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REPORT ON THE APPLICATION OF THE COUNCIL DECISION
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 AND THE
CONFORMITY OF THE POLICIES PURSUED WITH THE OBJECTIVES SET

(Presented by the Commission to the Council pursuant to
Article 12 of the Council Decision of 18 February 1974)

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FOREWORD

This report is hereby transmitted to the Council pursuant to Article 12 of the Council Decision 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. The Commission is required by this provision to present each year to the Council, for examination at its meeting in the first quarter, a report on the application of the abovementioned Decision and on the conformity of the policies pursued with the objectives set.

This report is hereby also transmitted to the European Parliament.

I. APPLICATION OF THE DECISION

1.1. No more than a summary assessment of the application of the Decision of the Council of 18 February 1974 is possible. In fact 1974, and in particular the first six months, must be considered as a running-in period, especially as the Council Decision was not finally adopted until the second half of February. It should also be borne in mind when assessing the results that there were no longer any valid medium-term forecasts for 1974 and that the Decision on the adjustments in the economic policy guidelines for 1974 was taken only on 4 July 1974. Moreover, to attain a high degree of convergence of policies, the member countries must not only comply with agreed procedures but also show the unambiguous political resolve and perseverance which have frequently been lacking in connection with the implementation of consultation machinery.

1.2. After these general reservations, some initial comments concerning procedure can now be made:

1.2.1. - Article 1 has only been applied since mid-1974. Since then the Council has met each month.

1.2.2. - Article 2, which relates to the Council session to be held in the first quarter, was not respected, as the Council did not meet until June to examine the economic situation of the Community and adopt the Decision adjusting the economic policy guidelines for 1974. The Commission had transmitted the relevant communication to the Council in the second half of March.

1.2.3. - Article 3 was applied as planned, notably as regards changes in the net borrowing requirements.

1.2.4. - In accordance with Article 4, a report was adopted in the autumn and published in the Official Journal.

1.2.5. - Article 5, which states that the annual report must be brought to the attention of the national parliaments, has been implemented more in form than in substance and in varying ways in the Member States. It does not appear that this document has had much influence on debates within the national parliaments.

1.2.6. - Article 6 will be implemented in 1975, in the course of which a fourth medium-term economic policy programme will be drawn up.

1.2.7. - Article 7, on prior consultation on the parities of currencies, was not implemented in a positive way. In fact no country in the "mini-snake" took steps necessitating such consultation. The other currencies were floated prior to the Council Decision.

1.2.8.- The provisions of Articles 8 and 9 concerning the methods and bodies for consultation on economic policies were applied only in part. This relates as much to monetary policy as to general economic policy.

The coordinating group on short-term economic and financial policies and failed to provide the expected stimulus towards the attainment of a high degree of convergence. Given the existing difficulties and the problems which will arise in the future, the coordinating group should be given a special role in the joint discussion of policies, notably by effective prior discussions.

1.2.9. - Article 10 on requests for consultations was not invoked in 1974.

1.2.10.- Article 11 on the procedures to be applied in the event of a Member State's policy departing from the guidelines laid down by the Council was not formally invoked in 1974. Reference should nevertheless be made to the many consultations held on the situation in Italy, although these were organized on other legal bases, notably Article 108 of the EEC Treaty.

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II. CONFORMITY OF THE ECONOMIC POLICIES WITH THE OBJECTIVES SET

2.1. In all the member countries the economic policies failed by a long way to achieve the degree of effectiveness necessary to reach a high degree of convergence. Their relative failure can to some extent be explained by disturbances caused by external factors and short-run uncertainties, but also in part to internal causes, particularly the lack of whole-heartedness with which measures were undertaken, spontaneous market forces and to the lack of a broadly-based agreement on the policies which should be followed. Moreover, as the Commission has already stressed in its annual report (1), the coordination of economic policies at the Community level is still insufficient. This inadequacy is also to some extent responsible for the relative ineffectiveness of conjunctural policy.

