COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 800 final

Brussels, 24 november 1982

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication by the Commission to the European Council meeting of 3-4 December 1982)

The Economic and Social Situation in the Community

(Communication by the Commission to the European Council meeting of 3-4 December 1982)

Contents

1. Introduction

The present note summarises the Commission's appreciation of the present economic and employment outlook and of the main economic policy issues that are outstanding. The problem of investment is treated in a separate paper which should be considered in conjunction with the present one. In addition the joint meeting of ministers of Finance and Economic Affairs and Employment and Social Affairs on 16th November has reached conclusions on (i) strengthening of the economic environment, (ii) reorganisation of working time and (iii) increase of employment opportunities for young people. The European Council will have available the conclusions of this meeting.

2. Economic trends and prospects

The trend in production and employment in 1982 has been very unfavourable. A year ago exports were growing fast. There were hopes that, as a result of an improvement in the balance of payments, compensating the effects of the second oil shock, a strengthening of internal and world demand would occur. However, the first half of this year in fact saw a weakening in several of the EC's export markets - the OPEC countries, the non-oil developing countries and the United States. These influences were sufficient to cancel out the modest increase in domestic demand in the Community. Overall gross domestic product is expected to increase a mere 0,3 % in 1982 in volume terms.

These difficulties have been reflected in a renewed deterioration in business confidence since mid-year. Moreover the latest industrial production statistics show evidence of a renewed drop in activity since June.

If this tendency was to be confirmed, the modest 1,1 % growth projections for 1983 in the Commission's Annual Economic Report are likely to prove over-optimistic.

Unemployment has continued to rise, and is now over 10 %, i.e. almost double the level of 5,4 % reached during the 1978-79 business recovery before the second oil shock. On present trends unemployment is likely to rise substantially in the coming year. Over 40 % of those currently unemployed are under 25 years old.

Inflation has been decelerating in the EC as a whole, although not as fast as in the United States and Japan. For the EC as a whole consumer prices increased 10,7 % over the last twelve months (ranging from 5 % in Germany to 22 % in Greece), compared to 14,1 % in 1980. In the UK the slow-down in inflation has been as striking as in the United States. Further progress is expected in reducing inflation in the year ahead, with a 1983 average of 8,8 % expected for the EC as a whole (ranging from 3 1/2 % in Germany to 21 % in Greece).

The balance of payments current account deficit has for the EC as a whole been reducing, with a total deficit in 1982 of ECU 15 billion, representing 0,7 % of GDP compared to twice as large a figure in 1980. Some of the largest country deficits as a share of GDP, such as those seen in Belgium and Ireland, are reducing. But severe balance of payments constraints remain in several countries.

Two basic phenomena seem to be overlapping in the present European economic situation. First, deep structural economic weaknesses have accumulated in many European countries. These weaknesses are manifest in an excessive share of general government expenditure in gross national product as well as in an unbalanced distribution of income between wages and profits and of expenditure between consumption and investment. Overall these have resulted in a low propensity of the productive sector to increase employment. Secondly, there have been, and still are, serious problems of policy management in the world's principal economic regions, problems related to the sequence of oil shocks, to erratic exchange rate and interest rate fluctuations and to the external indebtedness crises; this has also led to defensive reactions in trade policies. Together these problems have been interacting with the effect of extending and deepening the recession in world trade and aggravating the problems of managing internal structural change within Europe.

3. Policy issues : four priorities for cyclical and structural recovery

This combination of structural and cyclical crises has now reached a point of exceptional gravity. To restore growth and create more employment, strong remedies, coherently related to each other across the European Community and then concerted with its main partners in the world economy, are required. Inconsistent and competitive reaction between countries and regions would be dangerous.

The Commission believes that a comprehensive strategy is required comprising a broad range of economic and social policies. Four priorities should guide a coordinated movement leading through a cyclical recovery into a sounder medium-term economic performance.

(i) strengthen and consolidate actions of macroeconomic stabilisation and structural improvement where these are necessary;

(ii) take appropriate action to support activity and to prepare the recovery where this can now be done without prejudicing stabilisation and structural policy objectives;

(iii) reinforce international concertation to reduce the risks of destabilising developments in different countries or regions;

(iv) support and strengthen the employment-creating effects of these policies through specific actions in the labour market, especially where unemployment is inequitably concentrated.

