

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 370 final

Brussels, 20th June 1983

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

Communication from the Commission to the European Council,
Stuttgart, 17-19 June 1983)

COM(83) 370 final

COM.370

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European Council
of 17-19 June 1983)

CONTENT

- I. Introduction
- II. Recent economic trends and immediate outlook
- III. Guidelines
- IV. Particular aspects of the unemployment problem

I. Introduction

The present Communication follows on from a series of documents transmitted to the European Council or to the Council of Ministers since last March.

The analysis made at the time indicated that a recovery was possible but also highlighted the uncertainties. That analysis still holds good¹. Accordingly, the guidelines proposed by the Commission and endorsed to a large extent by the Council need to be reaffirmed, particularly since the same priorities were set at the major international meetings held recently (OECD session, Williamsburg Summit).

This Communication does not, therefore, contain any fresh proposals; it is intended as a synopsis of the previous analyses and conclusions. The Commission considers that the prime objective must still be to strengthen the favourable trends that are emerging so as to achieve a more sustained recovery.

II. Recent economic trends and immediate outlook

A. The outturn for 1982

At 0.3%, the volume of GDP grew hardly at all in 1982. This was due mainly to a significant decline in activity at the beginning of the second half of the year, although there was a tendency in the last quarter for the economy to pick up gradually. This overall result masks differing national performances: GDP growth was markedly negative in Germany (-1%) and the Netherlands (-1.6%) and, to a lesser extent, in Italy (-0.3%) and Belgium (-0.2%); it was positive in Denmark (+3.4%), France (+1.8%), the United Kingdom (+1.4%) and Ireland (+1.5%).

Inflation in the Community continued to slacken in 1982, falling to an annual average of 8.8% compared with 10.1% in 1981 and 11.2% in 1980; this trend was discernible throughout the Community although there were still large divergences; the annual rate of consumer price increases in 1982 ranged from 5.3% (Germany) to over 15% (Italy, Ireland, Greece).

¹ Subject to the revised economic forecasts, which will not be available before the end of June.

The employment situation worsened further during 1982, with the unemployment rate climbing to 9.8% of the labour force, 1.5 percentage points higher than in 1981. This too was a trend shared by all Member States, although the rise in unemployment was relatively more marked, for example, in Germany (up from 4.8% to 6.8%), in Italy (up from 8.8% to 12%) and in the United Kingdom (up from 9.8% to 11.2%).

By contrast, the gradual improvement in the Community's current account was maintained in 1982, with the deficit, which had been equivalent to 1.3% of GDP in 1980 and to 0.7% in 1981, narrowing to 0.6%. Here too, however, the situation differed quite markedly from one country to another.

B. Possible trends in 1983

1. Prospect of a slow recovery in growth

The recovery noted at the end of 1982 has continued so far this year although industrial output does not yet fully reflect the improvement in business confidence since November 1982. Growth should gather momentum gradually, to reach an annual rate of 0.9% in the last quarter. The improvement is expected to come from a slow pick-up in private consumption coupled with vigorous restocking in the first half of the year and from a modest revival in investment towards the end of the year. On the other hand, the sluggish growth in the volume of world trade forecast for 1983 is likely to make only a marginal contribution to the recovery in activity in the Community, although it will probably gather pace at the end of the year. Overall, and assuming a continuation of current trends, the growth in the volume of Community GDP should be of the order of 0.5% in 1983. The situation will probably differ quite markedly between countries. While the revival in activity is expected to become firmly established in the countries that are already well on the way to completing the adjustment process, a number of countries will continue to encounter major difficulties on the balance-of-payments and inflation fronts and will be forced to press ahead with their stabilization efforts.

Inflation will probably continue to fall in the Community as a whole. The average increase in consumer prices is expected to be of the order of 6.4%, the lowest figure recorded since 1976, lower in fact than the average for the years 1968-75. The slowdown in price rises will probably be a general one in the Community and inflation differentials are expected to start narrowing, with the inflation rate falling significantly below 10% in all Member States, except Italy, Ireland and Greece.

Although representing an improvement over 1982, the slow recovery in economic activity during 1983 will not permit any real progress on employment. In fact, unemployment will probably continue to rise in 1983, albeit less rapidly than in 1982. Taking the average for the year, the number of jobless expressed as a proportion of the labour force could climb to nearly 11% as against 9.8% in 1982, i.e. twice the level recorded in 1979. In a later section, this Communication will take a closer look at the problem of unemployment, particularly youth unemployment.

