' (M2H).

In 1980 and 1981 *Denmark* succeeded in cutting the current account deficit appreciably despite the pronounced deterioration in the terms of trade and the heavier costs of servicing the external debt. The improvement reflects a gain in competitive edge, but it was achieved at the cost of a slackening of domestic demand, notably private consumption and residential construction. Economic activity therefore slowed down, pushing unemployment in 1981 to 8.2 % of the labour force.

The outlook for 1982 indicates a distinct upturn in economic activity (the year-on-year growth of GDP could well be 3 %) and confirms the need to continue with a tight financial policy as envisaged by the multi-annual programme adopted at the end of 1979. Budgetary policy must come to grips with various problems that give cause for concern namely the increase in expenditure made to combat unemployment, the upsurge in public debt interest and the sluggishness of tax receipts associated with slack economic activity. The central government borrowing requirement, which has increased from Dkr 17 900 million in 1980 to Dkr 31 900 million in 1981, i.e. from 4.8 to 7.9 % respectively of gross domestic product, is likely, according to the draft budget, to reach Dkr 39 900 million, or 8.8 % of GDP. A deficit of this size might become difficult to finance in the future, and the cost of debt

servicing will tend increasingly to aggravate the budget situation. A possible further increase in the budget deficit would seriously endanger the restoration of external equilibrium. The authorities should strictly respect the expenditure targets adopted under the multi-annual programme and do their utmost while implementing the 1982 budget so as to avoid an increase in the presently forecast deficit even if economic conditions should be worse than foreseen.

The need to finance greater public sector borrowing requirements and to attract foreign capital in order to cover the current account deficit, means that monetary policy has singularly little room for manoeuvre. In line with its present stance, it should continue to keep the growth of domestic liquidity under strict control, and to maintain interest rates at a relatively high level.

As a result of the changes made since 1979 in the indexation system, and the moderation of demands by management and unions, the increase in nominal incomes has been slowed down somewhat. This trend must be maintained in the future: otherwise the authorities could well be obliged to apply more restrictive policies, in the interests of internal and external stability.

TABLE 5

Denmark: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance ⁽³⁾	Savings ratio of households ⁽⁴⁾	Money supply growth M2 ⁽⁵⁾
	% ⁽²⁾	% ⁽²⁾	%	% ⁽²⁾	% ⁽²⁾	% GDP	% GDP	%	%
1960-1969	5.1	3.8	1.2	5.3	10.2	-2.0	(1.4)	:	10.1
1970-1979	2.8	2.2	3.3	9.4	11.6	-2.8	(+ 0.9)	21.3	11.0
1979	3.0	2.4	5.3	9.6	9.1	-4.5	- 3.3	21.8	9.9
1980	-0.2	-0.0	6.2	11.9	9.0	-3.8	- 6.1	22.8	10.9
1981 ⁽¹⁾	0.0	1.1	8.2	11.2	9.9	-3.3	- 9.8	24.6	9.3

⁽¹⁾ Preliminary estimate of the Commission services on the basis of present or anticipated policies.

⁽²⁾ Percentage change over previous period, annual rate.

⁽³⁾ National accounts basis, excluding loans advances and equities (net).

⁽⁴⁾ Private sector.

⁽⁵⁾ End of year.

The *Federal Republic of Germany* enjoys relatively favourable conditions for a return to external and internal economic equilibrium and for economic growth, permitting, after some time, a reversal of the falling trend in employment. Whereas in the past there was a marked deterioration in both the external position and the public sector accounts, with the deficits of both general and the Federal Government well above planned levels, significant improvements are now under way. As a consequence, there should be greater room for manoeuvre from now on, as the balance of payments can be expected to strengthen considerably, and make the major contribution to a rate of growth of 1 to 2 % in 1982, which is foreseen as increasing as the year goes on. These developments should reinforce the foundations already laid for the medium-term improvement of economic growth and employment conditions.

On the external side the significant depreciation of the Deutschmark to mid-1981 has strengthened the price competitiveness of German industry and a strong export performance in 1982 is expected, the principal factor pulling the German economy out of the present recession. The recent strengthening of the Deutschmark, reflected in the realignment of EMS central rates and firmness against the US dollar will help to reduce the cost of oil and other imports; as a result, inflationary pressures are expected to abate in 1982, when the increase in prices is expected to drop to approximately 5 % and the current balance of payments to improve very appreciably in 1982.

To boost confidence and to avoid excessive competition for scarce funds in the domestic capital

markets, the Government has taken measures to reduce the public sector deficit.

These measures are designed to reduce the net borrowing requirement of the Federal Government for 1982 to DM 26.5 thousand million, compared with a likely out-turn for 1981 of approximately DM 37 thousand million. This improvement in the Federal Government's borrowing requirement is mainly brought about by cuts in expenditure, together with cuts in tax allowances, and by transfers, to the federal budget, of profits realized by the Bundesbank. A modest increase in taxation is also proposed. Such a budget policy stance will make it possible to avoid adjustments proceeding too quickly and to remain in accordance with the new margin for manoeuvre for monetary policy opened up by the recent appreciation of the Deutschmark. In the present circumstances, a reduction in the borrowing requirement of the general Government from more than 4 % of GDP in 1981 to 3.5 % of GDP in 1982 can be envisaged.

The Bundesbank should direct the increase in Central Bank money towards the upper limit of the bracket announced (4 to 7 %) to the extent that improvement in the balance of payments persists, that the inflation rate goes down and that this policy is supported by trends in public finances and salaries. Thus it should be possible to make full use of any resulting margin in order to bring down interest rates. This would have a favourable impact upon capital markets in Europe and improve the overall investment climate. The prospects for lower interest rates would be significantly better if recent government decisions with regard to

wage increases in the public sector could be adopted as a general guideline by the two sides of industry for the next round of wage negotiations.

The fundamental disruptions caused by the second oil shock suggest that the trend rate of growth which can eventually be expected is likely to be modest by past standards with unemployment remaining at relatively high levels, partly because of a continuing unfavourable demographic trend in the next few years.

Although the Federal Republic shares these problems with other countries of the European Community, the longer-term performance with regard to growth and inflation is still likely to be better than elsewhere and this could well lead to a greater divergence in some respects between Community countries. Nonetheless, an improved growth performance for Germany would clearly be beneficial for Europe as well and this underlines the importance of continuing to grapple with the longer term problems of the German economy. Thus the energy bill is likely to remain a considerable constraint for some time to come. Further diversification of sources of energy to reduce dependence on foreign supplies, especially of oil, is therefore of the utmost importance. The authorities should ensure a clear and stable environment for business and increase their efforts to remove uncertainties related to future energy investment. Energy saving should be further promoted, but mainly in those fields where

incentives are necessary to foster technical developments to be carried on by market forces once they have entered a profit-earning stage.

