

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE ECONOMIC SITUATION IN THE COMMUNITY

(European Council, Brussels, 5 and 6 December 1977)

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(Communication to the European Council, Brussels 5 and 6 December 1977)

I. ECONOMIC SITUATION IN THE COMMUNITY

1. The overall position of the European economy calls for a qualified judgement : while the results achieved on the prices and balance of payments front have been considerable, economic growth remains insufficient in almost all the Member States.

2. Further progress has been achieved in re-establishing internal and external equilibria.

- Inflation rates have fallen steadily, particularly in the United Kingdom, Ireland and Luxembourg. The rate of increase in consumer prices, which was still greater than 11% in September (Community average over a twelve-month period), could fall to some 9% by the end of the year. The average increase in the consumer expenditure deflator for 1977 could work out at about 9½%.

- In several Member States, the current-account balance of payments deficit for 1977 will show a significant reduction. Italy and the United Kingdom will record a surplus, while France will reduce its deficit by almost half. The surplus of the Federal Republic of Germany and the Netherlands should together fall to some \$ 3 000 million (as against \$ 5 500 million in 1976). The Community's current account in 1977 may be expected to show an overall deficit of about \$ 1 000 million (as against some \$ 8 000 million in 1976).

3. The growth of industrial production and real GDP is still unsatisfactory in all the Member States, with the exception of Ireland. Industrial production declined during the second quarter as compared with the previous quarter, and continued to fall during the third quarter. Since last spring, Community GDP in real terms has stopped growing. Taking the average for 1977, the growth rate of the Community's GDP in real terms will barely reach 2½% (as against 4.7% in 1976), though some improvement can be expected for the second half of the year.

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4. In several Community countries, it would appear that some signs of a pick-up in the economy are becoming evident: private consumption is expanding more rapidly (particularly in the Federal Republic of Germany, France and the United Kingdom), the psychological climate among consumers is improving, and managements in most of the Member States are more optimistic about the outlook for production.

5. However, the growth of aggregate demand is still inadequate and the degree of capacity utilization in industry very low, while the labour force has grown rapidly, the number of wholly unemployed persons began to climb again until August but since then has tended to level out in almost all the countries. The total number of unemployed in the Community reached nearly 6 million, which is equivalent to about 5.7% of the working population and is a record level. In most of the Member States, the number of unemployed includes more than 40% of young people under 25 years of age.

II. ECONOMIC POLICY CHANGES AND OUTLOOK FOR THE ECONOMIC TREND IN THE COMMUNITY

1. During the present year and particularly during the last few months, most of the Member States of the Community have taken measures designed to improve the employment situation and support the economy:

- in the Federal Republic of Germany, a package of measures was introduced amounting to more than 1% of GDP;

- in France, a series of selective measures has been implemented since the beginning of the year, at an estimated total cost of FF 15 000 million, which is about 0.8% of the gross domestic product;

- in the United Kingdom, a two-part programme of measures to support economic activity was introduced (£ 1 000 million in the current financial year 1977/78 and £ 1 250 million in 1978/79, corresponding to about 1.5% of the gross domestic product);

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- in Belgium and the Netherlands, new tax reliefs and new investment incentives have been introduced amounting to more than 0.5% and almost 1% of the gross domestic product respectively;

2. Taking account of the likely international situation and the measures taken or announced in the different member countries, on the basis of the present situation and present demand factors, Community GDP can be expected at best to grow by $3\frac{1}{2}\%$ in real terms in 1978. This is not enough to improve the labour market situation.

In most Member States, no stabilization, much less an improvement in unemployment can be expected unless a moderate growth in costs and a 4-4.5% GDP growth in terms of volume are achieved, and full employment cannot be restored without a much higher medium-term growth rate.

3. In response to this situation, the Ministers for Finance agreed in October on a normative scenario with the following objectives:

- a 4% - 4.5% GDP growth in real terms for the Community taken as a whole;

- a halt to the spreading of unemployment and an improvement in the situation on the labour market;

- narrower disparities between the payments balance positions of the various Member States, and an overall Community payments position either in balance or even in deficit;

- a rate of inflation down to 7 to 8% for the Community average (compared with about 9.5% in 1977) and a narrower spread between the extremes, down to a range of under 4% to 10% (4 - 18% in 1977).

