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THE ECONOMIC AND SOCIAL SITUATION
IN THE COMMUNITY

(Communication from the Commission to the
European Council, 19-20 March 1984)

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INTRODUCTION

This communication to the European Council embodies the main points set out in the document on the economic situation addressed to the Council (economic and financial affairs) and discussed by it at its meeting on 12 March 1984.

It summarizes the assessments and economic policy guidelines which the Commission regards as being of key importance in pursuing the objective of restoring sustained growth and improving the employment situation.

I. Economic developments in 1983 and outlook for 1984

- A. Economic performance in 1983 was better than anticipated; the Community economy moved on to a recovery path in the first half of 1983, thus ending a recession which had begun in 1979: real growth will have amounted to 0.8 % in 1983 as against 0.6 % in 1982 and -0.4 % in 1981. The recovery process has been marked by:
- the favourable effects on consumption, and then on stockbuilding, of the stabilization policies which have, especially in the Federal Republic of Germany and the United Kingdom, been pursued;
 - an appreciable acceleration in the growth of international trade, induced mainly by the recovery in America;
 - a continued drive, whose results began to materialize in 1982, to bring down inflation. The inflation rate in the Community was 6.2 % in 1983 as against 8.8 % in 1982 and over 10 % in 1981, while the Community's average annual inflation rate during the last decade was above 9 %;

- further progress towards restoring external equilibrium: the Community's current account deficit was equivalent to -0.1 % of GDP in 1983 as against -0.5 % in 1982 and -1.3 % in 1980;
- a worrying unemployment trend: it eased somewhat during the second half of 1983, with the increase in unemployment slowing; but the unemployment rate continued its rise, to average more than 10.5 % of the labour force in 1983, compared with 9.5 % in 1982 and 7.8 % in 1981.

B. The recovery should in the normal course of events continue and accelerate in 1984; management opinions on the trend of activity have improved distinctly since the end of 1983 in the Federal Republic of Germany and the United Kingdom, and investment in manufacturing could increase in the Community as a whole by an average of more than 4.5 % in volume terms, having fallen by 3 % in 1983.

Overall, the outlook for the Community economy as a whole in 1984 is as follows:

- the recovery should accelerate, with the real growth rate reaching 2 % for the Community as a whole and 3 % in the Federal Republic of Germany, 2.5 % in Denmark and 2.5 % in the United Kingdom, so that these countries would exceed their average annual growth rates for the last decade;
- this recovery is expected to be accompanied by a further slowdown in inflation, which could be 5.2 % for the community as a whole, i.e. half the rate in 1980-81;

- investment and exports should take over from consumption and stockbuilding as the key factors fuelling the recovery in 1984. Total investment could grow by 2 % in volume terms, following a steady decline during the past three years. World trade should continue to expand strongly, mainly under the impact of the growth of the American economy, but also because of growth in the other industrialized countries and in the developing countries. World imports could increase in volume terms by 5 % in 1984 as against 1.7 % in 1983. International trade would thus gradually become the driving force once again in the growth process, not only in the Community, but also in the world economy as a whole;
- the Community should be back in current account equilibrium and, during 1984, achieve a slight surplus of the order of 0.3 % of GDP;
- lastly, the policies to stabilize and reform the public finances which have been pursued throughout the Community for the past two years should begin to produce results: the general government borrowing requirement could be brought down to 5.2 % of GDP compared with 5.7 % in 1983 and 5.4 % in 1981-82.

However, although the recovery which got under way in 1983 has continued and is expected to gain significantly in strength in 1984, there has not yet been any growth in employment, even though the easing of the rise in unemployment first noted in 1983 has been followed by relative stabilization. At the end of January 1984, unemployment amounted to 12.9 million persons (in unadjusted terms) in the Community, i.e. 600 000 more than at the end of January 1983, and the unemployment rate is likely to reach an average of 11 % for 1984, compared with 10.6 % in 1983. However, there is expected to be a fall in the average unemployment rate for 1984 in the Federal Republic of Germany and the United Kingdom.