The necessary adjustments to the industrial structure depend upon new investment to ensure that the capital stock is productive, profitable and flexible. Analysis of the latest trends in the German capital stock suggests that there is insufficient potential for economic growth and employment in the years ahead, and underline the necessity for a rapid adjustment both quantitatively and qualitatively. To bring about the substantial growth in fixed investment required to enlarge and restructure the capital stock, the main impulse should come from improved supply conditions. The principal task of economy policy should be to improve the general regulatory framework of the economy so that it favours the allocation of resources to investment. It will also be important to remove obstacles which in various areas inhibit the undertaking of new projects. In certain cases, however, namely where investment entails high risks but substantial external benefits, there is a case for special structural policy measures to encourage such expenditure by industries which are likely to contribute to growth in the future. There is also a need to improve the general conditions for investment by small and medium-sized companies, since these are very important as vehicles for adjustment but are often handicapped in undertaking new developments.

TABLE 6

Germany: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance (3)	Savings ratio of households	Money supply growth M3 (4)
	% (2)	% (2)	%	% (2)	% (2)	% GDP	% GDP	%	%
1960-1969	5.2	4.3	0.9	2.6	7.6	+0.8	+0.7	10.8	10.6
1970-1979	3.2	3.6	2.5	5.3	9.5	+0.9	-1.4	13.8	10.1
1979	4.4	2.9	3.4	4.2	5.5	-0.7	-3.0	13.1	6.0
1980	1.9	1.0	3.3	5.4	6.5	-2.0	-3.5	13.3	6.2
1981 (1)	-0.3	0.7	4.7	5.8	5.6	-1.5	-4.0	14.1	5.4

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) National accounts basis, excluding loans advances and equities (net).

(4) End of year.

Note: Figures of the first four columns are on an ESA basis up to 1979.

In *France*, the primary objective of the new economic policy is the reduction of unemployment, with the diminution of inequalities of income as a secondary objective. These objectives are to be attained by seeking to reconcile a deliberate increase in the rate of economic growth with a significant reduction in the rate of inflation.

In the short term, this policy involves the use of support measures to assist the recovery which is beginning. The first measures, taken in early summer 1981, consisted mainly of increases in low wages and certain social benefits, assistance to help firms cope with the increase in their costs due to the difficult economic situation, and to loosen, to some extent, credit conditions. As a result, and despite the increase in the tax burden — particularly on high incomes — imposed by the supplementary budget of July, the public sector financial situation will deteriorate, in 1981, to a greater extent than was previously envisaged, and which could be equivalent to just over 2 % of gross domestic product. As a further result, the growth of the money supply will reach 13 % during the year.

The policy foreseen for 1982 will seek to combine the continuation of the expansionary stance — directed, however, towards investment rather than consumption — with an exceptionally large effort to reduce inflation, an objective which has become even more important since the monetary realignment of 4 October 1981. Indeed, on the one hand, as the 1982 budget of the central government includes a massive increase in expenditure related to measures which stimulate, directly or indirectly, employment, and as the overall tax burden will remain unchanged despite the tax increases on wealth and the highest incomes, the potential deficit is larger than that of 1981, even allowing for the postponement of some expenditure. On the other hand, an increase in social security contributions is foreseen as a means of partly offsetting the strong growth of social security benefits and the availability of credit to firms will be maintained within limits that are compatible with the objective of a significant reduction in the liquidity ratio of the economy.

In addition, the principle that the average growth, in 1982, of wages and salaries should not exceed the increase in prices, has been introduced and a temporary selective price freeze has been imposed with the aim of starting the process of deceleration.

This policy is expected to promote an appreciable recovery of domestic demand which, combined with the favourable development of external demand, should lead to real growth of gross domestic product amounting to 0.5 % in 1981 and 3 % in 1982. This should be accompanied by a significant deceleration of inflation between the two years, the aim being to attain a 10 % rate at the end of 1982.

There are, however, a number of uncertainties surrounding this action. Firstly, it is by no means certain that the expected improvement in the self-financing capacity of firms and the budgetary measures in favour of business investment, however important, will be sufficient to reverse the downward trend in investment by firms which could continue to be adversely affected by a very poor initial financial situation. Also, it is by no means certain that domestic supply, which has possibly been limited by the weak growth of productive capacity over recent years, will be able to grow in line with demand. There is, therefore, a risk that the external deficit will once again begin to grow and that inflationary pressures will remain stronger than expected. This risk would be even greater if anticipatory buying caused an unduly rapid recovery in consumption.

It seems, therefore, that the success of the present policies depends on the speed with which the counter-inflationary strategy is able to improve the financial situation of firms, thus favouring an increase in investment, and, at the same time, to moderate the growth of consumption. It will be necessary, to this end, for new guidelines concerning the formation of income — in particular income from wages — to be effectively adopted by the economic and social partners with a view to the gradual dis-indexation of the French economy.

With regard to prices, the provisional exceptions to the principle of free prices should disappear, taking the place of voluntary undertakings as to moderation. At the same time, the effort to bring down the economy's liquidity rate should be pursued, which presupposes that the increase in the money supply will be appreciably lower than that of the GDP rise in value. This implies, on the one hand, in the framework of the chosen policies, that the control of public finance be sufficiently restrictive to limit the general government borrowing requirement to about 2.5 % of gross domestic product, in order to avoid subjecting firms to a 'crowding-out' effect, and that appropriate measures be taken to stabilize a greater proportion of private savings.

Looking beyond the recovery foreseen for 1982, a return to faster rates of economic growth will depend on the ability of the economy to achieve a better adjustment to the external constraint, by ending the erosion by inflation of its competitiveness and by accelerating the necessary reorganization of its productive capacities. The elimination of inflation requires that efforts are made to introduce a cautious monetary policy, to counter inflationary expectations, and to reform certain structures which enable firms to derive exceptional profits from their situation.

As for structural policy, its aims do not need to be fundamentally modified. Thus, the pursuit of energy-saving and substitution, which aims at reducing dependence on imported oil, should be continued, and even intensified, but without any major changes of direction. Similarly, industrial policy should, in the main, be based on market forces, in conformity with the competition policy of the Community. Any general measures in favour of investment or research, any specific measures

designed to reorganize sectors in difficulty or to promote high-technology sectors, and the new facilities provided to remedy financial deficiencies and to remove obstacles to the development of small and medium-sized firms, should all be contained within this framework

At the same time, important efforts should be made in the area of professional training in order to achieve greater harmony between qualifications and expected future needs and, in so doing, to improve the prospects of developing competitive activities and, as a result, to increase the growth and the economic value of employment.

Essentially, a durable reversal of the trend of increasing unemployment is dependent on the success of all these measures. To the extent that action is taken to reduce unemployment directly — generally by various means of work-sharing — in order to reduce its social impact, an effort must be made to ensure that such measures do not lead — directly or indirectly — to a further increase in costs.

TABLE 7

France: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance ⁽³⁾	Savings ratio of households	Money supply growth M2 ⁽⁴⁾
	% ⁽²⁾	% ⁽²⁾	%	% ⁽²⁾	% ⁽²⁾	% GDP	% GDP	%	%
1960-1969	5.7	5.1	0.8	4.2	9.6	+0.3	+0.4	14.8	12.9
1970-1979	4.0	3.2	3.3	8.6	13.5	-0.3	-0.2	17.9	15.4
1979	3.3	3.9	6.0	10.5	13.2	+0.1	-0.8	16.7	14.4
1980	1.3	1.3	6.3	13.2	14.7	-1.4	+0.4	14.8	9.7
1981 ⁽¹⁾	0.5	0.6	7.6	13.5	15.6	-1.4	-2.1	14.8	13.0

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) National accounts basis, excluding loans advances and equities (net).

