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*MACROECONOMIC POLICYMAKING AT THE EUROPEAN COMMISSION
IN THE FIRST HALF OF THE 1980s*

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**MACROECONOMIC POLICYMAKING AT THE EUROPEAN COMMISSION IN THE
FIRST HALF OF THE 1980s**

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I. Introduction

Macroeconomics has always been more closely related to problems of economic policy. A typical example is certainly the birth of modern macroeconomics with Keynes' General Theory in the 1930s. In order to get a more balanced and richer view on the development of the economics profession and the use of macroeconomic theory it is useful to have a closer look at the economics in policy-making institutions.

In this paper the focus is on macroeconomic policymaking at the European Commission, an institution which has become increasingly influential at shaping policy formulation at the European level. The study concentrates on the early 1980s, when unemployment became more and more the dominating problem. The paper starts with a background sketch of the European Community in the early 1980s and policy-making instances at the European Commission. Then an overview is given of the monitoring and forecasting processes of economic developments, which are a crucial feature of life at a policy-making institution. Thereafter, the focus is on economic thought at the Commission, especially the Annual Economic Reports, the main macroeconomic policy document of the Commission. A last section tries to compare academic economics with economics at policy-making institutions.

2. The European Community in the early 1980s

The early 1980s were a period of morosity at the European Commission: the European economy was in the doldrums and the integration progress was stalling.

Europe's economic performance in the early 1980s was rather disappointing: economic growth was low and unemployment was increasing strongly, while inflation was high and declined only stubbornly. Part of the reason for it was certainly the second oil shock of the autumn of 1979, which gave a stagflationary shock to Europe's economy. However, the European performance contrasted markedly with the situation in the United States, where the recovery, from 1983 onwards, was very strong and unemployment started declining, something which several observers associated with Reagan's supply side economics. "Eurosclerosis" was the term used to characterise the economic situation in the Community (cf. Giersch, 1987).

- Here Graph 1 -

The European integration process was also in the doldrums. The issue which dominated the European debate in the first half of the 1980s was the British contribution to the European budget, famous with Mrs Thatcher's phrase "I want my money back". A solution would only be reached at the Fontainebleau summit of June 1984, clearing the way for the European Community to concentrate on integration furthering projects.

- Here Table 1 -

The main impetus to the integration process came from the European Monetary System (EMS), which was founded in March 1979 (cf. Ludlow, 1982). However, the first years of the EMS were very difficult: there was a lack of convergence of economic policies and performances, especially inflation, and there were several realignments. The development of the EMS was one of the main preoccupations of economic policymakers at the European Commission. Tensions in the EMS were exacerbated from May 1981 onwards, when Mitterrand was elected as French President and followed a reflationary economic policy strategy. This led to a loss of competitiveness of the French economy, capital outflows and speculative pressures against the French franc, leading to several realignments. With the change of policy orientation in France, towards more orthodox economic policies, after the March 1983 realignment, the EMS became in more stable waters.

The sphere of morosity was further reinforced by the rather lacklustre performance of the Thorn Commission (1981-1984), which did not take noticeable initiatives to further the European integration process. This would change dramatically in January 1985, with the Delors Commission, which developed several projects to reinvigorate the European economy and the integration process. Of special importance were the internal market project and the Cooperative Growth Strategy for more Employment.

3. Policy-making instances at the European Commission

It can be useful to note that the term "commission" is used both for the College of the Commission, the body of commissioners, and for the services of the commission, the administration. Also, every member of the Commission disposes of a small group of collaborators, his so-called "cabinet", typical of the French administrative system.

It is the College of the Commission which is ultimately responsible for policy-making at the European Commission. However, in the area of macroeconomic policy-making, the responsibilities of the Commission are rather limited, as it lies with the Member States¹. The Commission's responsibilities concern mainly the orientation and coordination of the national macroeconomic policies (cf. Mortensen, 1990 and Wegner, 1989).

- Here Table 2 -

Inside the Commission, it are mainly the president and the member with the responsibility for DG II, Economic and Financial Affairs (which can be considered as the macroeconomic research department of the Commission) who are most involved in macroeconomic policy-making. From 1981 to 1984, Gaston Thorn, a Luxemburger, was president and François-Xavier Ortoli, a Frenchman, was responsible for DG II. According to witnesses, they were both relatively easy-going persons, who left the administration a lot of freedom. Ortoli was mostly interested in monetary matters. With the new commission in 1985, Jacques Delors, a Frenchman, took, besides the presidency, also the responsibility for monetary matters. Alois Pfeiffer, a German trade unionist, became responsible for DG II. The economic man in his cabinet, Ludwig Schubert, would play an important role in macroeconomic policy-making.