On the external front, the Community will probably manage to consolidate the improvement in its current account, a deficit of just over US\$6 000 million (equivalent to 0.2% of GDP) being expected in 1983.

2. A still uncertain outlook

The situation in the Community itself can be expected to improve in 1983, although this will be a slow process that will gain in strength only towards the end of the year. At international level, however, the outlook for growth is subject to some uncertainty that damages the chances of a lasting turnaround in the Community. The factors of uncertainty, which are closely interlinked, are the following:

(i) World trade will grow only little in 1983, by 0.5% in volume terms, while it fell by 0.9% in 1982. Although imports into the OECD area (excluding the Community) could expand in 1983 by more than 3% in volume terms as a result of the incipient recovery in the United States and the rise in the dollar, the fall in the oil price affecting the OPEC countries and the financing constraints facing the developing countries will probably mean that the volume of imports by these two groups of countries will stay flat or actually decline in 1983.

- (ii) The fall in the oil price following the agreement reached within OPEC last March should help to bring down inflation, improve the pattern of current account balances at the world level and provide a moderate but real boost to growth at just the right time. However, this will happen only if:
- first, the path of the dollar exchange-rate does not cancel out the effects of this fall in the oil price;
 - second, the fall in real terms is not so precipitous as to impose further strains on international financial and trading equilibrium.
- (iii) Despite the progress made, the problem of international indebtedness persists; unless there is an appreciable and lasting improvement in growth in the industrialized economies, stabilization of exchange rate relationships and an effective fall in interest rates - and unless adjustment policies are correctly and firmly pursued - the debt problem will probably continue to act as a brake on any improvement in the international economic situation.
- (iv) The relationships between the main currencies are expressed by exchange rates which do not adequately reflect actual economic performances and which are too variable and unpredictable; they are a major factor of uncertainty in international trading relations, they exacerbate protectionist pressures and - because they make economic calculations more hazardous - they increase firms' hesitation to commit themselves.
- (v) Finally, the problems created by the movement in interest rates, which largely depend on developments in the United States, continue despite the fact that some progress has been made. In the present situation, a substantial fall in rates that is perceived to be lasting is urgently needed, both in nominal and real terms:
- it would ease debt-servicing problems appreciably, particularly those of the most heavily-indebted developing countries;
 - it would assist recovery in a number of industrialized countries;
 - and it would constitute one of the vital preconditions for an upturn in investment - a key element in sustained recovery.

However, the downward movement in interest rates observed in 1982 has not continued in the last few months.

Further, the possible trend in 1983 is not without risks. The failure to solve the Federal budget problem in the United States is helping to keep interest rates high and is feeding expectations as to their future level. What is more, if the upturn in the United States economy continues, the combined impact of the private sector's loan demand and public sector borrowing needs may well lead, assuming an unchanged monetary policy, to further upward pressures on interest rates.

C. The outlook for 1984

Although it now appears that the gradual upturn in the economy may continue into 1984, this is by no means certain. Where the international environment is concerned, such continuation will depend on:

- a more rapid growth of world trade, prompted by an improved business situation in the industrialized countries;
- a normal and controlled development of international indebtedness, which must be reduced to more manageable proportions for the developing countries through a steady and stable upturn in world trade;
- a genuine improvement in the stability and predictability of exchange rates and a further fall in real interest rates.

All in all, and if these assumptions are fulfilled, GDP could increase by about 1.6% in the Community in 1984, although there would be fairly wide differences between one country and another: the acceleration in growth in the Federal Republic of Germany and the United Kingdom for example could well be more pronounced than in the rest of the Community. A moderate upturn may thus become established, helped by the growth of private consumption, investment and exports.

Inflation should continue to slow down, giving an annual rate of consumer price increase of less than 6% on average, practically the lowest rate since 1969. As a result, it should be possible to ease the restrictive stance of current monetary and budgetary policies little by little and to bolster, gradually and in a healthy way, the upturn in consumption in the Community.

As in 1983, the continued economic recovery in 1984 that can be forecast today will bring only a moderate slowdown in the rise in unemployment, with the rate for the Community as a whole likely to exceed 11.5% on an annual average. However, the change in the trend of unemployment noted in 1983 may be maintained in 1984.