(4) End of year.

In *Ireland* over the years the main thrust of economic policy has been toward the industrialization of the economy, diversifying its structure away from agriculture and other traditional industries. To encourage this process successive governments have laid great emphasis on attracting foreign direct investment and undertaking publically sponsored infrastructure investment. The fruits of this policy have been evident in a rate of growth of Irish exports well in excess of the rate of growth of world trade. The openness of the Irish economy does, however, make it extremely vulnerable to downturns in world economic activity and to international inflationary developments such as occurred in the wake of the second oil shock. The ambitious public capital programme has always

implied relatively large government deficits but the international recession coupled with discretionary government action has led to a significant widening of these deficits and to a serious imbalance on international payments. This situation has been aggravated by a relatively poor inflation performance which is affecting the economy's competitive position. The policy problems facing the authorities are the reduction of the balance of payment and governments' deficits, the control of inflation and the maintenance of the Government's vigorous role in capital formation.

An essential condition for achieving an improvement in the external balance and for moderating

domestic inflationary pressures is that monetary developments should not be allowed to add excessively to the level of demand. To this end the monetary authorities have announced a limit of 15 % growth in private sector credit extended by licensed banks in the year to mid-February 1982. Given an expected rate of growth of nominal GDP in excess of 19 % in calendar year 1981 this target seems consistent with the need to exert a measure of restraint on domestic demand. Success in meeting this target will, however, mainly depend on the effect of the large government deficit on credit creation and the attitude of the authorities to rising domestic interest rates. A ceiling on credit growth similar to that in force for 1981 would seem appropriate for 1982 when nominal GDP is expected to grow by about 21 %.

Until the first oil shock the public sector deficit was predominantly on account of capital expenditure undertaken by the public sector. In the most recent years, however, a significant imbalance has emerged in the current account of the budget. This has resulted partly from the working of automatic stabilizers, partly from discretionary government action and partly from the level of pay settlements in the public sector. This overall deficit is not unrelated to the serious balance of payments

imbalance, which is expected to reach 14.8 % of GDP in 1981. In addition, the demands of the current budget threaten to divert resources away from the capital budget. Moreover the build-up in debt concomitant with the deficits is reducing the government's room for manoeuvre in dealing with the current budget imbalance and is placing a heavy burden on future tax payers. A reversal in the trend to increased deficits, especially those on account of current items is overdue and requires firm government action which should include both expenditure reductions and tax increases. The corrective package introduced in July by the incoming government, after only one month in office, to prevent a further deterioration in the 1981 situation is an important step in this direction. This policy stance should be reinforced in 1982 so as to reduce the Exchequer Borrowing Requirement to 13-14 % of GDP. At the same time the current budget deficit should fall to a level consistent with the government's commitment to eliminate it over a four-year period. It will be difficult to achieve this objective and, at the same time, introduce a capital budget that is conducive to higher employment, if a major adaptation of income taxation is put into force during 1982. Due account should therefore be taken of the urgent need to improve the financial balance when tax proposals for 1982 are prepared.

TABLE 8

Ireland: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance ⁽³⁾	Savings ratio of households ⁽⁴⁾	Money supply growth M3 ⁽⁵⁾
	% ⁽²⁾	% ⁽²⁾	%	% ⁽²⁾	% ⁽²⁾	% GDP	% GDP	%	%
1960-1969	4.5	4.2	4.5	3.9	9.3	- 1.9	- 2.5	10.2	9.6
1970-1979	3.8	3.7	7.1	12.8	18.1	- 4.2	- 6.3	19.5	18.3
1979	1.9	0.6	7.4	13.2	16.6	- 10.1	- 11.9	23.1	19.0
1980	0.9	- 0.1	8.3	18.2	20.5	- 8.3	- 13.1	19.7	16.9
1981 ⁽¹⁾	1.7	2.4	10.4	20.0	18.4	- 14.8	- 14.3	19.2	14.3

⁽¹⁾ Preliminary estimate of the Commission services on the basis of present or anticipated policies.

⁽²⁾ Percentage change over previous period, annual rate.

⁽³⁾ National accounts basis, excluding loans advances and equities (net).

⁽⁴⁾ Private sector.

⁽⁵⁾ End of year.

Note: Figures in columns 1, 2, 5 and 6 are on ESA basis up to 1979.

The openness of the economy to high international inflation, the adverse movements in the terms of

trade following the second oil price shock, the lack of sufficient moderation in wage bargaining and

the deficit financing have led to an inflation-rate performance far out of line with the Community average: the private consumption deflator is expected to increase by 20 % in 1981. If the economy is to maintain its competitive position it is essential that this rate of inflation is quickly moderated. This requires that domestic costs are held down. To this end, the government can have a major influence on the level of settlements in the coming payround through its attitude to the public sector where about one-fifth of all employees are employed.

In *Italy*, economic policy is dominated by the determination to bring inflation under control. Rampant inflation over many years has not only been a permanent factor of short-term instability and exchange rate volatility, but also of resource misallocation.

This anti-inflationary stance became more positive in 1981, and was supported by the Commission recommendation of 1 July 1981 on the occasion of the Italian Government's recourse to the safeguard clause provided for in Article 109 of the Treaty. It has resulted in a tighter credit policy, in decisions of principle (not, however, fully implemented) to hold down the underlying public sector deficit, in a concerted attempt to stabilize consumer prices and in the opening of management-union negotiations to bring about changes in the wage indexation mechanism.

The monetary realignment of 4 October 1981 is a further reason why this new course of economic policy in all its aspects should be translated into action as quickly as possible. The cyclical background will be favourable: buoyant export demand, a moderate upturn in domestic demand and the probable confirmation of a slower movement of prices. Thus, after falling back slightly in 1981, gross domestic product is likely to rise again in 1982, while the rate of price rises is likely to fall spontaneously below 17 %. This is a propitious background for the definitive introduction of the proposed anti-inflation package which, within two years, should bring inflation down to close to the average rate prevailing in trading partner countries and at the same time keep the economy on its medium-term potential growth trend.

The keynote of economic policy for 1982 must, and moreover can be, the resolute reduction of inflation; consequently, the crucial objectives are monetary strictness and the deceleration of costs. These objectives must be pursued simultaneously. Efforts must be made to bring down further the economy's liquidity ratio, by achieving both a further relative contraction in overall lending and a further reduction in the degree of liquidity of financial savings. The greatest problem will be to limit the public deficit — to a level of Lit 50 000 thousand million for the net borrowing of the public sector (broad definition) and to some 9 % of gross domestic product for the general government borrowing requirement — but this is essential if the credit constraints on firms are not to be unduly severe. The aim of budget management in 1982 must therefore be to free new resources and in particular to cut spending, for if budget volumes are left to develop spontaneously, this objective would be exceeded by far. But the long months of effort to break the vicious circle of price and cost increases must, on their side, also produce decisive results. This would be achieved if, as a result of the success of government steps designed to slow consumer price rises down further, moderation prevails in the renewal of the numerous and important pay agreements expiring at the end of 1981 and if, secondly, the parties concerned reach agreement in their efforts to make the rigid sliding-scale mechanism more flexible.