2.2. On the one hand, differences between policies and, on the other, differences between objectives have been particularly notable in the following fields:

2.3. Overall aspects of short-term economic policy

2.3.1. Each country underestimated either the strength of the recession and the speed with which the economic situation would deteriorate or the seriousness of the risks of inflation. This largely explains the delay with which the surplus countries adopted policies to expand internal demand, and with which some deficit countries set about controlling the growth of domestic demand.

2.3.2. In the Community as a whole, the growth of consumption in 1974 was faster than that of investments, and this will remain so in 1975. This development is not what is required. It reflects rigidity in public expenditure and the fact that some countries pay insufficient attention to the urgent necessity of redeploying resources.

(1) O.J., 28.XI.1974 - C 149

2.4. Budgetary policy

2.4.1. The uniformly restrictive stance of budgetary policy, as laid down by the Council for 1974, was changed by the decision of July 4th, 1974, so as to take into account especially the differing incidence of the increase in energy prices on the balance of payments.

S 2.4.2. Thus, among the countries called upon to practise a tighter budgetary policy, France and Italy have, during the year, taken measures of a mainly fiscal nature, which have tended to increase the budget surplus in the first of these countries, and to decrease the deficit in the latter. A restrictive stance was also adopted by Denmark, even if the balance deteriorated considerably under the automatic effect of a marked slow-down of activity. This, however, was not the case in the United Kingdom where the increase in public spending was greatly speeded up, in part deliberately, for the initially restrictive budgetary stance was relaxed twice by supplementary budgets. Also Ireland has maintained an expansionary budgetary policy.

2.4.3. Among the countries without any balance of payments constraints, the Federal Republic of Germany has allowed automatic fiscal stabilisers to contribute towards a deterioration of the balance, and adopted a consciously expansionary stance in the autumn. The Netherlands has followed a similar policy, while Belgium adopted a policy which involved both increased taxation and a cut-back in public investment.

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2.5. Monetary Policy

2.5.1. The coordination of monetary policy between the Member States was insufficient up to the summer of 1974, and especially so from the spring of 1973 onwards, a period when all the Community Countries had given up supporting a fixed exchange rate for their currencies against the US Dollar and thus achieved more freedom of action in monetary policy.

2.5.2. Since the summer of 1974, monetary policy in the Community became more consistent. From then onwards, the very restrictive monetary policy which had been followed in some countries was eased, while other countries which suffered from high inflation and severe balance-of-payments deficits tightened up their policies. Since last autumn, the monetary policy in all member countries, along with that in the major non-member countries, has been, in varying degrees, more relaxed which has shown itself especially by a reduction in interest rates. However, there was no significant progress in the standardisation of monetary instruments in 1974.

2.6. Exchange-rate Policy and the Financing of Balance-of-Payments Deficits

2.6.1. At the beginning of 1974, the French government decided to float the franc independently. From then on only four Community currencies (the Danish crown, the guilder, the Belgian and Luxemburg francs and the mark) have taken part in the Community exchange-rate system, which the Norwegian and Swedish crowns had already joined.

2.6.2. Towards the year-end, the divergencies in the rates of exchange of Community currencies against the dollar have somewhat narrowed. However, no progress whatsoever has been made towards the re-establishment of a Community exchange-rate system.

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2.6.3. Faced with serious balance-of-payments deficits within the Community, the Member States have independently sought sources of finance. They have turned to the international capital market or undertaken bilateral negotiations with oil-producing countries. However, towards the end of the year, some progress in a Community approach to this problem was made when the Council Decision of 22nd March 1971 was implemented for the first time and medium-term financial assistance was granted to Italy. Furthermore, on 17th February 1975, the Council adopted the regulation on Community loans. Finally, at the international level, Member States have taken up an agreed position on the recycling of capital.

III. CONCLUSIONS

If the overall implementation of the Council Decision of 18 February 1974 turned out to be, in general, relatively unsatisfactory it is because the operational framework was often limited.

To achieve greater and durable progress towards convergent economic development in the Community, which is an essential condition for further progress, we need:

- to establish common economic policy objectives
- to adhere rigorously to the guidelines agreed for national and community instruments in a concerted manner.