This moderate upturn in growth should also lead to a further improvement in the balance of payments on current account, with the 1984 deficit being reduced to 2 500 million ECU (i.e. 0.1% of GDP), thanks notably to a slight improvement in the terms of trade.

III. Guidelines

Overall, both the forecasts for 1983 and the first tentative prediction for 1984 tend to confirm the beginnings of a gradual recovery in the Community. However, this recovery remains precarious, largely because of external factors linked in substantial measure to trends in the United States economy. These uncertainties should induce the Community to use all the means at its disposal to consolidate its own incipient recovery in order to make it permanent and to participate in the gradual establishment of a more stable and more predictable international economic environment - an important factor in maintaining free trade and combating protectionism, which are, for it, major objectives.

The Commission considers that, under these conditions, the five priorities which it suggested to the European Council last March - priorities which are also largely reflected in the conclusions of the recent Williamsburg Summit - still represent the Community's best chance of consolidating recovery. In addition to these priorities, it should be stressed that, in the current situation, efforts to strengthen the EMS, combined with measures to achieve a lasting improvement in convergence of economic performance within the Community, would provide a demonstration of Community cohesion which would be economically highly appropriate and politically meaningful.

Apart from what has been said on energy, where the prime concern must be to prevent the fall in prices from resulting in a dangerous weakening of adjustment effort, and on international indebtedness, where joint action must be pursued and strengthened and public and private financial flows maintained at an adequate level, three points call for particular attention:

A. In the budgetary area, priority must continue to be given to measures that will increase confidence in the capacity of governments to control their budgets and to use them to assist the recovery.

Controlling public expenditure, gradually reducing its share in GDP and cutting deficits must therefore remain the main focus. Simultaneously, there must be effective restructuring of public expenditure in favour of measures to promote economic growth.

Lastly, in those countries which have maintained, or regained, control over their public finances, use of the budget to influence the economic trend remains a possible component of economic policy; this may take the form of:

- either allowing the built-in stabilizers to operate if developments indicated a new slowdown in activity;
- or preventing any premature automatic contraction in deficits if the recovery is not sufficiently marked;
- or even considering the possibility of autonomous, moderate budgetary action consistent with the medium-term guidelines set out above (i.e. consistent with the aim of reducing structural deficits), if the improvement in the economy should prove clearly insufficient or too slow in materializing.

B. In the monetary area, subject to international developments, the policies pursued in the countries which have already obtained favourable results on prices and the balance of payments must continue to be geared first and foremost to achieving a gradual and credible reduction in interest rates. Conversely, in those countries which have still to carry out an adjustment of their economies, monetary policy must leave no doubt as to the determination of governments to tackle inflation and external imbalances.

C. Lastly, (and this is the area in which the handicap is perhaps greatest) the Community must get ready to help ensure that the conclusions on international monetary matters reached at the Williamsburg Summit are given practical effect.

*It must continue to work with its partners for the implementation of the measures needed to bring about a lasting fall in interest rates. This result can be achieved only if all concerned (the United States, Japan and the Community) recognize the decisive benefits which the world economy would derive at present from lower interest rates and if all concerned contribute to ensuring that the relevant measures are taken.

*Parallel to this, the Community must give priority to joint action to stabilize exchange rate relationships, since, if there is to be a recovery in economic activity and in international trade, there must be a sufficiently stable and predictable economic and monetary environment and one which is sufficiently consistent with economic fundamentals. In this respect, the Community will have to determine and put across its position in the work which it was recently decided would be carried out on improving the international monetary system.

IV. Particular aspects of the unemployment problem

At the end of April 1983, the total number of unemployed in the Community was nearly 12 million: in 1979, it was only 6 million. The unemployment rate may well average some 10.9% of the labour force in 1983 as against 9.8% in 1982.

Thus, despite a fall in the absolute number of unemployed throughout the Community in March and April 1983 and despite signs of some slowdown in its growth, unemployment is on a continued upward trend in the Community and remains by far the greatest problem facing the European economies.

