

# INFORMATION

ECONOMIC AND FINANCIAL

Medium-term economic policy programme 1976-80  
Foreword by the Commission (1)

135/76

The fourth medium-term economic policy programme, covering the period 1976/80, is based on the work of the Economic Policy Committee, which consists of the competent high officials in EEC member countries. Organisations of employers and workers were consulted. The Parliament and the Economic and Social Committee are required to give their advice before the programme is formally adopted by the Council.

In a foreword to this programme the Commission puts forward the general economic policy it recommends for this period. The target should be to restore full employment by 1980, for which purpose it is necessary that the growth in the internal product should be well maintained at a level of 4.5 to 5% annually, and that inflation should be reduced to a tolerable rate (less than 5% p.a.).

These targets call for active participation by all concerned, in the absence of social-industrial disputes. Both employers and workers should agree, especially in relation to incomes policy, to pay due heed to the overriding economic necessities; and governments should consult with them in laying down the general economic approach. They should, at the same time, do their utmost to settle two main problems -- workers' participation in decision-making in the firm, and greater fairness in the distribution of incomes, property and the fiscal burden.

This note contains the text of the Commission's foreword which is its economic policy charter for the next few years. Another information note will be issued, summarising the proposals in the programme itself.

(1) See also information note No. 136/76 on the programme itself.

F O R E W O R D

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1. The fourth medium-term economic policy programme must be seen as the framework for Community action in the economic field between 1976 and 1980. It lays down the economic development to be aimed at in the medium-term and the economic policy consequences which arise from this. It therefore provides a firm basis for the measures to be taken between now and 1980 with a view to achieving progress towards economic and monetary union.
2. The fourth programme reflects the objectives put forward at the tripartite conference held in June 1976. It considers that the reestablishment of full employment must be the prime economic policy objective at Community and national level over the coming four years. The Community cannot, on social, economic and political grounds, accept a continuation of the level of unemployment recorded in 1975-1976. Full employment must be reestablished in the whole of the Community by 1980 at the latest. In concrete terms, this means that the present number of unemployed must be roughly halved by 1980.
3. Full employment can only be reestablished if at the same time at least two further basic economic policy objectives are met :
  - GDP must grow faster and more evenly than in the last five years;
  - inflation must be reduced to a more tolerable level.
4. The 4.5 to 5 % annual growth rate of GDP put forward in the medium-term programme for the period 1976-80 must therefore be seen as a minimum.

An increase in the production of goods and services of at least one quarter by 1980 is, perhaps, not an objective in itself. It is, however, necessary to put the Community in a position :

- to reestablish full employment,
- to undertake urgent and necessary social reforms,

- to meet private and collective needs more satisfactorily,
- to reduce regional income differentials and to increase productivity in the less favoured regions,
- to make long-term progress towards greater independence in energy and raw material supplies through related investment,
- to devote more resources towards improving the environment in general and working conditions in particular.

5. In the medium-term, rapid economic growth will facilitate the reestablishment of stability.

For this purpose, reducing the rate of inflation in all the Member States to 4 - 5 % by 1980 at the latest must be seen as a minimum requirement.

An ambitious objective on price stability is essential :

- on external economic policy grounds. Even with floating exchange rates vis-à-vis the rest of the world, the Community can only preserve or improve its international competitiveness and therefore its capacity to import, if it has a high degree of internal price stability;
- on social and economic policy grounds. The social tensions which have appeared in many Member States can be resolved only if there is a considerable reduction in the rate of inflation;
- on integration policy grounds. As long as inflation rates in the Member States are not reduced to a more or less common level, efforts to achieve greater convergence in economic policy and greater exchange rate stability between the Member States and, consequently, progress towards economic and monetary union will be impeded.

6. A return to full employment must be based on a strategy comprising three main elements :

- an active, regionally and sectorally balanced growth policy: the higher the growth rate of GDP and therefore of total demand in the Community,

the greater are the chances of reducing unemployment;

- a sustained effort by the two sides of industry to take account of overall economic constraints in their attitudes to incomes. This is of major importance for the competitiveness of the Community with the rest of the world and the maintenance or creation of jobs within the Community;
- an active and forward-looking employment policy to achieve a better balance between labour supply and demand.

7. The return to a stable situation can be achieved only if internal economic conflicts over distribution between the major social groups can be reduced to a more normal level. This must be seen as an essential part of any economic policy strategy which aims to reduce inflation.

Limits must be set to the self-interest of social groups. Demands made on society must be accompanied by correspondingly high returns by the group:

- the social groups must put their own particular interests further behind those of the public as a whole. This should take place voluntarily. In this context the duty of public authorities is to represent with appropriate determination the interests of the general public;
- no group should have the impression of being exploited or disadvantaged;
- the governments and the Community, acting together with the two sides of industry, must discuss and determine the necessary macro-economic framework for this.