(i) In the first category efforts should be aimed at two complementary objectives: macroeconomic stabilisation and structural improvement.

With respect to macroeconomic stabilisation important efforts are currently being made in several European Community countries. It is important to support these actions, which concern public finance and incomes, including issues of indexation in both fields. Inaction in the face of excessive increases of public expenditure and budget deficits has led several countries to excessive external indebtedness or has caused too high inflation or both. During 1982 important changes in policy have emerged: Belgium early in the year, with new developments now in Denmark, Ireland, and the Netherlands. In addition strong measures on the de-indexation of incomes are at present being discussed in France and Italy, which would make an essential contribution to the realisation of stabilisation objectives in these countries. When the foregoing policy initiatives are implemented they will constitute major factors promoting convergence between the Member States along the lines that the Community institutions have been consistently advocating.

With respect to structural improvements it is necessary to continue and intensify actions aiming at promotion of investment and industrial change on the national as well as on the Community level. This issue, which is the subject of a separate communication, is here only mentioned. However, its direct relationship to employment policy should be underlined. The expansion of productive activity, the establishment of modern and competitive manufacturing and service industries within a sound economic framework, are the best weapons in the fight against unemployment.

(ii) In the second category, of action to support a business recovery, the most important variable for the time being is the rate of the interest.

For the present, interest rates are being reduced, and care should be taken to consolidate this trend in the United States and Europe. With evidence of further deceleration in inflation and weak economic activity, especially in Germany, the United Kingdom and the Netherlands, these countries can afford to implement continuing interest rate reductions in Europe. Other countries in the Community face substantial balance of payments constraints. Such countries are not in a position to undertake autonomous interest rate reductions but may follow, in part at least, a general downward movement of rates.

As regards budgetary policy, if the economic situation worsened, countries experiencing a satisfactory reduction in inflation should avoid action to offset the increases in budget-deficits that would result from the loss of activity. In other countries, until and unless interest rates have been brought down in conditions of sound policy management, there is unlikely to be a case for budget policy relaxation.

Interest rate reductions should still in the present phase be the main agent of counter-cyclical policy. But as and when the scope for interest rate reductions is exhausted and on the condition that both the pace of inflation has been substantially reduced and public finances are sufficiently under control, budget policy initiatives to support economic [illegible] policy objectives. Such budgetary action could typically include tax-cuts or changes in tax and expenditure structures designed to have maximum supply-side and employment benefits.

(iii) The third category of actions concerns particularly the field of international finance, exchange rates and trade policies.

First, within the Community, the European Monetary System must continue to be carefully managed and exploited as a valuable safeguard against destabilising influences that are latent in the international economy. In particular the EMS serves as a guarantee against exaggerated exchange rate movements, contributes significantly to the convergence of economic policies and constitutes the necessary base for a better organisation of monetary cooperation between Europe and its partners. The Community cannot but benefit from a simultaneous strengthening of the mechanisms of the EMS and of the convergence it brings about.

With respect to international monetary questions the Community should aim at persuading the United States and Japan to implement monetary policies adequately adapted to these countries' effective responsibilities for the stability of the world financial and trading system. This means notably that the EC, Japan and the United States reach an agreement on the necessity of a higher degree of stability of interest rates and of exchange rates and take the appropriate measures to this end.

An early and substantial agreement on the replenishment of the financial resources of the IMF must be reached.

Trends towards trade protectionism must be strongly resisted and the Community should participate to all efforts, including those involving internal adjustment measures,aiming at ensuring a sufficient expansion of trade with developing countries.

(iv) In addition to these actions, further, more specific initiatives need to be taken in order to create more employment opportunities.

Young people continue to be among the main victims of the recession, experiencing increasingly long spells of unemployment before and between jobs. The unemployment rate for young people is now over 20%.

Further progress needs to be made in the implementation of the Community-wide guarantee of training and work experience for young people as agreed in principle by the European Council on 29/30 March, and as further defined by the Commission in its communication to the Council on Vocational Training in 1980s, supported by its Opinion on the Review of the European Social Fund.