The director-generals of DG II have typically been Italians. From June 1979 to March 1983, Tommaso Padoa-Schioppa was Director-General of DG II. He was succeeded by Massimo Russo.

Padoa-Schioppa had a profound impact on DG II: he was not only a good administrator, but also a brilliant economist. People describe him as combining a German rigor

¹ This will change in January 1999, when eleven countries will transfer their sovereignty in the field of monetary policy to the European System of Central Banks.

with Italian imagination and a profound economic culture, including mainstream Anglo-saxon economics. He was then quite young (around 40), dynamic and rather ambitious².

His main focus of attention was the reinforcement of the European Monetary System, which he considered as the "priority of the priorities". Another of his main preoccupations was the strengthening of the analytical level of DG II. An important element hereby was a reorganisation of DG II, in March 1980.

After this reorganisation, DG II consisted of four directorates:

- The A Directorate: National Economies, with P. Van Den Bempt (B) as director. The A Directorate was responsible for monitoring and analysing the economic situation on a "vertical" basis, country by country. It consisted of four divisions, three of them followed the different countries of the Community, the fourth the rest of the world.
- The B Directorate: Economic Structures and Community Policies, can be considered as a kind of "economic service", where the various policies of the Community (sectoral, industrial, competition ...) were followed and analysed.
- The C Directorate: Macro-economic Research and Policy, with M. Emerson (U.K.) as director. This was a newly founded directorate, which reflected a double aim. The "methodological" purpose was to pursue more academic oriented research, as clearly indicated in the word "Research" in the name of the new directorate. The other purpose was to focus on macroeconomic policy for the European economy as a whole, instead of national economies. This reflected the idea that the Commission could have more influence on economic policies in the Member States if it could highlight the Community dimension of a certain national policy stance. The director of the C was usually the main author of the Annual Economic Report, the most important macroeconomic policy document of the Commission (cf. supra).

The directorate consisted of five units: concerted action (a newly created division, responsible for a "horizontal" analysis of the Community economy and for policy actions

² Padoa-Schioppa had been for many years at the research department of the Banca d'Italia, one of the top policy oriented research institutes in Europe, with strong connections with leading American and British universities (cf. Porta, 1996, p. 180). Padoa-Schioppa had been a student and, later, a visiting scholar at the Massachusetts Institute of Technology. He was close to Franco Modigliani: they published articles together (e.g. Modigliani and Padoa-Schioppa, 1978) and he contributed to Modigliani's *Festschrift* (Padoa-Schioppa, 1987).

at the Community level); short-term forecasts (responsible for the coordination and consistency of the twice yearly forecasting exercises); business cycle surveys (responsible for the coordination and aggregation of business and consumer surveys, which were executed by different institutes in the Member States); medium-term forecasts; econometric models (a newly created division, the purpose was to give DG II more autonomy in econometric modelling, this group would later be merged with the unit for medium-term forecasts).

- The D directorate: Monetary Matters, with J-P Mingasson (F) as director. It consisted of four divisions, focusing on the EMS, the balance of payments situations, monetary policy in the different countries, and capital markets.

Also other reforms contributed to the strengthening of the intellectual and analytical capacities of DG II, like the organisation of seminars (both by DG II economists and outsiders); the launching of a new series of publications, the "Economic Papers" (which were the sole responsibility of the author); and the reinvigoration of the group of advisers (economists, both academics and national policy-makers, who were on a temporary basis at the Commission).

Of particular importance is certainly the collaboration with the Centre for European Policy Studies (CEPS), located in Brussels, especially with the foundation (and funding by DG II, cf. Ludlow, 1983, p. 2) of the CEPS Macroeconomic Policy Group. This Group was also known as the Dornbusch Group, after its first Chairman.

DG II economists would have meetings with the members of the CEPS group, in which the macroeconomic situation and the policy challenges for the European Community would be discussed. The CEPS economists would offer their comments on policy documents of the Commission, especially the Annual Economic Report (cf. *infra*), and they would also, every year, write their own paper. This paper would be published both as a CEPS paper and as an "Economic Paper" of the Commission.

