EUROPEAN ECONOMIC COMMUNITY
OFFICIAL SPOKESMAN
of the Commission

23, avenue de la Joyeuse Entrée
Brussels 4
Telephone 35.00.40

Brussels, october 1963
P-40/63

INFORMATION MEMO

The Commission of the European Economic Community has just published its quarterly survey on "The Economic Situation in the Community". Like its predecessors, this survey presents the salient points of recent economic developments in the Community and in each member country, and contains forecasts for the more immediate future and the coming year. Because of the special problems to which the present economic situation is giving rise in France and Italy, these two countries are the subject of a fairly detailed study, which analyses the measures recently adopted by their Governments and the effects these measures may have on future economic development.

On the main features of the present situation, the Commission notes that the Community's economic growth was maintained in the second quarter and in the summer months. The quickened pace registered in the second quarter was due not only to endeavours to make good the losses suffered as a result of exceptionally severe winter conditions, but also - in part - to some strengthening of expansionary trends.

One example of this improvement is supplied by the Community's sales to non-member countries; compared with last year's results, the value of goods exported increased by 7% in the second quarter, as against a 2.5% fall in the previous quarter.

In domestic demand, total expenditure on investment again advanced considerably, investment in building and construction developing with particular vigour.

Consumers' expenditure mounted fairly strongly. Total expenditure by the public authorities continued to expand at a relatively rapid rate, and consumption by households showed a clear increase in most Member States. This is largely because of the increased number in employment and new, considerable rises in wages and salaries.

The numbers employed showed a clear increase, though more so in building and construction and certain branches of the services sector than in industry. Despite a notable increase in the number in employment, the improvement in the labour market situation was not in general maintained; in some countries there was even a renewed tendency for the shortages to grow more acute.

The lively expansion of demand and the greater physical means of expanding production brought about a strong rise in domestic supply, which was however less marked in agricultural than in

.../...

industrial production. The index number of the Statistical Office of the European Communities for the second quarter was 6% higher than a year ago (excluding construction and food, beverages and tobacco), while in the first quarter the rise had only been 2%. Expansion of output was particularly marked in construction.

Imports from non-member countries rose a little more vigorously; the value of goods imported during the second quarter was 11% higher than at the same time last year. But because exports also mounted at an accelerated pace, the Community's trade balance did not deteriorate further. The deficit for the second quarter was some \$755 million or \$340 million heavier than a year before; but in the first quarter the corresponding deterioration had been \$530 million. There will probably have been a considerable surplus on current transactions. Total official gold and foreign exchange reserves rose by about \$625 million in the second quarter, as against \$338 million in the first.

Although a better balance was achieved, not only through rises in production and imports but also by a very marked expansion in intra-Community trade - the value of which was about 20% higher than a year earlier - it has not yet been possible to bring about a general stabilization of prices in the Community countries. In France, in particular, the upward trend of prices has persisted, as it has in Italy where, however, the upward movement has been slowing down. In most other Member States the effect of stabilizing factors has been greater, though the longer-term trend towards higher prices has not fully disappeared.

Regarding the outlook for the last months of this year, the Commission feels that in all likelihood economic expansion in the Community will be maintained and that there is no reason to suppose that trends in the various elements making up demand will change substantially. In these circumstances, the year-to-year growth rate of the gross Community product at constant prices could in 1963 exceed 4%; this would be in line with the forecasts published by the Commission.

The first estimates for 1964 likewise point to continued economic expansion. Given the more favourable economic situation in the world, Community exports should continue to go ahead, perhaps even at a slightly quicker pace than in 1963. Investment prospects are also more favourable than they have been. On the other hand the growth of expenditure by households will probably be less marked than in 1963, mainly as a result of a certain slowdown in the rise of salaries in some Member States.

Any assessment of the pace at which demand is expanding in the Community - especially that based on private consumption, but also to some extent investment demand - must take into account the effects of short-term economic policy measures. To keep the

.../

Community countries in line, it has become necessary in France and Italy to counteract persistent price rises by action which includes measures which act as a further brake on the expansion of demand.

The Commission notes that in France overall demand has clearly been expanding at a faster rate since the spring; at the same time certain inflationary phenomena have become more evident. The outlook for 1964 suggests that these could persist, thus upsetting the balance of growth.