Over and above these short-term measures, if inflation is to be eliminated, permanent arrangements must be made in future to reduce sharply the extent to which liquidity is fed by the public sector deficit: in the past, the latter has been its main source. Two types of action are required: the former concerns the financing of the deficit, the latter the deficit itself. For the former, the Treasury's calls on the market must be limited by gradually transforming — this is now being done — the treasury into the role of banker of the public sector; further, stopping automatic interventions by the central bank at the auctions of public securities must lead to better control of the monetary base. As for the deficit itself, the need to check its growth implies an effort all the more energetic, since it will have to concentrate on the current balance. It would imply, in particular, a better control of the operating costs of public administration and public sector services, the requirement to bring into equilibrium certain public sector operations that are in structural deficit — the health service and pension fund, primarily — and changing the system of automatic transfers from central government tax receipts to regional and local authorities, and the reintroduction of taxes for their benefit.

The other anti-inflationary moves which are necessary, such as the elimination of the rules and customs which fall heavily upon distribution and construction costs amongst others, relate to supply side policy, and hence to all the measures suited to hastening the adjustment of structures of production to the requirements of a competitive economy.

The most necessary and urgent of these moves concerns energy, where, as a result of delays in introducing a systematic policy of saving and substitution, the situation is one of still extremely high dependence on imported oil. A vigorous effort will have to be made during the next few years towards conservation, the promotion of national sources of energy and nuclear production, and the conversion

to coal. Other effects on the structural side will be necessary to help further the remodelling of industry, to bring about a shift in its centre of gravity from traditional manufacturing industries and heavy industry, often badly affected by international competition, towards high-technology industries with a high value-added content, which ought to develop a more necessarily favourable balance of trade. Lastly the strengthening of structures of production requires increased efforts to improve the environment within which enterprises operate. They should aim, in particular, at greater efficiency in public services, at a wider participation by the southern regions in the general effort towards adjusting structures of production, and at a more satisfactory matching of professional training to requirements.

TABLE 9

Italy: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance (4)	Savings ratio of households	Money supply growth M2 (5)
	% (2)	% (2)	% (3)	% (2)	% (2)	% GDP	% GDP	%	%
1960-1969	5.9	6.3	5.5	3.5	10.3	+ 1.7	- 1.9	:	13.9
1970-1979	3.3	2.5	5.6	13.2	17.8	+ 0.2	- 9.1	25.2	19.6
1979	5.0	4.0	7.5	14.9	17.9	+ 1.6	- 9.4	26.1	20.3
1980	4.0	3.0	8.0	20.3	22.0	- 2.5	- 7.8	24.3	12.0 (6)
1981 (1)	- 0.3	- 0.6	8.6	19.5	19.3	- 2.3	- 9.0	23.5	3.2 (6)

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) Definitions of Statistics Office of the European Communities.

(4) National accounts basis, excluding loans advances and equities (net).

(5) End of year.

(6) M3 = 1980: 16.9,
1981: 17.5.

In *Luxembourg*, gross domestic product fell by about 3 % in 1981 and could again decrease in 1982 entailing a worsening of the employment situation which until now has remained reasonable. As a result, industrial restructuring and the need to keep production costs as low as possible has become more urgent. In this regard, the application of the agreement concluded last May by the social partners, which, in particular, entails a more flexible application of the systems of indexation, should make a significant contribution; this development

seems especially opportune in view of the recent acceleration of the increase in consumer prices.

The stricter expenditure policy set out in the draft budget for 1982 should aim at securing a margin of manoeuvre necessary for industrial restructuring and should avoid an increase in the tax burden. That implies not exceeding the limit fixed for the net deficit in the States' budget (2.6 billion francs or 1.9 % of GDP).

TABLE 10
Luxembourg: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance ⁽³⁾	Savings ratio of households	Money supply growth M2/M3
	% ⁽²⁾	% ⁽²⁾	%	% ⁽²⁾	% ⁽²⁾	% GDP	% GDP	%	%
1960-1969	3.9	3.8	0.1	2.3	6.2	7.1	+1.7	:	:
1970-1979	3.1	1.6	0.2	6.6	10.4	18.5	+2.6	:	:
1979	3.6	2.5	0.7	4.9	6.2	28.7	+0.1	:	:
1980	0.4	-0.6	0.7	6.3	8.2	22.8	-1.3	:	:
1981 ⁽¹⁾	-3.3	-3.6	1.0	7.9	9.0	18.6	-3.0	:	:

⁽¹⁾ Preliminary estimate of the Commission services on the basis of present or anticipated policies.

⁽²⁾ Percentage change over previous period, annual rate.

⁽³⁾ National accounts basis, excluding loans advances and equities (net).

For the *Netherlands*, the forecasts for 1982 show an improvement in the economic situation relative to that in most other Community countries. Output resumes an upward path, while the rate of inflation remains relatively moderate. The current balance of payments surplus, in the order of Fl five thousand million in 1981, could reach Fl 13 thousand million in 1982, largely as a result of an increase in the price of exported gas and the weakness of investment.

However, this encouraging trend hides a less favourable outlook for the medium term; official projections show a growth rate of only 1 % in GDP between 1981 and 1985.

The Dutch authorities are therefore concerned to consolidate the competitive position of the economy. The achievement of this objective depends on a change in industrial structure resulting, in particular, in a less intensive demand for energy, bearing in mind the levelling off of natural gas production in the 1980's.

It also rests on continued wage restraint both to reduce production costs and to ensure the profitability of the investments necessary to adapt the industrial structure.

The realignment of the Central rates of the European Monetary System, agreed upon on 4 October

1981, giving an effective appreciation of the guilder of 3.5 % against the members participating in the exchange rate mechanism, should contribute to this objective through holding down import costs, through the beneficial impact of the improvement of the terms of trade on real incomes and through the enhanced possibilities for a reduction in interest rates.

A final element of the strategy which seeks to support the competitive position is to stabilize the fiscal burden and to reduce the budget deficit. The 1982 draft State budget, published in September, which shows a reduction in the general government borrowing requirement from 7.75 % of national income in 1981 to 6.5 % in 1982, has been drawn up with this aim in mind. It contains substantial economies, notably on social welfare payments, civil servants' pay and public health. The adjustments made to the draft budget by the new government leave the deficit unchanged, with the additional expenditure, in particular in favour of employment (Fl 2.5 thousand million under normal steam) being the subject of budgetary compensation. A reduction in the budget deficit, such as indicated above, does not eliminate the dangers of inflationary financing and maintains the tax burden in the Netherlands at one of the highest levels in Europe.

TABLE 11
Netherlands: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance ⁽³⁾	Savings ratio of households ⁽⁴⁾	Money supply growth M2 ⁽⁵⁾
	% ⁽²⁾	% ⁽²⁾	%	% ⁽²⁾	% ⁽²⁾	% GDP	% GDP	%	%
1960-1969	5.5	3.8	0.9	4.1	10.4	+0.5	-0.6	:	8.7
1970-1979	3.5	3.0	3.0	7.5	11.7	+1.3	-0.8	17.6	11.6
1979	2.2	0.4	4.1	4.4	7.8	-1.3	-3.7	14.5	7.6
1980	0.5	0.2	4.9	6.9	5.8	-1.4	-3.7	13.3	3.6
1981 ⁽¹⁾	-1.1	0.4	7.3	7.5	4.3	+0.6	-4.1	13.1	6.6

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) National accounts basis, excluding loans advances and equities (net).