During the period under consideration here, the following papers were published:

- "Macroeconomic Prospects and Policies for the European Community", in April 1983, by G. Basevi, O. Blanchard, W. Buiters, R. Dornbusch and R. Layard. The Group argued that there was no evidence that "unemployment is all and without exception, or even predominantly, a real wage problem" (p. 3). They favoured a coordinated expansionary policy, accompanied by incomes policy.
- "Report of the CEPS Macroeconomic Policy Group. Europe: the Case for Unsustainable Growth", in April 1984, by R. Layard, G. Basevi, O. Blanchard, W. Buiters and R. Dornbusch. They argued that the European economy should, for some years, grow faster than its sustainable long-term growth rate, in order to reduce the margin of unused resources. A temporary fiscal expansion and an accommodating monetary policy was necessary.
- "Report of the CEPS Macroeconomic Policy Group. Employment and Growth in Europe: A Two-Handed Approach", in June 1985, by O. Blanchard, R. Dornbusch, J. Drèze, H. Giersch, R. Layard and M. Monti. They argued that the European unemployment problem did not have a single cause. Consequently, a "two-handed" approach was necessary, combining structural measures on the supply side and a "boost" to start the process. This boost had to come from timely supply measures, sustained and validated by demand (p. 30).

This triangular collaboration (Group, Commission, CEPS) offered DG II several advantages: it strengthened the analytical and intellectual level of the economic policy debate, it allowed the Commission to penetrate in the world of the "economic intelligentsia", and it exposed the services of DG II to emulation and contradiction.

4. The monitoring and forecasting of economic activity at the Commission

Policy decisions need to be based on a solid understanding, not only of how the economy works and its present state, but also of its future course. In practice, policy-makers are confronted with many time lags: good data about the economic situation become only available with delay, the decision-making process itself can take time, just like the implementation of policy, and it also takes time before policy measures have an effect on the economy. Thus policy-makers have no choice but to take decisions on the basis of estimates and forecasts of economic activity (cf. Llewellyn et al., 1985, p.73).

At the European Commission then, as at other policy-making institution, a lot of time was and is spent with monitoring and forecasting the economic situation. This was undoubtedly, as regards time and resources, a core activity of the A and C directorates, which were the main directorates involved in macroeconomic policy-making at the Commission.

At the core of this monitoring and forecasting activity were the forecasting rounds (cf. CEC, 1984c, p. 191). These forecasting rounds were organised twice a year, in the spring (April-May) and the autumn (September-October). They concerned the main macroeconomic data: growth, inflation, unemployment, the government deficit, etc., with the national accounts at the centre of the forecasts. They covered the current and the following year.

- Here Table 3 -

These forecasts performed a basic role in macroeconomic policy-making at the Commission, as they delivered the data material on which the analysis of the economic situation and the policy recommendations of the Commission would be based³. For instance, the data in the Annual Economic Report, which was published in November, would be the estimates and forecasts of the autumn round.

³ One can contrast this with "academic" analysis, which is mostly based on existing data, and is so a kind of "historical" analysis, even if often of the recent past.

Given this crucial importance of the forecasting activities, it seems appropriate to elaborate somewhat on its organisation, which was coordinated by the Short-term forecast unit in the C Directorate:

- the forecasting round would start with a "position paper". This described the main events since the last forecasting round and the evolution of the economic situation. It also contained the basic assumptions regarding interest rates and exchange rates, oil and commodity prices, world trade and the evolution of economic activity in the rest of the world. This position paper would be discussed in a general meeting by all the persons who were involved in the forecasts.
- typical for the Commission, as an international institution, was a trade consistency exercise, involving both trade volume consistency (changes in countries' export volumes must have their counterpart in changes in partner countries' import volumes) and trade price consistency (each country's import price has to have its counterpart in the export prices of the countries from whom it imports).
- the country desks of the A Directorate would, on the basis of the assumptions in the position paper and all possible information about their economy, elaborate their forecasts. The national desks had a quite large degree of freedom about their methods of forecasting. In many cases a "judgmental" approach was followed.
- there were also consultations with national experts (ministries, central banks). In a first round this would happen on a bilateral basis, with the desk officers visiting their nation's capitals. Towards the end of the round, there would be a general meeting, where DG II would present its forecasts to experts from the Member States.

This would all take place in several rounds, a long iterative process, wherein forecasts were continually revised and revised, until a final stage. One should also mention the general assumption of no changes in economic policy, which is typical for forecasting at the Commission, and for policy institutions in general.

These short-term forecasts would also form a kind of benchmark against which the economic situation would be monitored in the periods between two forecasting rounds. In the monitoring (and forecasting) process, the Commission relied also on surveys, for which a special

unit in the C Directorate was responsible. In fact, since 1961, the Commission coordinated business surveys in industry in the Community. Later, in 1970, consumer surveys were integrated in this programme (CEC, 1997, p. 203).