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5. The gap between the foreseeable growth rates for real GDP and the objectives agreed on must be reduced by coordinated efforts within the Community. With demand now slack all over the world, no country, however important its contribution to world trade, can hope to ensure recovery by itself. On the other hand, if the Member States co-ordinate their approach and work together with the other industrialized countries, they can mutually strengthen the multiplier effects of the measures they take, instil new confidence in managements and consumers on a lasting basis and thus achieve the growth objectives set without jeopardizing fundamental equilibria.

Responsibility for supporting internal demand at an appropriate level lies first and foremost with the Member States whose balances of payments are relatively strong. However, as the adjustment processes gradually evolve, other Community countries will be able to use the resultant room for manoeuvre in order to make their contribution to the strengthening of business activity. On 21 November, the Council laid down the economic policy guidelines to be followed in 1978. Short-term measures must be supplemented by:

- greater convergence in economic policies and situations, the achievement of a single market, and the development of policies to meet the Community's structural and social problems, so that progress towards economic and monetary union can be resumed;

- close cooperation between the two sides of industry, so as to reduce the adjustment difficulties involved in the structural changes, which are taking place to moderate wage and salary increases so as to reduce cost pressure and promote the propensity to invest, and finally to encourage the creation of new jobs;

- development of the international dialogue with the Community's major partners so as to ensure the expansion of world trade and remove the dangers of protectionism, the effects of which would be harmful to growth and employment.

TABLE 1

DEVELOPMENT OF THE PRINCIPAL MACRO-ECONOMIC AGGREGATES IN THE COMMUNITY

	Gross domestic product in volume, in % (1)				Unemployed as % of the civilian labour force (2)			
	1970 - 1974	1975	1976	1977	1970 - 1974	1975	1976	1977
Denmark	2,9	-1,1	4,8	1	1,3	5,0	5,1	6,2
FR Germany	3,6	-2,6	5,7	3	1,1	4,1	4,1	4,0
France	5,1	0,1	5,2	2 3/4	2,7	4,0	4,4	5,1
Ireland	3,6	0,4	3,2	5	5,9	7,9	9,4	9,6
Italy	4,1	-3,5	5,6	2	(5,2)	(5,6)	(5,9)	(6 3/4)
Netherlands	4,7	-1,1	4,4	2 1/2	2,1	4,0	4,3	4,3
Belgium	5,2	-2,0	3,0	2 3/4	2,3	4,5	6,1	6,9
Luxembourg	4,1	-8,4	2,7	1 1/4	0	0,2	0,4	0,5
United Kingdom	2,5	-1,7	1,6	1/2	2,8	3,9	5,2	5,9
Community	4,0	-1,8	4,7	2 1/2	(2,8)	(4,4)	(4,9)	(5,5)
	Implicit prices of private consumption, in % (1)				Balance of payments on current account (1.000 Mio \$)			
	1970 - 1974	1975	1976	1977	1970 - 1974	1975	1976	1977
Denmark	7,9	8,8	8,5	10 1/2	-0,5	-0,6	-2,0	-1,6
FR Germany	5,8	6,3	4,4	4	3,3	4,3	3,2	2,1
France	8,3	11,6	9,9	9	-1,1	-0,1	-5,8	-3,5
Ireland	10,8	21,8	17,0	14	-0,3	0	-0,3	-0,5
Italy	8,7	17,6	17,5	18 1/2	-1,0	-0,6	-2,8	+1,2
Netherlands	8,0	10,3	9,2	7 1/4	1,0	1,7	2,5	1,0
Belgium	6,3	12,1	9,0	7 1/4	} 1,0	} 0,3	} -0,4	} -0,2
Luxembourg	6	10,7	9,8	7				
United Kingdom	7,5	23,6	15,3	15 1/4	-1,2	-3,8	-2,5	+ 0,4
Community	7,8	12,8	9,9	9 1/2	1,1	1,4	-8,0	-0,9

(1) Over the previous year.