However great the effort on training, the results for the young unemployed will depend largely on the success of overall economic policies and the availability of employment opportunities. Urgent consideration needs to be given by public authorities and social partners alike to the further development of special recruitment programmes for young people linked when appropriate to reductions in working time. Different kinds of direct or indirect employment subsidies could be used to stimulate this kind of arrangement and to help disadvantaged young people obtain stable employment either in commercial or industrial firms or in non-traditional forms of enterprise or activities. In any case, rather than a new analysis of this well-known problem, it is vigorous and quick-acting measures which are needed now.

The Community has a role to play, in particular through its financial instruments, in supporting the expansion of special employment provisions for young people and other disadvantaged groups such as the long-term unemployed. The Joint Council welcomed the Commission's intention of presenting proposals for specific measures to promote the recruitment of young people and to increase the volume of employment opportunities available to them.

On the reorganisation of working time, the Joint Council on 16 November endorsed the Commission's view that a reorganisation of working time, possibly in combination with a reduction in working hours, can lead to an increase in employment provided that the competitive position of firms is not impaired, that there is sufficient flexibility in labour markets to prevent labour bottlenecks, and that constraints resulting from differences in production methods and/or scale of operation are accepted. Moreover, reductions in working time must not be systematically offset by increases in overtime working. The details of any attempt to reorganise worktime should be designed and negotiated at the most appropriate level. Indeed, job creation and job maintenance through working time reductions are already becoming a feature of collective negotiations.

Governments could consider to what extent they might share in the costs of launching new working time arrangements and should seek to remove legal or other obstacles to a more flexible organisation of working time.

In order to stimulate policy convergence, the Commission will continue to work towards the formulation of a Community approach where appropriate, on the reorganisation of working time. The Commission has already tabled proposals on flexible retirement and voluntary part-time work, on which it hopes for early agreement in the Council. It intends to present a memorandum on the reorganisation of working time before the end of the year.

The Commission will continue to play its part in employment affairs attaches a particular importance to the close and continuing association of the social partners in the development of Community policies.

x

x x

TABLE 1 : **Gross domestic product** (percentage change at constant prices on preceding year, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B[3]	3,2	3,2	2,3	2,5	−1,7	−0,5	0,5
DK[3]	2,6	1,3	3,0	−0,2	−0,2	2,0	1,6
D[4]	2,9	3,3	4,3	2,0	0,1	−0,5	1,0
GR[2]	4,8	6,7	3,8	1,7	−0,7	0,7	1,9
F[2]	3,6	3,5	3,0	1,3	0,3	1,1	1,0
IRL[3]	4,4	6,7	2,4	1,9	1,1	2,0	2,4
I[2]	3,2	2,7	4,9	4,0	−0,2	0,8	1,0
L[3]	3,1	4,6	4,1	0,7	−2,4	−0,3	1,0
NL[3]	3,6	2,7	1,8	0,6	−1,1	−0,5	−0,3
UK[3]	2,2	3,3	1,4	−1,4	−1,9	0,6	1,7
EC	3,1	3,2	3,3	1,4	−0,6	0,3	1,1
USA	2,9	4,4	2,4	−0,2	2,0	−1,6	2,0
JAP	6,9	5,0	5,5	4,4	3,0	2,5	3,3

TABLE 2: **Deflator of private consumption** (percentage change on preceding year, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982[1]	1983[1]
B	6,7	3,9	3,9	6,5	9,1	9,0	8,5
DK	9,8	9,8	9,6	11,5	10,7	9,9	7,0
D	5,1	2,4	4,0	5,3	6,0	5,0	3,6
GR	11,5	12,6	17,7	23,7	24,4	23,0	21,0
F	8,6	8,8	10,9	13,2	12,5	11,0	8,9
IRL	12,8	7,5	13,4	18,3	19,6	18,5	13,0
I	13,1	12,9	16,0	20,4	19,0	16,6	15,0
L	6,3	3,5	6,8	7,7	8,1	11,0	9,0
NL	7,5	4,3	4,3	6,6	6,5	6,3	4,5
UK	12,3	8,9	14,3	15,5	10,9	8,8	6,9
EC	9,1	7,1	9,1	11,1	11,8	10,5	8,8
USA	6,1	6,8	9,1	10,2	8,5	5,6	4,5
JAP	7,7	4,6	3,4	7,1	4,6	2,5	1,8