(4) Private sector.

(5) End of year.

The level of output in the *United Kingdom* economy now appears to be rising, with GDP having fallen by nearly 6 % since the second half of 1979. Total industrial output fell by over 14 % between mid-1979 and mid-1981. Partly as a result of this fall there has been a rapid rise in the level of unemployment which now stands at more than 11 % of the working population. On the other hand, there has been a marked fall in the underlying rate of inflation which has more or less halved since 1980.

The very modest recovery now in prospect, well below that anticipated for the Community as a whole, depends heavily on the reversal of the stock-building cycle but the recent depreciation of sterling will help sustain the momentum of any recovery by stimulating exports. Moreover, despite this depreciation the rate of inflation in 1982 can be expected to decline further, although it is likely to remain in double figures.

Since 1979 the thrust of the UK authorities' policy stance has been the control of domestic inflation. This end has been sought through monetary and fiscal control within the framework of a Medium-Term Financial Strategy (MTFS) which requires that public expenditure and public sector borrowing, as a percentage of GDP, should be reduced over the medium term, consistent with the Governments' policy of securing steady but not excessive downward pressure on the monetary variables.

Although in adopting this strategy account was taken of the difficulties that it would bring in the

shorter term, it is clear that the rise in unemployment has been far greater and longer lived than anticipated. As a consequence, in formulating policy two considerations must be kept in mind. On the one hand, there is the need to ensure the control of inflationary pressures and the stability of financial markets. On the other hand, a clear strategy should be implemented to improve the productive capacity of the economy and to alleviate the social costs of the adjustment process, particularly the difficulties on the labour market. Measures of the kind recently announced to increase youth employment and training, together with the Government's other policies to increase efficiency, improve incentives, and increase competition in the nationalized industries and elsewhere in the economy will make a significant contribution in this regard.

The present fiscal stance should ensure that the Public Sector Borrowing Requirement (PSBR) outturn for 1981/82 will be broadly in line with the MTFS figure of £ 10 500 million, a substantial fall in a single year. Indeed, as a proportion of GDP, the PSBR in 1981/82 is likely to fall to 4.3 %, compared to 6 % in the previous financial year. The growth of sterling M3, however, is likely to be somewhat outside the target range of 6 to 10 %.

For 1982/83, the authorities' present intentions are that the PSBR will fall somewhat in absolute terms, towards the trend value set out in the MTFS (3.2 % of GDP). Public expenditure plans announced on 2 December 1981, including an increase of £ 5 000 million for 1982/83 (i.e. less than 5 % in nominal terms), are consistent with this objective.

To reinforce the contribution which such a stance of fiscal policy can make towards reducing earnings growth, it is important that the authorities keep a firm grip on public sector pay rises. This would facilitate the overall control of public expenditure and increase the Government's ability to take steps, as outlined above, to deal with the current difficulties.

Although the recent marked downward movement in the value of sterling has improved the competitiveness of UK industry, the main aim of economic policy is to reduce the rate of inflation. The UK authorities need, therefore, to take account of movements in the exchange rate in their economic policies, including policies for short-term interest rates. With the improved budgetary position and an underlying rate of cost and price inflation which no longer diverges greatly from that of the Community average, policy would be supported by increased exchange rate stability.

The fierce competitive pressures to which the UK has recently been subjected have undoubtedly provoked substantial improvements in efficiency. Nonetheless, much remains to be done to overcome the longer term structural difficulties of the British economy. In particular, the UK still suffers from:

- relatively high levels of real wages, low labour productivity and low profitability,
- an improving, though still inadequately competitive, production structure.

By reducing the growth of earnings in the longer term to or below the rates obtaining in other major industrialized countries, and by maintaining, and improving upon, the gains in productivity already made, the UK should be able to increase significantly investment profitability both in absolute terms, and in comparison to other countries. At the same time, there would be a strengthening in the competitiveness of UK exports. Greater investment profitability and improved export competitiveness should then provide the stimuli for the investment needed to increase labour productivity further and to effect the longer term changes in industrial structure. This in turn would lead to a longer term improvement in the UK growth and employment prospects.

However, this process requires a major change in the composition of national income, with a reduced labour share but increased profits. This itself would be a reflection of a necessary shift of resources away from consumption, which has risen rapidly over the last few years, towards investment and exports.

TABLE 12

United Kingdom: main economic aggregates, 1960 to 1981

Years	GDP volume growth	GDP volume growth per occupied person	Unemployed in labour force	Rise in consumer prices	Compensation per employee	Current account balance of payments	General government balance (4)	Savings ratio of households (5)	Money supply growth M3 (6)
	% (2) (3)	% (2) (3)	%	% (2)	% (2)	% GDP	% GDP	%	%
1960-1969	3.1	1.8	1.8	3.5	6.1	-0.3	-1.0	8.1	5.2
1970-1979	2.2	2.7	4.0	12.3	15.1	-0.9	-2.4	11.3	13.8
1979	0.9	0.4	5.3	12.5	15.7	-1.2	-3.3	14.1	12.7
1980	-1.4	0.4	6.9	15.5	19.6	1.2	-3.5	15.1	18.6
1981 (1)	-1.2	2.5	10.2	11.8	12.1	1.2	-2.2	13.0	11.5

(1) Preliminary estimate of the Commission services on the basis of present or anticipated policies.

(2) Percentage change over previous period, annual rate.

(3) Expenditure estimate.

(4) National accounts basis, excluding loans advances and equities (net).

(5) UK national accounts basis.

(6) Sterling M3.

In 1979 and 1980 the statistics concerning the money supply are distorted by the existence of the 'corset' controls and by their suppression in mid-1980. If those distortions are corrected, the growth rates would be about 14.6% in 1979 and in 1980.

Note: Figures up to 1979 are on an ESA basis unless otherwise stated.

5. CONCLUSIONS

The industrialized countries, almost without exception, have been hit by structural shifts in the world economy, by the consequences of the two oil price shocks, interest rate and exchange rate instability and public budgets and balance of payments disequilibria. Industrialized and developing countries alike are in the throes of a painful and continuing adjustment crisis.

But some industrialized countries, such as the USA and in particular Japan, have been more successful in coping with the adjustment constraints of the seventies. From 1974 to 1980 the USA has increased total employment by 12 million persons, whereas for the Community, the increase was a mere 118 thousand. Because of her competitiveness and dynamic approach to exporting, Japan's economy has since 1976 grown by 5.3 % a year. Both the USA and Japan have recently been back in surplus on their current accounts (see Table 13).

On top of this adjustment crisis has come the recession caused by the second oil price rise and the dollar's instability. It has been more intractable for Europe and has inflicted more damage on the European economies than on Japan and the USA. In 1981, real gross domestic product for the Community as a whole will contract slightly. From early 1980 until today, the number of registered unemployed in the Community has climbed by some three million to over nine million, over 8 % of the labour force. Successes in holding down inflation have remained modest, with cost and price trend divergences widening between the member countries. Balance of payments deficits and interest rates are at record levels.