The measures taken in the spring of 1963, which were only slightly restrictive, were no longer sufficient. It became clear that the new situation called for more far-reaching intervention. The stabilization programme adopted by the French Government in the middle of September seems, in the view of the Commission, to be a step in the right direction if prices are to be steadied. The measures recently adopted fall largely within the fields of financial and monetary policy, such as the reduction of the "impasse" to FF 4 740 million. Other measures are intended to increase the supply of manpower and goods. The Government also felt that, in order to exert a certain psychological influence, it should take direct action on prices.

Though no action has so far been taken on incomes, the Commission considers that some restraint in the rise of nominal incomes is essential if there is to be lasting stabilization of prices.

The Commission states that it would at the moment be difficult to forecast what effect the stabilization programme will have on developments in 1964, particularly whether price stability can be ensured and how fast the economy will expand. A first analysis suggests, however, that there will be no great slowdown in the growth rate taken over the year. If at the same time prices and unit costs can be kept stable, it will be a resounding success for French economic policy. But one can wonder whether the pace of expansion of demand in real terms is being restrained sufficiently in relation to the actual possibilities of supply - and in particular whether Government spending is not still going up too quickly, whether the deficit on the Treasury's cash transactions is not still too big. As the French economy now stands, a balanced budget would appear to be called for. Even if such a policy should put a further brake on economic growth for a short while, but at the same time restore the stability of prices, this slower growth would certainly be preferable to faster growth accompanied by a continuation of inflationary pressures.

In the case of Italy, the Commission feels that expansion can be expected to continue in 1964. But even more energetic measures are needed to hold off the threat implicit in present price trends and so avoid the subsequent need for draconic measures.

.../...

The policy of stabilizing prices and domestic costs requires to be further extended and much intensified. The levelling out of the price curve registered in recent months has not changed this situation. Such measures are essential, if only because of the rapid deterioration of the balance-of-payments situation.

Limitation of the growth of public expenditure, especially on consumption and on transfers affecting consumption, would be particularly effective as an anti-cyclical measure. Where plans covered by the budget have already been adopted, cash expenditure should be delayed. Developments now seem to be moving in this direction. Consideration should also be given to the advisability of certain tax measures, especially those which would affect the growth of expenditure by households. In this way the desired limit could be placed on the extent to which the Government's cash transactions increased liquidity.

It will at the same time be necessary to tighten further the more restrictive line adopted some months ago in monetary and credit policy. The proposed overall braking measures in budget, tax and credit policy should be mainly aimed at limiting expansion of consumer demand. On the other hand there should not be any avoidable interference with the conditions required for the expansion of investment, except in the case of housing construction, where it seems appropriate that a brake be applied.

Finally, special importance attaches to the trend of wages, which by bringing about a major increase in labour costs and mass incomes have contributed to the upward thrust that has affected prices. It would be in the best interests of all concerned if every effort were made to reduce the pressure of costs.

However, the condition for general restraint in wages policy is that a limit should be put to the facilities for financing excessive increases of income; not only wages should be affected by this, but also the non-wage incomes of other sections of the population. The Italian economy is in any case expanding at such a rate that it can take in its stride any temporary deceleration due to traditional anti-cyclical measures. These establish the conditions in which the economy will be able to move ahead again more rapidly on an even keel.

The Commission feels that these decisions taken by the Italian Government point in the main absolutely in the right direction. It is however doubtful whether they will be adequate to allay the danger of inflation. The Commission would therefore like to see these measures followed by other, more vigorous ones.

.../...

Though from the angle of the present economic situation the position in France and Italy appears to be fairly difficult, the Commission wishes to make it clear that there is no reason for anxiety. In the first place, the dangers are not comparable to those which arose at the moment the Community was being established and which were due to inflationary pressure in France. The French balance-of-payments and foreign exchange situation is now infinitely better than it was then, and Italy also still has considerable reserves. Secondly, the general economic outlook appears favourable to a policy of stabilizing prices and it is quite possible that in a relatively short time equilibrium will be re-established in France and Italy, and therefore throughout the Community.

- - - -