II. The conditions for continued recovery in 1984

The profile sketched out above for 1984 and the outlook for 1985 will largely depend on the international environment: continued expansion of trade, stabilization of a number of economic fundamentals, notably interest rates and exchange rates, and greater predictability of policies are essential if there is to be strong and sustained recovery. These conditions in turn depend on a large number of factors, with the path of the US economy probably the crucial influence.

To date, the combination in the United States of an expansionary budgetary policy and a restrictive monetary policy has made it possible to stimulate economic activity to a greater degree than was predicted and to bring inflation down to very low levels: a policy mix of this sort has produced, and is still producing, undeniable knock-on effects throughout the world economy.

However, it has also exerted very strong pressures on interest rates and has contributed to an overvaluation of the dollar and considerable uncertainty about its future performance (as very recent developments again illustrate). One result has been a substantial deficit in the US trade balance, which amounted to US \$9 500 million for the month of January 1984 alone, compared with US \$6 300 million a year earlier. The danger is that the policies being pursued will eventually jeopardize the US economy's capacity for growth or will arouse new protectionist pressures.

For the Community, the level and uncertainty of the dollar exchange-rate and excessively high real interest rates are undermining the beneficial effects to be expected from bringing greater discipline into public finance and may delay the upturn in investment. These factors are also of importance for the rest of the world economy and above all for the developing countries - whose economic and financial position is still shaky - at a time when most of them have embarked on a difficult adjustment process.

The economic and monetary policies of the industrialized countries must therefore be more closely coordinated, with the prime objective of removing some of these impediments to continuing economic recovery. The forthcoming gatherings at international level (IMF Interim Committee in April, OECD ministerial meeting in May and the London summit of industrialized countries in June) should be used by the Community to push for coordination along those lines.

III. Strengthening convergence within the Community

The economic performance of the Member States followed an increasingly convergent path in 1983 and further headway is expected on this front in 1984. The slowdown in the rate of price increases has been accompanied by a narrower spread between Member States' performances; Greece apart, the widest inflation differential narrowed from 14.5 percentage points in 1981 to 11.5 points in 1983 and will probably be trimmed to under 8 points in 1984. At the same time, most Member States have been recording since 1983 a reduction in their external imbalances. Lastly, in response to budgetary policies, sometimes pursued under difficult conditions because of the level of interest rates, public deficits are now beginning to shrink, although still too slowly in some Member States.

At the same time as this growing convergence of economic performance in 1983, there has occurred a desynchronization of economic cycles which may prove beneficial if it is used to buttress economic stabilization policies in the countries where the adjustment process has not yet been completed. Only on this condition will we be able to begin a radical adaptation of our economies or to lay the foundations for a lasting recovery in economic activity.

The closer convergence of Member States' economies owes much to the effects of the EMS. Over and above its tangible effect in helping to secure monetary stability, the EMS has made a major contribution, through the regular discussions on economic and monetary matters, to the emergence of a consensus on the causes of the problems we face and on the general thrust of economic policy that is needed. At Community level, agreement has gradually emerged on:

- the need to reduce structural budget deficits through efforts to limit the expansion of public expenditure, to maintain the level of public investment and to reduce the share of taxes and social security contributions in GDP;
- the importance of assigning a durable and credible anti-inflationary role to monetary policies;
- the need to pursue policies aimed at channelling more savings into investment;
- the importance of ensuring that wage trends do not outrun productivity gains, that they permit a lasting restoration of firms' financing capacities and that they contribute to disinflation;
- the need to secure a sustained improvement in the competitiveness, adaptability and innovative capacity of the European economies;
- the advisability, as a back-up to economic policy, of introducing specific employment measures, while making allowance for the competitive constraint facing firms and making sure that the measures are reversible.