The business cycle is now turning for the better in Europe. The challenge to the Community is to ensure that the moderate recovery now in prospect for 1982 is developed into a period of sustained growth and stability which creates new jobs and reduces unemployment in a climate of low inflation. But this export-led recovery remains fragile and depends on the optimal interaction of a favourable expansion of world trade, improved and sustained competitiveness in the Member States and declining interest rates. It should be reinforced domestically by improved corporate profitability, more effective incentive schemes and the easier

availability of capital to encourage investment and facilitate the renewal and restructuring of productive capacity in Europe.

A better balance of payments performance would increase the scope for bringing down interest rates and easing monetary restraint. If the Community wishes to take advantage of expanding external demand, all tendencies toward greater protectionism should be firmly checked. To the extent that some possibilities exist for a selective support of demand, this must be used in areas where manpower and production facilities are available and where the direct impact on the balance of payments is slight.

The realignment of central rates in the EMS on 4 October 1981 is a new point of reference for the management of economic policy in the period ahead. In itself the realignment was an act of sound management, confirming that the system can adjust without letting loose erratic or overshooting exchange rate movements among participants. However, it also underlines the need for renewed and stronger efforts to achieve convergence in cost developments and in budgetary and domestic monetary policies. In addition, the realignment itself warrants internal policy adjustments, on the one hand for stricter policies for control of public deficits and costs in devaluing countries, and on the other hand for measures to support activity in revaluing countries, notably through an easing of interest rates. On the basis of better convergence and coordination of policy along these lines, the Community will be in a position to strengthen the EMS, which forms an essential element in the spectrum of policies required to turn the recovery into a period of sustained and stable growth.

The improved outlook and probable performance in 1982 fall far short of what is needed either to reverse the trend of unemployment and absorb the increased supply of labour, or to make good the economic weakness and policy errors which left Europe ill-defended against the major shock waves that have passed through the world economy.

The need is for more radical and fundamental changes in the macro-economic management of public budgets, in sectoral adjustments and in the

behaviour of social partners. Our experience within the Community and outside show that these enormous economic adjustments are possible, and

indeed can be crowned with success as long as the fundamental economic policy choices are correctly set.

TABLE 13
Main economic indicators, the Community, USA and Japan

Years	GDP/GNP volume (1)	Total employment	Unemployment	Consumer price deflator	Relative unit labour cost (2)	Current account of balance of payments	Budget deficit (3)
	% change	% change	% labour force	% change	% change	% GDP	% GDP
the Community:							
1974-1978	2.1	-0.1	4.5	10.7	0.5	-0.1	-3.7
1979	3.4	0.7	5.4	9.6	8.6	-0.5	-3.6
1980	1.1	0.0	6.0	11.8	6.2	-1.4	-3.5
1981 (4)	-0.5	-1.3	7.8	11.3	-14.5	-1.2	-4.4
USA:							
1974-1978	2.5	2.0	6.9	7.3	-3.2	-0.3	-0.9
1979	2.4	3.5	5.8	8.9	1.1	-0.8	+0.5
1980	-0.2	0.3	7.1	10.2	1.5	+0.1	-1.2
1981 (4)	1.9	1.5	7.4	8.4	14.0	+0.2	-0.8
Japan:							
1974-1978	3.3	0.8	1.9	10.3	3.0	+0.5	-3.2
1979	5.6	1.3	2.1	2.0	-14.2	-0.9	-4.7
1980	4.1	1.0	2.0	7.1	-10.7	-1.0	-3.9
1981 (4)	4.0	1.0	2.1	5.4	10.4	+0.3	-3.0

(1) European Economic Community: gross domestic product; US and Japan: gross national product.

(2) Unit labour costs in manufacturing expressed in \$, relative to weighted average of 17 competitors.

(3) Net lending (+) or borrowing (-) of general government, national accounts definitions.

(4) Estimate.

Source: Eurostat; national accounts of OECD countries, Volume II; estimates of Commission services.

COUNCIL DIRECTIVE

of 14 December 1981

supplementing Directives 75/362/EEC, 77/452/EEC, 78/686/EEC and 78/1026/EEC concerning the mutual recognition of diplomas, certificates and other evidence of the formal qualifications of doctors, nurses responsible for general care, dental practitioners and veterinary surgeons respectively, with regard to acquired rights

(81/1057/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 49, 57 and 66 thereof,

Having regard to the proposal from the Commission ⁽¹⁾,

Having regard to the opinion of the European Parliament ⁽²⁾,

Having regard to the opinion of the Economic and Social Committee ⁽³⁾,

Whereas in Directives 75/362/EEC ⁽⁴⁾, 77/452/EEC ⁽⁵⁾, 78/686/EEC ⁽⁶⁾ and 78/1026/EEC ⁽⁷⁾ concerning the mutual recognition of diplomas, certificates and other evidence of the formal qualifications of doctors, nurses responsible for general care, dental practitioners and veterinary surgeons respectively, and including measures to facilitate the effective exercise of the right of establishment and freedom to provide services, the provisions relating to acquired rights refer to diplomas, certificates and other evidence of formal qualifications of doctors, nurses responsible for general care, dental practitioners and veterinary surgeons issued by the Member States before the implementation of the said Directives;

Whereas these provisions therefore do not expressly cover the diplomas, certificates and other evidence of formal qualifications which are evi-

dence of training not meeting the minimum training requirements provided for in Directives 75/363/EEC ⁽⁸⁾, 77/453/EEC ⁽⁹⁾, 78/687/EEC ⁽¹⁰⁾ and 78/1027/EEC ⁽¹¹⁾ which was completed after the implementation of the said Directives, but which had commenced before their implementation;

Whereas it is advisable to make good this omission,

HAS ADOPTED THIS DIRECTIVE:

Article 1

Article 9 (1) and (2) of Directive 75/362/EEC, Article 4 of Directive 77/452/EEC, Article 7 (1) and (2) of Directive 78/686/EEC and Article 4 of Directive 78/1026/EEC shall also apply to the diplomas, certificates and other evidence of formal qualifications which are evidence of training which does not meet the minimum training requirements provided for respectively in Articles 1, 2, 3, 4 and 5 of Directive 75/363/EEC, Article 1 of Directive 77/453/EEC, Articles 1, 2 and 3 of Directive 78/687/EEC and Article 1 of Directive 78/1027/EEC and which was completed after the implementation of these Directives but has commenced before the said implementation.

⁽¹⁾ OJ No C 121, 23. 5. 1981, p. 3.

⁽²⁾ OJ No C 172, 13. 7. 1981, p. 114.

⁽³⁾ OJ No C 185, 27. 7. 1981, p. 7.

⁽⁴⁾ OJ No L 167, 30. 6. 1975, p. 1.

⁽⁵⁾ OJ No L 176, 15. 7. 1977, p. 1.

⁽⁶⁾ OJ No L 233, 24. 8. 1978, p. 1.

⁽⁷⁾ OJ No L 362, 23. 12. 1978, p. 1.

⁽⁸⁾ OJ No L 167, 30. 6. 1975, p. 14.

⁽⁹⁾ OJ No L 176, 15. 7. 1977, p. 8.

⁽¹⁰⁾ OJ No L 233, 24. 8. 1978, p. 10.