TABLE 3: **Number of unemployed as percentage of working population** (EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	5,0	8,4	8,7	9,4	11,7	13,9	14,8
DK	3,3	6,5	5,3	6,1	8,4	9,1	9,2
D	2,5	3,9	3,4	3,4	4,8	6,9	8,3
GR	:	2,2	(2,2)	(2,8)	(3,1)	(3,8)	(4,0)
F	3,3	5,2	6,0	6,4	7,3	8,3	9,3
IRL	7,1	8,4	7,4	8,3	10,3	12,1	14,0
I	5,6	7,1	7,5	8,0	8,5	9,9	10,5
L	0,2	0,7	0,7	0,7	1,0	1,2	1,3
NL	3,0	4,1	4,1	4,7	7,5	10,4	13,1
UK	4,0	5,7	5,3	6,9	10,6	12,2	12,5
EC	3,8	5,4	5,4	6,0	7,8	9,4	10,3
USA	6,2	6,0	5,8	7,1	7,6	9,4	9,6
JAP	1,7	2,2	2,1	2,0	2,2	2,3	2,1

TABLE 4: **Balance on current account** (per cent of GDP, EC countries, EC, US, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982[1]	1983[1]
B	0,4	−1,6	−2,9	−5,3	−5,4	−4,0	−3,2
DK	−2,9	−2,7	−4,5	−3,8	−3,2	−4,1	−4,0
D	0,9	1,5	−0,6	−1,8	−1,1	0,1	0,3
GR	−2,8	−2,3	−2,9	−2,4	−2,2	−2,4	−2,3
F	−0,3	0,6	0,1	−1,4	−2,0	−2,6	−1,9
IRL	−4,2	−3,1	−9,8	−8,4	−13,2	−9,0	−7,6
I	−0,2	2,4	1,7	−2,5	−2,3	−1,3	−0,5
L	22,5	23,3	28,1	22,7	20,3	19,7	18,8
NL	1,3	−0,8	−1,3	−1,4	2,3	4,0	5,0
UK	−0,9	0,4	−0,0	1,4	2,4	0,8	−0,2
EC	−0,1	0,8	−0,4	−1,4	−0,8	−0,7	−0,6
USA	0,1	−0,6	−0,1	−0,2	0,1	0,3	−0,2
JAP	0,8	1,7	−0,9	−1,1	0,4	0,6	1,0

TABLE 5: **General government lending or borrowing (−) as percentage of GDP** (EC countries, EC, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	−4,2	−5,5	−6,9	−9,4	−13,4	−12,8	−12,1
DK	0,0	−2,2	−3,1	−5,9	−7,1	−9,5	−9,6
D	−1,5	−2,8	−3,0	−3,5	−4,0	−3,9	−4,1
GR	−4,4	−5,1	−4,8	−5,4	−10,1	−9,2	−8,6
F	−0,6	−2,3	−0,8	0,5	−1,5	−3,0	−3,0
IRL	−8,5	−10,5	−11,9	−12,8	−15,4	−14,7	−14,4
I	−8,6	−9,7	−9,5	−8,4	−11,9	−11,6	−11,0
L	2,3	3,3	0,1	−1,8	−0,8	−0,9	−1,0
NL	−1,3	−2,1	−2,0	−3,4	−4,5	−5,7	−5,5
UK	−3,2	−4,0	−3,3	−3,5	−2,1	−0,9	−0,5
EC	−2,9	−4,0	−3,6	−3,5	−4,8	−5,0	−4,9

TABLE 6: **Money supply M2/M3** (percentage change at end of year on twelve months earlier, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	10,9	7,8	6,0	2,7	6,6	6,5	7,0
DK	11,0	6,7	9,9	10,9	9,6	12,0	11,0
D	10,1	11,0	6,0	6,2	5,0	7,0	5,0
GR	23,3	39,4	18,4	24,7	34,3	29,1	23,0
F	15,4	12,2	14,4	9,7	11,5	12,5	12,0
IRL	18,2	28,9	19,0	16,9	17,4	16,8	16,5
I	19,6	23,0	20,3	12,0	16,0	15,8	16,2
L	—	—	—	—	—	—	—
NL	11,6	4,2	7,6	3,6	5,2	7,6	7,0
UK	13,6	15,0	12,7	18,6	14,6	10,2	10,1
EC	13,9	13,9	11,9	10,5	10,8	10,8	10,0
USA	9,5	8,3	8,8	10,1	9,5	—	—
JAP	16,9	13,1	9,1	7,2	8,7	—	—

Source: Commission services.