DG II would also make medium-term forecasts. Here, more use would be made of econometric models. In the early 1980s DG II invested heavily in an econometric model unit so as to be less dependent on outside experts and to acquire a greater degree of autonomy.

5. Main lines of macroeconomic thought at the Commission

Macroeconomic thought at the Commission was, to a large extent, a synthesis and compromise of the main schools of macroeconomic thought in the three big European countries: Germany, France and the United Kingdom.

German economic thought was centred round the social market economy. Two tendencies can be distinguished. The more free market oriented German economists would emphasise that economic policy was, in essence, "Ordnungspolitik", i.e. a policy to create a sound and secure framework within which markets can operate. The main tasks of economic policy are then: (a) monetary policy: assure price stability; (b) fiscal policy: rather limited task for the government; and (c) structural policy: a more passive role, competition policy is emphasised. The other tendency, emphasising the social dimension of the "social market economy", was typically linked to the trade unions and favoured a dialogue between the social partners (trade unions and employers) as a strategy to stimulate growth and employment.

In general, German economists, mostly emphasised that economic policy consisted in the application of certain basic economic principles (especially the respect of market mechanisms and wage moderation) to the actual economic situation. It reminds one of Roy Harrod's characterisation of Keynes' view: "Following Marshall, he (= Keynes) believed ... that progress in economics would be in the application of theory to practical problems. His recipe for the young economist was to know his Marshall thoroughly and read his Times every day carefully, without bothering too much about the large mass of contemporary publication in book form" (Harrod, 1951, p. 381).

Initially, French economic ideas were very influential at the Commission. Robert Marjolin, the first commissioner for DG II, had been the principal assistant to Monnet at the French Planning office, famous for its five year plans (cf. Marjolin, 1986). The French Planning Office, while being part of the French "Colbertiste" tradition, was also a spearhead of Keynesianism in France, with the national accounts at its heart (cf. Rosanvallon, 1987, p. 40). Later, Malinvaud was influential, especially with his distinction between "Keynesian" and "classical" unemployment (cf. Malinvaud, 1977).

Anglosaxon ideas in the postwar period followed different fads: Keynesianism, monetarism and supply-side economics. This was also so at the Commission, even if monetarism

was never very popular. From a methodological point of view, the Anglosaxons favoured a more analytical approach, whereby economic policy recommendations would be based on more elaborated economic research. They especially favoured the developing of DG II's model building capacity.

Initially, an important transmission channel for Anglosaxon ideas was the OECD. Many Commission officials, including Marjolin, had worked at the OECD and there were many interactions between the OECD and the Commission.

Anglosaxon ideas would receive a big boost with the nomination of Padoa-Schioppa as director-general of DG II (cf. infra). Also, younger economists would have a more Anglosaxon education, more of them having studied in the United States and having a ph.d. (cf. Table 4).

- Here Table 4 -

At the beginning of the 1980s, the Commission had shifted to a medium-term framework, wherein structural elements played an important role (cf. Maes, 1998, p. 14). The general view was probably best presented in the 1980 Annual Economic Report: "The concerted response to the present general economic situation should be based on the right strategic mix of demand and supply policies and notably the right balance in their application to short and medium-term problems. Short-term adjustments should be more moderate than at times in the last decade, and a heavier weight has to be given to reducing medium-term inflationary expectations and improving supply conditions in the economy (CEC, 1980, p. 13).

In the early 1980s, the European economy was coping with a serious stagflation, after the second oil shock of 1979 and high U.S. interest rates. In its analysis, the Commission strongly emphasised the structural aspects of the crisis: "the accumulated back-log of adjustments and on our growing incapacity to respond quickly to the recent changes in the economic environment. The increased structural rigidities in our economies and social behaviour have changed profoundly the long-term dynamics of the business cycle" (CEC, 1982, p. 11).

6. The employment debate with the CEPS group

Gradually, unemployment would more and more dominate the economic scene. This was reflected in the 1984 Annual Economic Report, where the title of the introduction was: "The dominant problem of unemployment" (CEC, 1984a, p. 9). This rise of unemployment happened against a background of a hesitant recovery, but important progress in stabilisation policies and monetary convergence.

There was a major disagreement between the Commission and the CEPS group about the nature of the European unemployment problem, whether it was "Keynesian" or classical. The CEPS Group estimated that the NAIRU was maximum 7 1/2 per cent, while actual unemployment was more than 10 per cent (cf. Layard et al., 1984, p. 4). The Commission, in its analysis, put more emphasis on the importance of "classical" unemployment: "Estimates of the present level of NAIRU (non-accelerating-inflation rate of unemployment) vary widely, with the most extreme views holding that the present unemployment rate is very close to the NAIRU. Although the debate about the relative extent of Keynesian, classical and structural unemployment is still far from closed, it may at all events be concluded from the above remarks that classical and structural unemployment has increased over the past 10 years" (CEC, 1984b, p. 100).