⁽¹¹⁾ OJ No L 362, 23. 12. 1978, p. 7.

Article 2

Member States shall take the measures necessary to comply with this Directive by 30 June 1982 at the latest. They shall forthwith inform the Commission thereof.

Article 3

This Directive is addressed to the Member States.

Done at Brussels, 14 December 1981.

For the Council
The President
G. HOWE

COUNCIL DECISION**of 14 December 1981**

on the conclusion of a Cooperation Agreement between the European Economic Community and the Kingdom of Sweden on the interconnection of the Community network for data transmission (Euronet) and the Swedish data network for information-retrieval purposes and on the conclusion of a Trilateral Protocol on the purport of the Agreements for data network cooperation concluded by the European Economic Community with, on the one hand, the Swiss Confederation and, on the other hand, the Kingdom of Sweden

(81/1058/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Decision 81/599/EEC of 27 July 1981 adopting a third plan of action in the field of information and documentation (1981 to 1983) (1), and in particular Article 3 thereof,

Having regard to the proposal from the Commission,

Whereas the Commission has negotiated a Cooperation Agreement with the Kingdom of Sweden to interconnect that country's data network and Euronet;

Whereas that Agreement should be concluded;

Whereas, moreover, the Trilateral Protocol on the purport of the Agreements for data network cooperation concluded by the European Economic Community with, on the one hand, the Swiss Confederation and, on the other hand, the Kingdom of Sweden, should be concluded,

HAS DECIDED AS FOLLOWS :

Article 1

The Cooperation Agreement between the European Economic Community and the Kingdom of

Sweden on the interconnection of the Community network for data transmission (Euronet) and the Swedish data network for information retrieval purposes is hereby approved on behalf of the Community.

The text of the Agreement is attached hereto.

Article 2

The Trilateral Protocol on the purport of the Agreements for data network cooperation concluded by the European Economic Community with, on the one hand, the Swiss Confederation and, on the other hand, the Kingdom of Sweden, is hereby approved on behalf of the Community.

The text of the Protocol is attached hereto.

Article 3

The President of the Council is hereby authorized to designate the person empowered to sign the Agreement and the Protocol in order to bind the Community.

Done at Brussels, 14 December 1981.

For the Council
The President
G. HOWE

(1) OJ No L 220, 6. 8. 1981, p. 29.

COOPERATION AGREEMENT

between the European Economic Community and the Kingdom of Sweden on the interconnection of the Community network for data transmission (Euronet) and the Swedish data network for information-retrieval purposes

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

of the one part, and

THE GOVERNMENT OF THE KINGDOM OF SWEDEN,

of the other part,

Considering that during the last few years, considerable effort has been devoted in Europe to the field of data transmission by packet switching as well as to the field of scientific and technical information and documentation in general;

Considering that on 23 November 1971 an Agreement on the establishment of a European Informatics Network (COST 11) was concluded to provide for data transmission on the basis of packet switching technology, to which the European Atomic Energy Community, the Federal Republic of Germany, France, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and Yugoslavia eventually became Parties;

Considering that the Council of the European Communities (hereinafter referred to as 'the Council') in its resolution of 14 January 1974 on an initial outline programme of the European Communities in the field of science and technology, emphasized that, whenever it proved necessary or desirable that third countries, particularly European ones, should be associated in projects under this programme, steps should be taken to make this possible;

Considering that the Council on 18 March 1975, 9 October 1978 and 27 July 1981 adopted three-year action plans in the field of scientific and technical information and documentation providing notably for the implementation of a data transmission network (hereinafter called 'Euronet') which should give users within the Member States

of the European Communities (hereinafter referred to as 'Member States') reliable, rapid and low-cost access to all scientific, technical, economic, legal and social data available;

Considering that by the Multilateral Convention, signed on 11 December 1975, concerning the implementation and exploitation of a telecommunications network for Euronet, the telecommunications administrations of the Member States decided to undertake such implementation and exploitation and to that effect entrusted France with concluding, with the European Economic Community (hereinafter referred to as 'the Community') a contract which was signed on 15 December 1975;

Considering that the Council in its decision of 27 July 1981 made provisions for the Community to conclude cooperation agreements with third countries participating in the European Conference of Postal and Telecommunications Administrations (CEPT);

Considering that Sweden has for several years participated in the development of information science, particularly on-line information retrieval services within the Nordic countries (Scannet);

Considering that the Swedish Telecommunications Administration has established a public packet switching data transmission network for on-line information retrieval purposes in Sweden (hereinafter called 'the Swedish data network') which was inaugurated on 14 September 1979;

Recalling that Sweden is a member of the European Space Agency and that cooperation exists between the Community and the European Space Agency on Euronet;

Recognizing that it would be in the mutual interest of the Contracting Parties to this Agreement to interconnect the Swedish data network and Euronet in order to provide users in Sweden with the means to gain access to information services estab-

lished in the Member States and to provide users in the Member States with the means to gain access to information services established in Sweden and, moreover, to examine how to facilitate the marketing of such information services both in Sweden and in the Member States,

HAVE AGREED AS FOLLOWS :

Article I

This Agreement provides the general framework for cooperation in the field of information services and in particular for the interconnection of Euronet and the Swedish data network for the purpose of providing mutual access to publicly available information services. The measures necessary to put this cooperation into effect will be taken in :

- an operating arrangement to be concluded between the Telecommunications Administrations participating in Euronet and the Swedish Telecommunications Administration,
- an information service arrangement to be concluded between the Community and the Swedish Delegation for Scientific and Technical Information.

Users in the Member States shall be offered, through Euronet, access to the Swedish data network and users in Sweden shall be offered, through the Swedish data network, access to Euronet. Subject to national law, in particular law governing access to data bases, host computers in the Member States and in Sweden shall be offered similar possibilities of connection to the interconnected networks. Likewise subject to national law and regulations, connections of users and host computers shall be provided in a non-discriminatory manner and on the basis of reciprocity.

Article II

The operating arrangement between the Telecommunications Administrations referred to in Article I shall contain *inter alia* the technical requirements for, and the financial implications resulting from, the interconnection of the two telecommunications networks. The information service arrangement between the Community and the Swedish Delegation for Scientific and Technical Information referred to in Article I shall contain *inter alia* provisions for the functioning and development of the services offered through the networks, lay down the principles for the proposed cooperation between the Parties and define their respective contributions.

Article III

In order to safeguard the interests of the users and to ensure efficient and low-cost functioning of the networks, as well as competitive services, each Contracting Party shall use its best endeavours to ensure that operators of host computers connected to the interconnected networks respect a code of conduct as closely as possible in line with the joint declaration of intent appearing in the Annex to this Agreement.

Article IV

The Contracting Parties shall encourage cooperation for the further development of specifications, services, facilities and user assistance. They shall encourage cooperation between groups of host computer operators and between groups of users. The Community shall use its best endeavours to facilitate the participation of Swedish host computer operators in the meetings of the Committee of host computer operators in Euronet, referred to in the Annex, as well as the participation of Swedish users in Euronet user groups.

Article V

The Contracting Parties shall keep each other informed of progress achieved within the framework of this Agreement. In particular, they shall as early as possible exchange information relating to envisaged connections of host computers and data banks or bases.