A larger degree of social consensus in all the Member States is essential, if excessive and therefore inflationary demands on the national product are to end.

8. Greater social consensus can be achieved only if two important social policy goals are tackled as quickly as possible :

- greater worker participation in management decisions;
- a greater degree of justice in respect of wealth, income and taxation.

At the tripartite conference held in June, the governments and the two sides of industry agreed to take steps to promote the participation of employees in management decisions and capital accumulation by employees. During 1977, therefore, discussions should concentrate on these two areas. Concrete reforms along these lines should be in force in all Member States by 1980 at the latest.

9. The success of the programme also depends on the carrying out of concrete measures in other fields of economic and social policy which, besides their own intrinsic value, also help to improve the social consensus. Particular importance must be attached to the following points :

- investment, employment and labour market policies,
- competition policy,
- consumer protection.

With particular regard to industrial policy, the Commission will introduce the instruments needed to ensure :

- a) detailed information on national industrial objectives and their compatibility with Community objectives,
- b) transparency of resources allocated by the national public authorities to support these objectives,
- c) identification - on the basis of the Community's industrial objectives - of the major priorities to be carried out at Community and national level,
- d) determination of the necessary resources and, on this basis, coordination and concentration of Community instruments on priority objectives.

A process of continuing and regular consultation and cooperation with the government authorities and the two sides of industry should be developed. In addition, so as to improve transparency in certain highly capital-intensive industries where there is a danger of surplus capacity the Commission will set up a system for the regular notification of information on investment projects.

The guidelines set out here in the programme must also lead to concrete measures in 1977.

10. The creation of greater stability also means that public deficits must be significantly reduced and public expenditure must grow much more slowly than in the past five years. However, this objective must also be set against the economic and budgetary problems which weigh against a short-term normalization of the public sector share of GDP in some Member States.
11. The programme in no way alters the desire to progress towards economic and monetary union and this objective must be retained in full.

It is clear from the analysis given in the fourth programme that a real solution to the problems of economic policy coordination can only be political and institutional in nature. Even if no major institutional progress can be immediately achieved at present, the procedures and instruments for economic and monetary policy coordination must be improved and developed within the existing political and institutional framework.

The direct elections to the European Parliament will, without doubt, give the Community a new impetus, thus providing a more favourable basis for the urgent and necessary task of resuming progress towards economic and monetary union.

12. Progress must also be achieved between 1977 and 1980 in the following areas :
  - a) The creation of a greater degree of convergence in economic development between Member States.

b) A greater degree of economic policy coordination by the Member States, both internally and externally. Economic policy consultations at Community level must be greatly increased and must include all important national economic policy decisions. In concrete terms this means that :

- . The Community's medium-term economic programme must be seen as the basic criterion in implementing national economic policies. The Member States' own medium-term economic policy programmes, all important structural reforms and any short-term action plans should be systematically reviewed before their adoption to ensure their compatibility with the objectives of the fourth programme.
- . The annual updating of the medium-term projections should be complemented by quantitative information on how the short-term growth path fits in with the medium-term outlook, on desirable differences in the conjunctural situation between countries and on public finance. Particular attention must be paid to the employment position.
- . The compatibility of budgetary policy with medium-term stability and employment goals and with basic macro-economic data should be regularly reviewed.
- . The Commission will annually propose quantitative objectives for monetary policy to the Council and will periodically check that they are being observed.

c) Increased efforts to achieve the gradual establishment of stable exchange rate relationships between the currencies of the nine Member States.

This means in practice :

- . The retention of the present exchange rate agreement between five of the Member States.
- . Extension of exchange rate policy cooperation between these five Member States and the remaining four, with a view to ensuring the gradual regrouping of all the Community currencies within the "snake".
- . Development of the European Monetary Cooperation Fund.
- . Improvement of the operation and organization of the capital market so as to achieve effective liberalization of capital movements within the Community.

- d) Removal of customs checks for persons travelling within the Community.
- e) Further development and strengthening of external economic policy.

The Community must promote a stable international order which will ensure in particular:

- . The maintenance and development of free trade in the world,
- . Efforts to reduce exchange rate fluctuations.

In this context, the Community must develop its capacity to act as single entity. It is the Community's duty, bearing in mind the growing international interdependence of economies and the search for a fairer distribution of wealth, to concentrate increasingly on enabling the developing countries to achieve their aspirations in the matter of economic and social development.

13. The reference framework which the programme represents will have to be translated into concrete economic policy measures; the Commission will put forward appropriate proposals for these.