IV. Conclusions

For the first time since 1979, the Community economy is on the road to recovery: the recovery process, which got under way in 1983, should be reinforced during 1984 by the combined effects of stabilization policies and the revival of world trade. Concomitant features should be a further slowdown in inflation, an upturn in investment and increased convergence of economic performance.

Despite this favourable outlook, the upturn in 1984 is not yet expected to bring about any appreciable improvement in unemployment in the Community as a whole, even though the rate is now rising more slowly. All in all, unemployment remains the most worrying economic and social problem in the Community, and its lasting reduction remains a key priority.

Moreover, the continuation of the recovery in the Community in 1984 will continue to depend on several aspects of the international environment which remain uncertain, especially the level of interest rates and the development of exchange rates. A significant improvement in the coordination of economic policies at international level should be among the Community's priority objectives, in particular at the forthcoming international meetings on economic matters.

Provided that these uncertainties are removed, there is the prospect of a gradual improvement in the economic situation in the Community: it must be turned to good account in the pursuit of adjustment efforts and action to eliminate the weaknesses in the Community's productive structure, and in order to achieve faster improvement in the competitiveness of the European economies, so necessary for any lasting solution to the unemployment problem.

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

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

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	3.2	2.5	3.1	-1.1	1.0	.0	1.3
DK	2.6	3.7	-4	-7	3.6	2.0	2.6
D	2.9	4.1	1.9	.2	-1.0	1.0	3.0
FR	4.8	3.7	1.6	-7	.0	.3	1.6
F	3.6	3.2	1.3	.2	1.7	.3	.4
IRL	4.3	3.4	3.7	1.6	1.2	.5	2.3
I	3.2	4.9	3.9	-2	-3	-1.3	2.2
IL	3.1	4.0	1.7	-1.8	-9	-2.4	-1.0
NL	3.6	2.4	.9	-1.6	-1.6	1.0	1.7
UK	2.2	1.6	-2.0	-2.0	2.4	3.2	2.5
EC	3.1	3.1	1.3	-4	.6	.8	2.0
USA	2.9	2.4	-3	2.3	-2.2	3.4	5.0
JAP	6.9	5.1	4.4	3.2	2.9	3.3	4.6

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

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	6.7	3.7	6.7	8.8	7.4	7.7	6.5
DK	9.8	10.4	10.2	11.9	10.5	6.7	5.3
D	5.1	4.2	5.4	5.6	5.3	3.0	3.3
FR	11.5	17.5	22.2	24.4	21.1	19.8	19.2
F	-8.6	10.6	13.3	12.9	10.8	9.5	7.2
IRL	12.8	13.4	18.6	20.1	17.1	10.8	9.0
I	13.1	15.0	20.3	19.0	16.8	14.5	10.5
IL	6.3	5.8	7.7	7.7	10.8	8.4	7.7
NL	7.5	4.3	6.9	6.4	5.7	2.7	3.1
UK	12.3	13.2	16.4	11.0	8.3	5.4	5.5
EC	9.1	8.9	11.2	10.1	8.8	6.2	5.2
USA	6.1	9.0	10.5	8.9	5.8	3.9	5.1
JAP	7.7	3.5	7.0	4.5	2.9	1.4	1.4

TABLE 3 NUMBER OF UNEMPLOYED AS PERCENTAGE OF THE CIVILIAN LABOUR FORCE (EC, USA, JAPAN, 1970-1984)

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	5.0	8.8	9.4	11.2	13.1	14.5	14.9
DK	3.3	6.1	7.0	9.2	9.9	10.5	10.8
D	2.5	3.4	3.4	4.7	6.8	8.4	7.8
FR	-	-	-	-	5.8	7.8	8.6
F	3.3	6.0	6.4	7.8	8.7	8.9	9.7
IRL	7.1	7.4	8.2	10.2	12.3	14.7	16.6
I	5.6	7.5	8.0	8.8	9.1	10.7	11.9
IL	.2	.7	.7	1.0	1.2	1.6	1.9
NL	3.0	5.7	6.5	9.4	12.7	15.4	16.8
UK	4.0	5.0	6.4	9.6	11.0	11.7	11.4
EC	3.8	5.3	5.9	7.8	9.5	10.6	11.0
USA	6.2	6.0	9.8	7.6	9.7	9.5	7.8
JAP	1.7	2.2	2.1	2.2	2.4	2.6	2.5