Article VI

Any extension of Euronet to countries not members of the Community shall be subject to prior consultation between the Contracting Parties, in particular as regards the consequences of such extension both for the relations between Sweden and the Community and for those the two Parties will have with the countries in question.

Article VII

Each Contracting Party is free to connect to its network other networks, host computers and users situated outside Sweden and the Member States. Further connection of such extensions to the network of the other Contracting Party requires prior agreement between the Contracting Parties and, where appropriate, consent by the Telecommunications Administrations involved.

Article VIII

This Agreement does not affect the right of the Swedish Telecommunications Administration to use the Swedish data network for traffic independent of Euronet.

Article IX

In the event of a dispute concerning the interpretation or application of this Agreement, such dispute shall be the subject of consultations between the Contracting Parties.

Article X

This Agreement shall be approved by the Contracting Parties in accordance with their own procedures. It shall enter into force on the day when the

Contracting Parties have notified each other that the procedures necessary to this end have been completed.

Article XI

This Agreement shall expire on 31 December 1983. At the initiative of either Contracting Party, however, this Agreement may be terminated at an earlier date, provided that one year's prior notice be given to the other Contracting Party.

Article XII

This Agreement is drawn up in duplicate, in the Danish, Dutch, English, French, German, Greek, Italian and Swedish languages, each text being equally authentic.

Done at Brussels,

*For the Council
of the European Communities*

*For the Government
of the Kingdom of Sweden*

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ANNEX

Joint declaration of intent concerning operators of host computers to be connected to Euronet as referred to in Article III of the Cooperation Agreement

1. The host computer operator, hereinafter called 'the host', has sole responsibility regarding the operation of his services via the network.
2. The host will not discriminate against users of Euronet with regard to their nationality. Should existing contracts or international agreements contain discriminatory provisions, the host will inform the competent authorities thereof and endeavour to modify them.
3. Unfair competition will be avoided. If necessary, the host may be invited to provide explanations on this subject by the competent authorities in his own country.
4. The host will bear in mind the principle that for information services, charges should be as low as possible, and as far as possible take this into account in his pricing policy.
5. The host will participate in efforts which aim at gradual harmonization of services. He will in particular consider :
 - implementation of the Standard Command Set for his information retrieval system as set out in 'Euronet guidelines: standard commands for information retrieval systems',
 - gradual harmonization of general conditions of sale, to be developed in cooperation.
 - gradual adaptation of instruction manuals,
 - simplification of user access procedures and invoicing.
6. The host will consider measures for efficient Euronet-wide marketing of his services and training of users thereof.
7. So as to provide for appropriate cooperation, the host agrees to participate in the work of a Committee which will meet regularly to voice the hosts' opinions on all network-related matters and make appropriate recommendations which will be forwarded to the competent authorities of the countries participating in Euronet. Each participant will bear the costs of his participation at meetings of the Committee.
8. The host will name his representative to this Committee within three months of the date of the conclusion of the agreement providing for his connection to Euronet; he will also name within this period any other representative responsible for Euronet-related matters, and specify his area of responsibility.
9. Within the same period, the host will provide the competent authorities in his country with a provisional description of the data bases and derivable services which he intends to offer. This description will comply as far as possible with that of data base services as set out in 'Euronet guidelines for cooperation between data base suppliers and host organizations'. The description will in particular present the data bases, derivable services and charges to be levied. A final description of the services will be communicated to the competent authorities at the latest three months before the start of operations.
10. The host will strive to announce any substantial change in the nature of the specified services three months in advance and to inform the competent authorities of his country accordingly.
11. If the host intends to use his connection to Euronet also for purposes other than those covered by the Cooperation Agreement, he will inform the competent authorities of his country accordingly.
12. So as to allow the competent authorities to adapt the network to requirements, the host will provide, at least annually, appropriate statistics on his Euronet services, such as traffic, number of subscribers, etc.

TRILATERAL PROTOCOL

on the purport of the Agreements for data network cooperation concluded by the European Economic Community with, on the one hand, the Swiss Confederation and, on the other hand, the Kingdom of Sweden

Whereas on 28 September 1979 the European Economic Community and the Swiss Confederation concluded an Agreement in the form of an exchange of letters on the extension of the Community network for data transmission (Euronet) to Switzerland, hereinafter referred to as 'the exchange of letters';

Whereas the European Economic Community and the Kingdom of Sweden have today concluded a Cooperation Agreement on the interconnection of the Community network for data transmission (Euronet) and the Swedish data network for information-retrieval purposes, hereinafter referred to as 'the Cooperation Agreement';

Whereas, by virtue of Point 10 of the exchange of letters, the Swiss Confederation has given its consent to the interconnection of Euronet and the Swedish data network,

The Signatories to this Protocol have come to the understanding that the Cooperation Agreement shall apply to Euronet as extended to Switzerland and to the Swedish data network.

Done at Brussels, on

For the Swiss Federal Council

For the Government of the Kingdom of Sweden

For the Council of the European Communities

COUNCIL DIRECTIVE**of 14 December 1981****derogating in favour of the Federal Republic of Germany from Directive 73/403/EEC
on the synchronization of general population censuses****(81/1059/EEC)**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 213 thereof,

Having regard to the proposal from the Commission,

Whereas Directive 73/403/EEC ⁽¹⁾ provides that Member States shall conduct a general population census on a date between 1 March and 31 May 1981;

Whereas serious difficulties, which could not have been foreseen when the Directive was adopted, have arisen which have not enabled the census in the Federal Republic of Germany to be carried out between the said dates;

Whereas it is proposed to hold the said census in the Federal Republic of Germany between 1 March and 31 May 1983,

HAS ADOPTED THIS DIRECTIVE:

Article 1

By way of derogation from Article 1 of Directive 73/403/EEC, the Federal Republic of Germany shall conduct a general population census on a date between 1 March and 31 May 1983.

Article 2

This Directive is addressed to the Federal Republic of Germany.

Done at Brussels, 14 December 1981.

For the Council
The President
G. HOWE

⁽¹⁾ OJ No L 347, 17. 12. 1973, p. 50.

COUNCIL DIRECTIVE**of 14 December 1981****derogating in favour of the Kingdom of the Netherlands from Directive 73/403/EEC
on the synchronization of general population censuses****(81/1060/EEC)**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and
in particular Article 213 thereof,

Having regard to the proposal from the Commission,

Whereas Directive 73/403/EEC ⁽¹⁾ provides that Member States shall conduct a
general population census on a date between 1 March and 31 May 1981;Whereas serious difficulties, which could not have been foreseen when the Directive
was adopted, have arisen; whereas they have not enabled the census operations to be
carried out in the Kingdom of the Netherlands between the said dates;Whereas the information required by the Commission can, to a large extent, be
acquired partly from current demographic statistics and partly on a sample basis,

HAS ADOPTED THIS DIRECTIVE:

*Article 1*By way of derogation, Directive 73/403/EEC shall not apply in the case of the
Kingdom of the Netherlands.*Article 2*

This Directive is addressed to the Kingdom of the Netherlands.

Done at Brussels, 14 December 1981.

*For the Council**The President*

G. HOWE

⁽¹⁾ OJ No L 347, 17. 12. 1973, p. 50.