In its analysis of the unemployment problem, the Commission strongly emphasised that economic growth had become less labour-intensive. According to Commission estimates the stock of capital per employed person had risen at an average annual rate of 2 1/2 per cent in the preceding decade (CEC, 1984a, p. 24). The rise in relative labour costs, which was at the origin of this capital deepening, was not only the consequence of increases in nominal wages but also of the rise of non-wage labour costs. Substitution was further stimulated as the cost of capital was kept low, partly due to fiscal advantages. For the Commission, the increase of public expenditure, as well as the structure of expenditures and taxes, was one of the causes of the increase in unemployment.

Another reason for the increase in classical unemployment, according to the Commission, were the growing rigidities in the labour markets in Europe. They were the result both of legislation and of collective agreements. These were generally introduced in the golden sixties, in order to protect weaker groups. However, the Commission noted that: "Some of these regulations

have proved to be ill-adapted to new circumstances and may ... have hindered employment creation" (CEC, 1984, p. 33)⁴.

The employment strategies, proposed in the Annual Economic Reports of 1982, 1983 and 1984, were very broadly based and comprised a stable macroeconomic framework, an improvement of the competitiveness of the enterprise sector⁵ and measures concerning the labour market.

The 1985 Report proposed a more focused approach: the Cooperative Growth Strategy for more Employment. This cooperative strategy called for "balanced contributions" of different parties: the Community, the governments of the Member States and the social partners. The aim was to strengthen growth in Europe and to make it more employment-creating. The strategy was based on a combination of moderate real wage increases, in order to improve profitability, and support for demand: "Only if wage moderation is accompanied by a sufficient level of aggregate demand can one have confidence that the process of improving profitability and restructuring demand (relatively more investment and relatively less consumption) will be rapid enough and not involve drastic deflation that would place social consensus under considerable strain. Only in this way can wage moderation fulfil its employment function." (CEC, 1985, p. 10).

The change in emphasis in 1985, with the Cooperative Growth Strategy, is linked to the arrival of a new European Commission, under the presidency of J. Delors, which revitalised the European integration process, especially with the internal market project.

The Cooperative Growth Strategy for more Employment was elaborated under A. Pfeiffer, a German trade unionist, who was the Commissioner responsible for DG II, and L. Schubert was the economic man in his cabinet. Compared to earlier Reports, the Cooperative Growth Strategy was more macroeconomic in nature, with less emphasis on differentiated patterns of wage cost levels and labour market flexibility. The strategy was also more based on a social dialogue between the employers and the trade unions⁶.

⁴ Michael Emerson, in a study published in his own name, argued that: "in Western Europe today there is a need for some correction of excesses of labour market regulation and social security programs" (Emerson, 1988, p. 3).

⁵ With, as one of the measures, the strengthening of the internal market.

⁶ It is also remarkable that, in 1984, the Annual Economic Report comprised 50 pages, compared to 136 pages for the Annual Economic Review (the background document of the Commission services). In 1985 the Report counted 76 pages but the Review only 68 pages.

7. Academic economics and economics at policy-making institutions

It is interesting to try to make an analysis of the differences between academic economics and economics at a policy-making institution, like the European Commission. In practice the border between academic economics and economics at policy-making institutions is non-existent. Many economists have been part of both worlds, not only in the course of their life, but also simultaneously, combining jobs. The European Commission, in the early half of the 1980s, has very strongly favoured this interaction. Part of the reason for this was certainly that senior policy-makers, like Padoa-Schioppa and Emerson, had strong academic contacts and were well at home in the academic world.

However, there are some interesting and important differences. So is the inspiration for analysis and research at policy-making institutions mostly very different from academic research. At policy-making institutions, concrete and actual issues, with which senior policy-makers are confronted, will mostly be at the basis of research projects. Policy relevant research is at a premium. This contrasts with academic research which is mostly driven by theoretical problems or by possibilities of new (econometric) techniques. At policy-making institutions, theory and technique have a more ancillary function.