The Commission would draw the attention of the European Council to the need to take specific measures that have a rapid and direct effect on employment while underpinning the economic recovery. The Commission would in particular emphasize the following two questions:

A. Youth unemployment

The most worrying aspect of the unemployment problem is without any doubt youth unemployment: the jobless under 25 now account for more than 40% of total unemployment, and in most of the Member States the unemployment rate among young people under 25 is between 25% and 35%. Moreover, the average length of unemployment amongst the young is tending to increase steadily: more than 1.5 million young people under the age of 25 in the Community have now been unemployed for more than one year.

This problem is tending to become particularly serious, not only in economic terms, but also in political and social terms. In a recent communication which has already been the subject of initial discussions at Community level, the Commission urged the need to initiate measures, covering several years, to create permanent jobs for young people, combining a range of measures in several areas such as assistance with setting up businesses, recruitment premiums, measures to improve vocational training, the reduction and reorganization of working time and direct job creation in the public sector. National efforts in these areas were to be supplemented by additional Community resources from the Social Fund, with a larger share of Fund expenditure to go on the young.

B. Reduction and reorganization of working time

The Community countries are turning increasingly to the reduction and reorganization of working time as a means of maintaining or increasing jobs, whether through general measures, as is the case in Belgium, France, Italy and the Netherlands, or through sectoral measures in other Member States.

Since the problems involved are largely similar in nature, the adoption of a Community framework and of Community principles would certainly help to prevent national measures from adversely affecting the common market and would encourage the harmonious development of working conditions within the Community. The Commission would point out that it presented a set of guidelines on the reduction and reorganization of working time in its memorandum of December 1982, in which it also undertook to lay proposals before the Council after consultations with the two sides of industry.

MAIN ECONOMIC INDICATORS FOR THE EUROPEAN COMMUNITY, UNITED STATES AND JAPAN

TABLE 1 : GROSS DOMESTIC PRODUCT (PERCENTAGE CHANGE AT CONSTANT PRICES ON PRECEDING YEAR, EC, USA, JAPAN, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	3.2	2.4	3.0	-1.8	-.2	-.7	.9
DK	2.6	3.7	-1.1	.1	3.4	1.4	1.1
D	2.3	4.1	1.3	.2	-1.0	.6	2.3
GR	4.8	3.7	1.6	-.7	.0	.3	2.0
F	3.6	3.2	1.3	.2	1.8	-.8	.1
IRL	4.4	2.5	2.8	1.1	1.3	.5	1.3
I	3.2	4.3	3.9	-.2	-.3	.1	2.2
L	3.1	4.0	1.7	-1.8	-1.6	-1.4	-1.6
NL	3.6	2.1	.9	-1.2	-1.6	-.4	.5
UK	2.2	1.6	-2.0	-2.0	1.4	2.4	2.1
EC	3.1	3.3	1.3	-.4	.3	.5	1.6
USA	2.3	2.4	-.3	2.3	-2.2	2.4	3.6
JAP	6.3	5.1	4.4	3.2	2.9	3.3	3.2

TABLE 2 : DEFLATOR OF PRIVATE CONSUMPTION (PERCENTAGE CHANGE ON PRECEDING YEAR, EC, USA, JAPAN, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	6.7	3.6	7.0	8.9	8.8	6.7	5.0
DK	9.8	10.2	11.2	11.8	9.8	8.4	8.9
D	5.1	4.2	5.4	5.6	5.3	8.0	3.2
GR	11.5	17.5	22.2	24.4	21.9	21.5	13.7
F	8.6	10.6	13.3	12.9	10.9	8.6	7.0
IRL	12.8	14.2	17.6	13.9	17.1	10.5	7.8
I	13.1	13.0	20.3	18.0	18.8	14.9	12.5
L	6.3	5.8	7.7	7.7	10.0	8.8	8.3
NL	7.5	4.0	6.7	6.2	5.7	2.7	3.0
UK	12.3	13.2	16.4	11.0	8.1	6.2	6.5
EC	9.1	8.9	11.2	10.1	8.8	8.4	5.7
USA	6.1	8.0	10.5	8.9	8.7	4.3	5.0
JAP	7.7	3.5	7.0	4.5	2.9	1.7	1.6

