

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European Council,
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INTRODUCTION

This communication is intended as a basis for the European Council's discussion on the economic and social state of the Community. It comprises a first section appraising the immediate outlook; a second briefly recalling the lines of economic policy that outlook demands; a third sketching the Community's own contribution to this strategy, and a fourth dealing with specific measures in the matter of employment.

1. APPRAISAL OF ECONOMIC SITUATION AND IMMEDIATE OUTLOOK

- 1.1. The Community economy in 1980/81 showed negative growth (-0.5%), a slight downturn in inflation and a sharp leap in unemployment (by about one-third). Overall, the balance-of-payments deficit was reduced fairly quickly, from an average -1.3% of GDP in 1980 to -0.8% in 1981.
- 1.2. In 1982 growth in GDP is likely to be something like 1.6%—less than was forecast in December—and inflation around 10.5%; the burden of the current-account balance-of-payments deficit should diminish to -0.4% of GDP. These expectations are based on predicted high exports and primarily cyclical stockbuilding. Unemployment will continue to rise, though less steeply: it will exceed 9% of the working population in 1982, owing in part to the increase in the labour supply in 1980-85.
- 1.3. This outlook does practically nothing to lessen the main basic problems the Community economy has been up against for some years.

First, energy. Despite the fall in imports of energy products—due in part to negative growth and in part to real savings—the net oil bill has risen further, to 3.9% of GDP in 1981. Even though there has been a relatively favourable movement in the price of oil (deducted from, however, by the dollar rate), priority still has to be given to loosening the grip of the oil constraint.

The trend in investment is disquieting: the Community is on average devoting rather less than 20% of its GDP to investment, compared with Japan's 32%. The reasons are familiar: high interest rates, low profits, uncertain demand. The consequences are serious: investment is not contributing sufficiently to economic adjustment, as regards either reducing energy-dependence or increasing competitive capacity.

Inflation is still too high with the European economy in the trough of a business cycle. The improvement in 1982 will be inadequate and anyhow only a relative one.

Developments on the employment front give cause for grave concern. Unemployment will again increase in roughly the same measure (about 15%) for the ninth year running even though the upturn is expected to gather pace in 1982 and reach a growth rate of 2.5% at the end of the year. At the same time the upturn is very much dependent on the international environment (world trade, exchange rates and interest rates). At best it will be only a small one, and it may well be precarious. The policymakers must bear this in mind.

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2. LINES OF ECONOMIC POLICY

- 2.1. Member States' policies must perforce take account of the special features of their respective situations.

All the same, divergences in policies, behaviour and results are bad in a Community based on a single market and bound monetarily by strong reciprocal undertakings. Now rates of inflation are expected in 1982 to range from 4.5% to 24%; there will be a difference of more than six points between the highest and the lowest unemployment rates; the Netherlands will have a 3.9% surplus on current account and Ireland a 9.3% deficit, and the forecast growth rates vary between 0.4% and 2.7%. In face of such contrasting situations, it could well be that the temptation might develop to go back on the Community patrimony.

The fact remains that, with their economies closely interwoven, and having to face in the same way largely structural problems and external constraints, the Member States cannot depart from a line focused on the same ends and employing the same kind of means.

- 2.2. In the outlook just described, unemployment figures as a major issue for all the member countries. Simply carrying on present policies as they stand is not calculated to produce a sufficient upturn in growth to improve employment.

There being no prospect of a resurgence in general demand, all margins of manoeuvre available in the Member States should be used to promote investment. These national measures being part of a common purpose of reviving growth and employment, they must be closely coordinated at Community level. The Commission accordingly feels it should urge on the Heads of State and Heads of Government the need for such coordinated action. Its hope is that Community-level moves will be made to work out what action can be taken, and detail to the next European Council session the scale of that action and the practical steps involved, both in the individual countries and in the Community as a whole.

- 2.3. This fostering of investment might be effected on the following lines.

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Budget-wise, some Member States are not free agents at all and have therefore to continue to give priority to reducing public deficits. Others have gradually managed to establish a certain margin of manoeuvre, and this must be turned to full account, provided that the effect is

- (i) to be of direct benefit to investment, productive job creation or increased competitiveness;
- (ii) not to cause matters to get out of hand so that the Member States concerned are no longer in control of financial developments.

