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P/25

INFORMATION MEMO

Anti-inflationary policy.

The E.E.C. Commission's draft text for the Council of Ministers' recommendations to the member States on anti-inflationary policy (adopted today by the Council), was accompanied by an explanatory note on "re-establishment of the internal and external equilibrium of the Community through a coordinated business cycle policy".

The following is the text of this explanatory note :

Annexe :

The re-establishment of the internal and external equilibrium of the Community by means of a co-ordinated short-term economic policy

(Note from the Commission to the Council)

After the statement on the problems at present arising from the Community's economic situation made by M. Schmücker, Minister for Economic Affairs of the Federal Republic of Germany, at the Council's 123rd session on 24 February 1964, the Commission declared its readiness to lay before the Council concrete proposals for the implementation of a co-ordinated operation that would restore the internal and external balance of the Community.

The Commission has watched inflationary developments in recent years with constant concern. It has followed very closely the work of the Monetary Committee and has endorsed the main conclusions to which this work has led. With the aid of the Economic Policy Committee it carried out in 1962 a survey of the upward trend of prices which, as early as 1961, had already begun to emerge unmistakably in more than one member country. The survey also covered ways and means of fighting the trend. When this task was complete, the Committee gave its opinion on the policy needed in this field; the Commission gave this opinion its support and it was made the subject of a recommendation addressed to the Governments of the Member States on 20 December 1962.

At its subsequent meetings in March, July and October 1963 and January 1964 - devoted to examinations of the economic budgets for 1963 and the preliminary and final economic budgets for 1964 - the Committee studied the difficulties caused by increasing strain in the economies. After each discussion, it rendered an opinion which was transmitted to the Council. The Commission itself has had contacts with the Governments concerned, either directly or at the conferences of the Ministers of Finance, but quite apart from these it has made full use of its quarterly surveys of the economic situation in the Community to keep its point of view before the public; one of its Vice-Presidents, W. Marjolin, also devoted most of his speech to the European Parliament on 21 January 1964 to the problems set by rising costs and prices and by recent trade trends.

While, then, the Commission has suggested concrete measures in good time, its opinions, like those of the Monetary Committee and of the Economic Policy Committee, have not always been followed as fully as could have been desired. For this reason the Commission now welcomes the opportunity given to it to refer directly to the Council on the problem of combating the inflationary trend.

It is therefore proposing to the Council that it should adopt the attached recommendation, which would be addressed to the Governments of all the Member States; it covers a group of measures designed to facilitate a return to balanced conditions.

It envisages prompt, energetic and comprehensive measures, which have been made even more necessary by the fact that if disequilibria within the Community were to continue, they could well lead to formidable economic and political hazards: the time factor is of major importance in all the countries, including those in which the upward price trend has so far remained relatively restrained, but in which strain is likely to grow. It is obvious that the measures to be adopted to re-establish economic equilibrium will serve not only the interests of the country applying them but also that of the other members. For this reason, and because the Community's internal cohesion must be maintained, any economic policy measures taken by a member country and not working in a direction which could be considered as in the interests of the Community as a whole would have to be condemned as ill-considered.

A comprehensive operation of the kind envisaged should be guided by one common objective - the re-establishment of economic stability - and for some time this objective should have absolute priority over the other aims of economic policy.

The Commission realizes that apart from present difficulties steady progress must be made in developing methods of co-ordinating the policies by which Member States deal with current economic developments before the Community can enjoy harmonious development. Here, the tangible results obtained in recent years, thanks in particular to work of the Monetary Committee and the Economic Policy Committee, represent steps in the right direction. The Commission must however recall its proposals to the Council concerning the establishment and working of a Committee of Governors of Central Banks and a Budget Policy Committee, and for the creation of a Medium-term Economic Policy Committee. The Commission feels that recent economic development and the problems they are setting make prompt adoption of these proposals highly desirable.