TABLE 3 : NUMBER OF UNEMPLOYED AS PERCENTAGE OF WORKING POPULATION (EC, USA, JAPAN, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	5.0	8.7	3.4	11.6	12.7	14.4	15.3
DK	3.3	5.3	6.1	8.3	9.7	10.5	10.8
D	2.5	3.4	3.4	4.8	6.8	8.7	3.1
GR	-	(2.2)	(2.8)	(3.1)	(6.1)	(7.3)	(7.5)
F	3.3	6.0	6.4	7.8	8.7	9.1	10.1
IRL	7.1	7.4	8.3	10.5	12.4	13.3	16.7
I	5.6	7.5	8.0	8.8	12.0	12.6	13.0
L	.2	.7	.7	1.0	1.2	1.8	2.4
NL	3.0	4.1	4.7	7.2	13.1	16.0	17.3
UK	4.0	5.0	6.4	9.8	11.2	12.2	12.7
EC	3.8	5.3	5.3	8.3	9.8	10.3	11.5
USA	6.2	6.0	5.8	7.6	9.7	10.5	10.2
JAP	1.7	2.2	2.1	2.2	2.4	2.7	2.8

TABLE 4 : BALANCE ON CURRENT ACCOUNT (PER CENT OF GDP, EC, USA, JAPAN, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	.4	-2.7	-4.7	-5.4	-3.8	-2.3	-2.0
DK	-2.3	-4.7	-3.7	-3.1	-4.2	-2.7	-1.5
D	.3	-.8	-1.3	-1.1	.4	1.0	.3
GR	-2.8	-2.3	-.3	-.2	-3.8	-3.3	-3.2
F	-.3	.0	-1.4	-1.4	-2.3	-2.0	-1.4
IRL	-4.2	-11.2	-10.0	-13.7	-8.2	-3.4	-1.5
I	-.2	1.7	-2.4	-2.3	-1.6	-.6	-.7
L	22.5	28.3	22.6	31.1	39.5	38.6	30.1
NL	1.3	-1.1	-1.5	2.4	2.7	3.2	4.2
UK	-.3	.0	1.6	2.4	1.5	.2	-.2
EC	-.1	-.4	-1.3	-.6	-.6	-.2	-.1
USA	.1	-.1	.3	.1	-.3	-.8	-1.0
JAP	.8	-.8	-1.0	.5	.3	.4	.5

TABLE 5 : FEDERAL GOVERNMENT LENDING OR BORROWING (-) AS PERCENTAGE OF GDP (EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	-4.2	-6.3	-3.4	-13.3	-12.7	-11.7	-12.1
DK	.0	-3.1	-5.3	-7.1	-8.3	-9.5	-8.9
D	-1.5	-3.0	-3.5	-4.0	-3.3	-3.8	-3.1
GR	-4.4	-4.8	-5.4	-10.1	-6.4	-6.5	-6.5
F	-.6	-.8	.5	-1.5	-2.7	-3.1	-3.5
IRL	-8.5	-11.3	-12.8	-15.4	-15.8	-13.2	-11.2
I	-5.6	-3.5	-8.4	-11.3	-11.3	-11.3	-12.3
L	2.3	.1	-1.8	-.7	-1.0	-3.0	-1.3
NL	-1.3	-2.0	-3.4	-4.6	-6.4	-6.8	-6.7
UK	-3.2	-3.3	-3.5	-2.1	-1.7	-2.2	-1.3
EC	-2.3	-3.6	-3.5	-5.2	-5.3	-5.4	-5.4

TABLE 6 : MONEY SUPPLY M2/M3 (PERCENTAGE CHANGE AT END OF YEAR ON TWELVE MONTHS EARLIER, EC, USA, JAPAN, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	10.3	6.0	2.7	6.6	5.7	5.5	5.8
DK	11.0	9.9	13.3	9.6	11.1	7.5	8.0
D	10.1	6.0	6.2	5.0	7.1	7.0	7.0
GR	23.3	18.4	24.7	34.3	29.1	26.7	22.1
F	15.4	14.4	9.7	11.4	11.5	8.5	7.0
IRL	18.2	13.0	16.3	17.4	12.3	16.6	15.6
I	13.6	20.3	12.0	16.0	17.3	15.2	14.3
L	-	-	-	-	-	-	-
NL	11.6	7.8	3.6	5.2	8.7	5.5	6.0
UK	13.6	12.7	18.6	14.6	9.3	10.6	8.6
EC	13.9	11.3	10.5	10.8	10.3	3.3	3.6
USA	3.5	8.2	3.0	10.0	3.2	-	-
JAP	16.9	9.1	7.2	8.7	7.0	-	-