So, for policy institutions, it is important that economic theory can select and highlight certain features of reality. One can think here of Schumpeter's characterisation of the economics of J. M. Keynes: "What I admire most in these and other conceptual arrangements of his is their *adequacy*: they fit his purpose as a well-tailored coat fits the customer's body. Of course, precisely because of this, they possess but limited usefulness irrespective of Keynes's particular aims. A fruit knife is an excellent instrument for peeling a pear. He who uses it in order to attack a steak has only himself to blame for unsatisfactory results" (Schumpeter, 1946, p. 287, original italics).

There are also differences in the empirical material between economics at policy-making institutions and academic institutions. Policy-makers are strongly concerned about the actual economic situation and the future perspectives. Economists at policy-making institutions, like the European Commission, put a lot of time and effort at the monitoring and forecasting of the economic situation. This also implies that a lot of attention is given to the methodology of statistics, as a good comprehension of the coverage and quality of statistics is necessary. This rather contrasts with academic economists, which mostly work on the basis of existing economic data, leading to more "historical" kind of analysis, even if of the recent past. Academic

economists, in general, will also pay relatively less attention to the methodology of the data, as they are more concerned with theoretical refinements and (econometric) techniques.

Work at international policy institutions is also about consensus building, so that the preferred economic policies can be come accepted by the Member States. Hereby, one can remark that "skills in communication and the art of persuasion are generally at a premium in international agencies, given their limited powers" (Coats, 1986, p. 167). However, also to have an impact inside a multinational (and multilingual) organisation, communication and negotiation skills are more important than in national organisations. Marris's remarks about the OECD apply equally well to the European Commission: " 'good economics' merges almost imperceptibly into the art of persuasion" (1986, p. 113).

One can also distinguish, at policy institutions, between background studies and direct policy work. The, more academic, background studies have certainly become more important during the last decades. Policy-makers want to know how the economy functions, so profound analysis is needed. Also, communication with the academic world, as part of the general communication process, is important. Therefore, one has to be able to speak the language of academics.

Moreover, economics at most international economic policy institutions, like the Commission, is a compromise between different tendencies and persons. This contributes naturally to the eclectic and synthetical nature of economics at the Commission. This can lead to rather paradoxical statements, which can seem to be in conflict with the criterium of logical consistency. So was the 1983 Report very positive on nominal income targeting, which was advocated by the CEPS Group, but praised it also the strategy of monetary targeting in several Members States.

This all implies that economists face different requirements in these two worlds. At a policy-making institution, certain qualities of academic economics are less useful. Instead, other characteristics are at a premium:

- being a good team member, also with noneconomists. There are limits to "independent originality". As remarked by one observer, "Economists working in government service have a vested interest in promoting consensus on basic issues of economic analysis. Academics, on the other hand, while they must ride with the tide, have a vested interest in differentiating their product" (Marris, 1986, p. 109);

- quick judgement, as there is less time for in-depth analysis of problems;
- good communication skills: writing clear and accessible papers and achieving consensus in meeting: this can be different from "academic brilliance";
- emphasis on empirical work, with special attention to the methodology of the statistics.

8. Conclusion

During the early 1980s the European economy was in the doldrums, with unemployment more and more dominating the scene, and the European integration process was languishing. In its Annual Economic Reports the European Commission presented its analysis of the situation and proposed its macroeconomic policy strategy. In 1985, with the Delors Commission freshly installed, the European Commission succeeded in giving fresh impulses, especially with the internal market project and the Cooperative Growth Strategy. This strategy was based on a combination of moderate real wage increases, in order to improve profitability, and support for demand. It was also based on a dialogue between the Community, the national governments and the social partners.

In its analysis of the economic situation and discussion of policy proposals, the services of the Commission were clearly influenced by developments in the academic world. The interaction was even institutionalised with the CEPS Macroeconomic Policy Group, which comprised several distinguished academics, and which held joint seminars with the economists of the Commission.

However, economics at a policy-making institution like the European Commission has several characteristics which distinguish it from academic economics. Economists at policy-making institutions are naturally more concerned with the immediate policy problems with which one's institution is confronted. It is then important to assess how the economic situation and policy problems evolve. This implies that the monitoring and forecasting of the economic situation are of crucial importance. Furthermore, an economic policy has to be developed to tackle the problem. A sufficient consensus has to be shaped, so that the strategy becomes politically acceptable. In this whole process, good communication is essential.