It is also necessary for most of the Member States to embark on a systematic medium-term restructuring of public expenditure so as to increase the relative Budget share of expenditure on developing productive activity.

- 2.4. This necessitates still greater stringency in the matter of monetary policy and incomes.

Monetary policy must continue to keep a close grip on national money supply in order to bring down inflation: nevertheless, where margins of manoeuvre have been secured it should be aimed at the top end of the target zone for money-supply expansion.

In any event the constraints of adjustment will still require that the movement of costs, and hence of incomes, remains consonant with the all-important aim of competitiveness and the need to make available the funds to develop a modern production basis.

3. CONTRIBUTION OF THE COMMUNITY

- 3.1. The Community's contribution to economic recovery and higher employment could be a substantial one if the decision is taken at the top to make prompt and thorough use of the assets at Europe's disposal.

Broadly, those assets are, market-wise, continental scale; economically and monetarily, the multiplier effect of convergent policies and the aim to establish an area of stability, i.e. to afford economic operators a more stable and dependable

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framework to operate in; externally, the negotiating power of the world's premier trade partner.

3.2. The Commission proposes that the European Council adopt three priority fields of action.

(a) The aspiration to establish through the EMS an area of monetary stability—that is, to make the general framework of economic policy less vulnerable—is of absolutely top importance.

The Commission submitted proposals following the European Council session in November 1981, and the Council arranged to be able to adopt a resolution at its May session. The decisions will be aimed at realistically but significantly increasing the System's internal strength and external impact. In the Commission's view this should involve

- (i) stepping up the drive to ensure the convergence of policies and results needed to underpin the security of the EMS;
- (ii) establishing that instrument of financial diversification and embryonic reserve currency the Ecu;
- (iii) improving the technical machinery of the EMS, to an extent fully compatible with the aims of national domestic monetary policies;
- (iv) proposing to the Community's leading partners, on the strength of increased European monetary credibility, organized cooperation to avoid fluctuations in and unwarranted levels of exchange rates and interest rates.

The Commission feels that a realistic move on a fairly considerable scale can and should be made at a time when the risks of divergence are growing and the consolidation of Europe is going less than well in many fields. It trusts the European Council will share this view.

(b) Steady expansion of investment is an aim common to all.

It is in the main a matter of individual entrepreneurial decisions, but those decisions are themselves determined by the enterprise's, and the economy's, competitive capacity, the demand outlook and the taxes and regulations applying to investment. On two points the Community is already playing a part, namely the introduction of lending and borrowing arrangements, concerning which the Commission will shortly be making new proposals, and the progressive framing of a common energy strategy, to which investment is pivotal.

The Commission expects the European Council to confirm the importance it attaches to the mobilizing of Community credit for investment, more particularly in the energy field.

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(c) It is time that the process of turning to account the continent-wide nature of the Community—completing the establishment of the internal market in goods, capital and services, developing a Community-level industrial strategy, formulating a policy on technology and innovation—got away from the realm of general discussion.

On all these the Commission has proposed definite lines of approach or practical courses of action. What is more, there are signs in the specialist Councils of Ministers that on industry, and energy, and research there is coming to be active awareness of a community of interests.

The European Council should make known that it regards this field as one of those where the European contribution could be the most valuable.

On both aid for investment and the exploitation of the internal market the European Council should take the appropriate decisions, at its June and December sessions.

4. EMPLOYMENT MEASURES

4.1. The employment problem is central to the economic policy guidelines the Commission is proposing. It is from higher investment and growth that higher employment must principally derive.

The unemployment figures today, and the prospect of an increase of five million in the working population between 1980 and 1985, are indicative of the scale of the problem. Concerted action by the Member States is vital to reverse the present trends.

In the foregoing stress has been laid on the role of investment, particularly public investment, as helping, among other things, to ensure that business expectations as to the movement of demand gradually become more hopeful and make companies more disposed to recruit labour.

4.2. As concerns specific measures to boost employment, the Commission proposes the following priorities, already submitted in its paper on job creation:

- (i) a youth scheme whereby in the next five years all juveniles under 18 would receive vocational training and initial experience of work under the auspices of the educational establishments, under either special youth programmes or contracts of employment. This priority would be reflected in assistance from the European Social Fund, which would devote to it a sizeable proportion of its spending.