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

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	.4	-2.7	-4.7	-4.2	-3.6	-1.5	-.5
DK	-2.9	-4.7	-3.7	-3.1	-4.1	-2.1	-1.9
D	.9	-8	-1.9	-1.0	.6	.7	1.0
FR	-2.8	-2.9	-.9	-.2	-3.9	-3.8	-4.3
F	-.3	.6	-1.4	-1.4	-2.9	-1.7	-.8
IRL	-4.2	-11.3	-9.9	-13.1	-8.4	-2.8	-1.3
I	-.2	1.7	-2.4	-2.3	-1.6	-.2	-.1
IL	22.5	28.3	22.6	31.5	39.2	37.7	36.1
NL	1.3	-1.1	-1.5	2.2	2.7	3.3	3.9
UK	-.9	.6	1.4	2.6	2.0	.7	.6
EC	-.1	-.4	-1.3	-.5	-.5	-.1	.3
USA	.1	-.1	.3	.1	-.4	-1.4	-2.4
JAP	.8	-.8	-1.0	.3	.6	1.9	2.6

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

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	-4.2	-7.1	-9.1	-12.6	-11.6	-11.6	-10.9
DK	.0	-2.0	-3.6	-7.1	-9.2	-8.2	-6.9
D	-1.5	-2.8	-3.1	-3.9	-3.5	-3.0	-1.8
FR	-4.4	-4.8	-5.4	-10.6	-8.3	-9.2	-9.8
F	-.5	-.7	.3	-1.8	-2.6	-3.4	-3.5
IRL	-8.5	-11.9	-12.8	-15.8	-16.2	-13.4	-12.3
I	-8.6	-9.5	-8.4	-11.7	-11.9	-11.9	-11.9
IL	2.3	.7	.0	-2.3	-1.4	-2.3	-.4
NL	-1.3	-4.3	-4.0	-5.2	-7.2	-6.6	-6.8
UK	-3.2	-3.2	-3.4	-2.7	-2.0	-3.5	-2.5
EC	-2.9	-3.6	-3.5	-5.4	-5.4	-5.7	-5.2

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

	1970	1979	1980	1981	1982	1983	1984
	1979						
BE	10.9	6.0	2.7	6.6	5.9	5.5	6.7
DK	11.0	10.8	8.1	9.6	11.8	25.4	7.5
D	10.1	6.0	6.2	5.0	7.1	5.3	5.3
FR	23.3	18.4	24.7	34.3	31.5	20.0	21.3
F	15.4	14.4	9.7	11.4	10.8	8.8	6.8
IRL	18.2	19.8	16.9	17.4	12.9	7.5	11.4
I	19.6	20.3	12.0	16.0	17.2	14.4	14.2
IL	-	-	-	-	-	-	-
NL	11.6	7.6	3.6	5.2	7.6	10.3	10.0
UK	13.4	12.7	18.6	14.6	9.2	11.5	8.9
EC	13.9	11.9	10.5	10.8	10.7	9.8	8.6
USA	9.5	8.2	9.0	10.0	9.2	-	-
JAP	16.9	9.1	7.2	8.7	7.0	-	-

F, NL, USA M2; D, FR, IRL M3; B, DK M2H; UK STERLING M3 (FISCAL YEAR); I: M2 (68-79), M3 (80-84), JAP M2 AND CD.

NOTE ITALY M2-GROWTH IN 1983 AND 1984 WAS 13.0 % AND 12.8 % RESPECTIVELY