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Main events

1979	March Autumn	Creation of the EMS Second oil shock
1981	January May October	Beginning of Thorn Commission Reagan inaugurated as US president Mitterrand elected in France General realignment in the EMS
1982	June	General realignment in the EMS
1983	March	General realignment in the EMS
1984	June	Fontainebleau Summit, agreement on the European budget
1985	January March July November	Beginning of Delors Commission European Council agrees on single market project General realignment in the EMS Cooperative Growth Strategy presented in the Annual Economic Report

Main macroeconomic policymakers at the European Commission¹

President: G. Thorn (L)²

Commissioner responsible for DG II: F. - X. Ortoli (F)³

DG II Director-General: T. Padoa-Schioppa (I)⁴

Deputy Director-General: M. Wegner (D)

Directorate A (National Economies): P. Van den Bempt (B)

Directorate B (Economic Structures and Community policies): ...

Directorate C (Macro-economic Research and Policy): M. Emerson (UK)

1. Concerted action
2. Short-term forecasts
3. Business cycle surveys
4. Medium-term forecasts
5. Econometric models

Directorate D (Monetary Matters): J.-P. Mingasson (F)

¹ In January 1983.

² From January 1985: J. Delors (F).

³ From January 1985: A. Pfeiffer (D).

⁴ From March 1983: M. Russo (I).

Table 3**Main macroeconomic data for the EU (EC 10)**

		Forecast ¹	Estimation ²	Realisation
Real GDP	1981	0,6	-0,5	0,1
	1982	2,0	0,3	0,8
	1983	1,1	0,5	1,7
	1984	1,5	2,2	2,5
	1985	2,3	2,3	2,4
Inflation	1981	9,7	11,6	11,1
	1982	11,2	10,5	9,8
	1983	6,6	6,3	7,4
	1984	5,6	5,1	6,2
	1985	4,2	5,2	5,3
Current Account Balance of Payments	1981	-1,2	-1,2	-0,4
	1982	-0,9	-0,7	-0,4
	1983	-0,4	-0,2	0,3
	1984	0,0	0,0	0,3
	1985	0,4	0,5	0,4
Government Deficit	1981	-3,9	-4,4	-5,3
	1982	-4,2	-5,0	-5,2
	1983	-4,9	-5,4	-5,0
	1984	-4,7	-5,3	-5,0
	1985	-4,8	-5,2	-4,3
Unemployment	1981	6,8	7,8	7,8
	1982	8,5	9,4	9,5
	1983	10,3	10,4	10,3
	1984	10,9	11,0	10,8
	1985	11,5	11,1	11,1

¹ Made in the preceding year.

² Made in the current year.

Table 4**Economists at DG II: educational background according to age group**

	Total	Studied abroad	Studied in America*	Studied in a "foreign" European Country	Ph. D.
50 and above	16	9	3	6	9
40-49	19	9	3	7	5
Below 40	39	29	12	20	14
Total	74	47**	18	33	28

Source: Maes, 1996, p. 250.

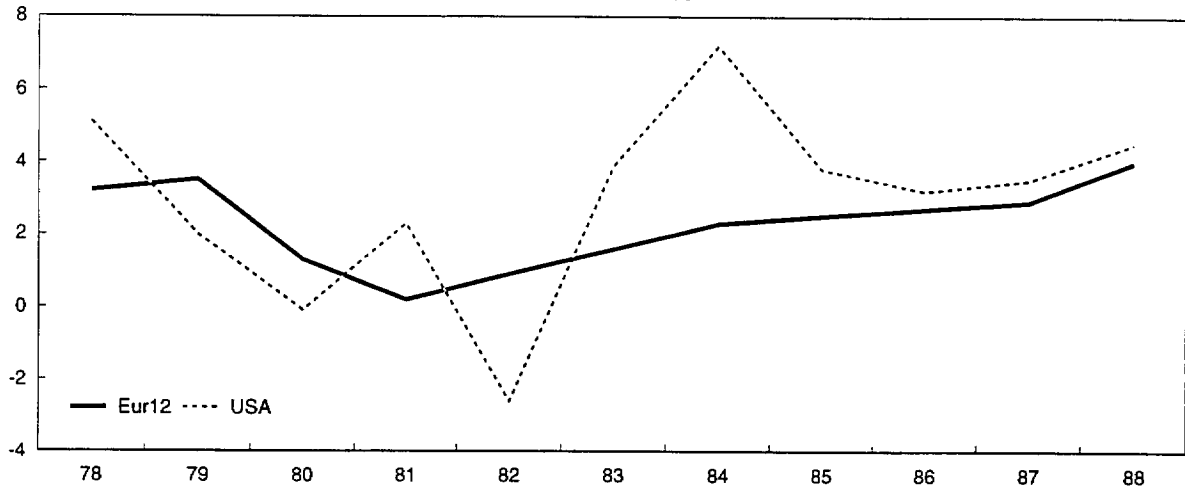
¹ Based on a survey of the A staff of DG II in 1994; 74 out of 130 replied.