It should be a major Community commitment to spare these teenagers the experience of unemployment;

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- (ii) schemes to encourage employers to take on more workers. There would be assistance arrangements to stimulate the creation of viable jobs and a higher level of activity, while containing any triggering of inflation and not involving any additional expenditure. It would be mainly for the Member States to take steps here, more particularly by controlling employers' contributions and other social-security charges. The Community would give support by stepping up Social Fund assistance towards recruitment subsidies;

- (iii) schemes for the benefit of small and medium-sized enterprises and cooperatives, involving some technical-assistance and infrastructure facilities (training, access to data networks on new techniques and products, &c.) primarily the province of the public authorities. The Community could help by providing Social and Regional Fund monies specifically for this purpose, and in a broader context by making use of the lending instruments it means to employ more especially for small and medium-sized enterprises.

Table 1 - Main Economic Aggregates, 1980-82

	1980	1981	1982	1980	1981	1982
GDP volume, % change			Private consumption deflator, % change			
DK	-0,2	-1,2	2,5	12,3	11,5	10,1
D	1,9	0,0	1,4	5,4	6,0	4,5
GR	1,6	-0,2	1,2	22,2	23,5	24,0
F	1,3	0,1	2,7	13,2	13,1	13,0
IRL	1,9	1,7	1,6	18,2	20,0	19,5
I	4,0	-0,8	1,5	20,3	19,2	16,5
NL	0,6	-1,1	0,8	6,9	6,7	5,0
B	2,4	-1,4	0,4	6,4	7,6	10,0
L	0,4	-3,0	0,1	7,7	8,1	12,0
UK	-1,4	-1,4	1,1	15,9	11,6	10,3
CE	1,4	-0,5	1,6	11,8	11,4	10,6
Unemployment rate, % of civilian labour force			Current account of balance of payments % GDP			
DK	6,2	8,3	8,9	-3,4	-3,1	-2,9
D	3,4	4,8	6,6	-1,8	-1,2	0,2
GR	(2,8)	(3,1)	(3,4)	-0,9	-4,0	-3,0
F	6,5	7,8	8,5	-1,3	-1,4	-1,4
IRL	8,3	10,4	12,0	-8,4	-12,9	-9,3
I	8,0	8,9	9,7	-2,5	-2,1	-1,2
NL	4,9	7,5	9,7	-1,4	2,0	3,9
B	9,3	11,5	13,3	-5,2	-6,6	-3,9
L	0,7	1,0	1,3	22,2	19,7	(20)
UK	6,9	10,5	11,8	1,4	2,2	0,7
CE	6,1	7,9	9,1	-1,3	-0,8	-0,4
General government net lending (+) or borrowing (-), % GDP (1)			Money supply, % change end of year (1) (2)			
DK (3)	-5,9	-10,7	-12,1	(M2) 10,9	10,1	13,0
D	-3,5	-4,5	-3,6	(M3) 6,2	5,0	4,9
GR	(-3,3)	(-6,3)	(-8,2)	(M3) 24,7	34,7	27,8
F	+0,4	-2,1	-3,1	(M2) 9,7	12,3	(13,0)
IRL	-12,8	-14,4 (4)	-12,3	(M3) 16,9	13,6	13,6
I	-7,8	-10,6	-10,3	(M3) 16,9	17,0	17,0
NL	-3,4	-4,1	-3,7	(M2) 3,6	6,3	8,8
B	-9,4	-13,3	-12,0	(M2) 2,7	5,1	(9,5)
L	-1,8	-3,3	-3,0	:	:	:
UK	-3,9	-2,3	-0,8	(LM3) 18,4	10,5	9,0
	-3,6	-5,0	-4,7	11,3	10,9	(9,9)

(1) The figures relate to calendar years except for the UK (financial years).
 (2) end-year on end-year.

(3) Excluding losses on bonds issued below par: -2,9, -6,9 and -8,5% respectively.

(4) Excluding private sector participation in investments amounting to 112 mill. IFL.

Source: Commission services, based on information available up to 2 March 1982; the figures take provisionally into account the effects of the realignment of EMS parities on 21 February 1982.