(2) The rate of unemployment indicated in parenthesis is that obtained by adopting for Italy data prepared by the Ministry of Labour instead of ISTAT. 1977: estimates.

Source: Departments of the Commission.

TABLE 2

DEVELOPMENT OF INDUSTRIAL PRODUCTION AND UNEMPLOYMENT

Quarterly changes in % (seasonally adjusted)

	INDUSTRIAL PRODUCTION (CONSTRUCTION EXCLUDED)				GROSS DOMESTIC PRODUCT (IN VOLUME)				UNEMPLOYMENT RATE						
	1977				1977				1977						
	1976	I	II	III	1976	IV	I	II	III	1976	IV	I	II	III	Oct.
DENMARK	-0,4	1,8	-5,4	3,6	.	.	.	.	.	4,8	5,6	5,8	6,0		
FR GERMANY	1,3	2,4	-0,2	-2,1	1,5	1,0	0	(± 0)		3,8	3,8	3,9	4,0	4,0	4,0
FRANCE	1,5	2,7	-2,8	-1,7	0,4	2,1	-0,5	0,5		4,3	4,5	4,8	5,2	5,2	5,2
IRELAND	0,8	1,2	3,9	.	.	.	.	.		9,9	9,7	9,6	9,6	9,6	9,4
ITALY	5,8	2,3	-6,3	-3,5	1,9	1,0	-2,5	0		6,1	6,2	6,5	7,3	7,3	7,6
NETHERLANDS	1,0	0,0	0,2	-2,0	.	.	.	.		4,4	4,1	4,1	4,4	4,4	4,4
BELGIUM	1,6	-0,3	0,5	.	.	.	.	.		7,1	7,2	7,4	7,9	7,9	8,2
LUXEMBOURG	-1,0	3,7	2,3	-4,8	.	.	.	.		0,4	0,5	0,5	0,6	0,6	0,6
UNITED KINGDOM	1,5	2,9	-2,2	-0,5	1,5	0,3	-1,2	0,7		5,5	5,5	5,6	6,1	6,1	5,9
EC	1,9	2,4	-2,0	-2,0	1,2	1,2	-0,7	0,2		5,0	5,1	5,2	5,6	5,6	5,7

* Except unemployment rate.

Source: EUROSTAT and estimates by the departments of the Commission.

Table 3

DEVELOPMENT OF THE TRADE BALANCE AND CONSUMER PRICES

	Development of the trade balance (1) (mio US \$, seasonally adjusted figures)				Consumer prices (2)					Latest month available
	1976	1977			Last 12 months	Last 6 months	Last 3 months			
		IV	I	II						
DANMARK	- 981	- 835	- 859	- 868	10,1	11,8	11,1	11,1	11,1	Sept.
FR GERMANY	3473	3451	4106	3744	3,7	2,5	-	-	0,5	Oct.
FRANCE	- 2951	- 2518	- 2121	- 1487	9,7	11,1	9,5	9,5	9,5	Sept.
IRELAND	- 214	- 333	- 276	- 206	13,5	10,0	4,4	4,4	4,4	Aug.
ITALY	- 1920	- 1511	- 945	- 102	15,9	12,3	13,4	13,4	13,4	Oct. (*)
NETHERLANDS	- 453	- 672	- 689	.	5,3	4,0	6,0	6,0	6,0	Oct. (**)
BELGIUM	- 52	- 345	- 305	.	6,5	6,5	5,1	5,1	5,1	Oct.
LUXEMBOURG	- 2723	- 2331	- 2124	- 987	5,4	2,6	-	-	0,2	Oct.
UNITED KINGDOM	- 6299	- 5905	- 3650	.	14,0	7,0	6,0	6,0	6,0	Oct.
EC					11,1	9,2	5,7	5,7	5,7	Sept.

(*) Estimates

(1) EC: extra Community trade

(2) Percentage change expressed at an annual rate.

Source: EUROSTAT and departments of the Commission.