* America = United States and Canada.

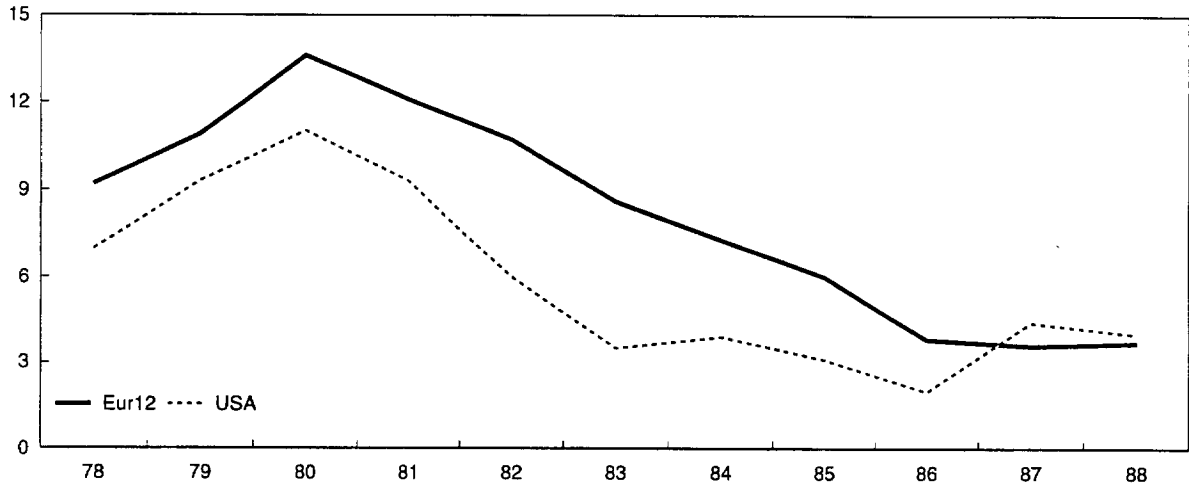
** The total number of economists who studied abroad is lower than the sum of America and "foreign" European countries, as there are four people who studied both in America and in a "foreign" European country.

MAIN ECONOMIC INDICATORS FOR THE EUROPEAN COMMUNITY AND THE UNITED STATES

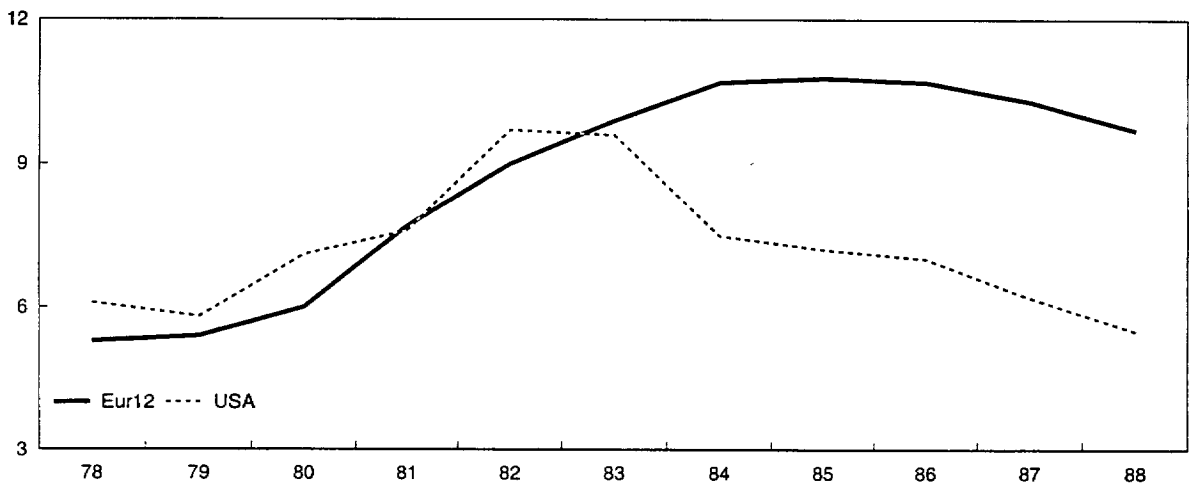
GROSS DOMESTIC PRODUCT AT CONSTANT PRICES ¹



PRICE DEFLATOR PRIVATE CONSUMPTION ¹



UNEMPLOYMENT RATE ²



¹ Annual percentage change.

² Percentage of civilian labour force.

Source: European Commission