

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE ECONOMIC AND SOCIAL SITUATION
IN THE COMMUNITY

(Communication from the Commission to the
European Council, 3 and 4 December 1984)

1. Introduction

The Commission's most recent assessment of the economic situation and the short-term outlook confirms and in some respects accentuates the prognosis which it communicated to the European Council in June:

- the upturn in activity and the efforts towards stabilization are continuing, but growth is unlikely to accelerate appreciably in 1985;
- recent developments in unemployment and the immediate prospects are extremely unsatisfactory; in 1985 the Community will probably see a further, though moderate, rise in the unemployment rate;
- the current upturn must be consolidated, and the economies of all the Member States must return progressively to a permanently higher growth curve which will create more jobs.

2. The economic situation in 1984 and 1985

2.1 In 1984 international trade has been marked by a vigorous upturn in activity in the industrialized countries, especially in North America.

This has helped to ease the international financial situation by taking pressure off the developing countries' current account deficits.

In 1985, the volume growth world trade is likely to be maintained at a rate of over 5% (compared with 9% in 1984). But this forecast depends on:

- a start being made towards restoring, smoothly and without disruptions, more balanced exchange rates and interest rates;
- the trading system remaining open internationally;
- growth in the industrialized countries continuing at a rate of at least 3%, which may be optimistic in view of the latest information on the United States economy.

2.2 In the Community, the recovery in the growth of output is likely to continue in 1985. This will stem mainly from improved or maintained growth in the United Kingdom, the Federal Republic of Germany, Italy and perhaps Denmark. Furthermore, a growth rate of 2.3% in 1985 would be well below the Community's long-term performance (growth of 2.9% a year from 1971 to 1980 for example), unlike predictions for the economies of the United States and Japan. Two further comments are called for:

- (i) the chief growth-promoting factors are, in order of importance, the sharp recovery in investment, export demand and private consumption;
- (ii) the danger is that the upturn in activity will prematurely come up against the problem of physical limitations on output, given that the industrial capacity utilization rate is now over 80%. So the take-off in investment must become permanently buoyant if a new slowdown in the potential growth rate of the Community economy is to be avoided.

2.3 Inflation in the Community is likely to continue to slow down and, despite the effects of the US dollar's climb in value, will probably turn out at around 5.1% in 1984 and 4.2% in 1985 (1971-80 average: 9.5%).

At the same time the performances of Member States participating in the EMS continue to converge, with average inflation in the Community falling substantially from 11% in 1980 to 4.2% in 1984 and narrower inflation differentials between Member States.

2.4 The external accounts situation and to a lesser extent that of public finance are also encouraging.

The Community's current account will be virtually in balance in 1984 and in 1985 should yield a surplus of the order of half a percentage point of GDP.

As regards public finance, the Community general government deficit will probably be down to 5.4% of GDP in 1984 and 4.8% of GDP in 1985.

But despite significant improvements, the disparities between Member States remain profound.

2.5 Unemployment is still worsening, though in 1985 it is likely to stabilize or even fall slightly in some Member States - the Federal Republic of Germany, the United Kingdom and Denmark.

In 1984 and 1985, the unemployment rate in the Community as a whole is expected to run at between 11 and 11.5% of the labour force, i.e. over 12 million unemployed. The unemployment rate among young people under 25 is almost 25%.

For some years the Community's economy has shown itself incapable of producing a net surplus of additional jobs: from 1982 to 1984, total employment will have fallen by 800 000, compared with increases of 5.4 million in the United States and 1.5 million in Japan, which cannot be explained solely by those countries' growth rates in 1983 and 1984.

3. Economic policy guidelines

The Commission has just sent the Council (Economic and Financial Affairs) a detailed report on the economic situation in the Community in 1984-85. This report concludes that the Community's imperative priority must be to consolidate and build upon what has been achieved under the stabilization policies of the last few years.

The scale of unemployment and the need to raise the potential growth rate mean that the incipient recovery now under way must be maintained, since this is an essential condition for any lasting upturn in investment and the creation of sufficient numbers of new jobs. Measures must be taken in three areas if this objective is to be achieved:

- (i) Macroeconomic policies: monetary policies steering clear of any acceleration in inflation must be maintained. Public expenditure should be cut back and efforts to reduce deficits should be pursued, primarily in the countries whose deficits are clearly still too high. However, it is just as important that any new room for manoeuvre should be used to reduce taxes and increase investment.
- (ii) Employment: wage costs should be more diversified to reflect differences in firms' profitability and should in general be stabilized or even reduced; the obstacles to increasing companies' readiness to take on labour should be removed, without however jeopardizing the rights of present employees; ways of increasing labour market flexibility, including changes in working time, should be systematically sought; and an active employment and training policy for young people and the long-term unemployed is needed.
- (iii) Supply-side measures must be vigorously pursued. The competitiveness of productive structures must be strengthened through a range of measures including the further development of the single Community market, joint advanced-technology development and adjustments in the rules and regulations governing the activities of firms.

3.2 In addition to firm agreement at Community level on this set of economic guidelines, the Commission considers that the European Monetary System should be consolidated - for a number of fundamental reasons.

Firstly, experience has shown that a robust EMS is essential both to the Community's existence as an integrated and homogeneous economic entity and to the securing of its potential for subsequent development. A strong and cohesive Community is an invaluable asset for restoring growth, regaining competitiveness and improving employment.

Secondly, a stronger European monetary identity is essential if we are to reduce the vulnerability of the European economies to external constraints. It is not always realized how seriously the Community's external weakness hampers policies for a faster return to more satisfactory growth. Consolidation of the EMS would give the Community greater international influence, and would enable it to exert a useful stabilizing effect and to regain a degree of autonomy which it lacks today. However, such external action will be credible only if the Community ensures that its internal monetary organization is solidly based and if it achieves greater convergence in performances. The time has come for it to do so.

Experience has shown that the EMS could be improved in a number of ways, and the Commission has recently laid proposals before the Council of Ministers with this aim in view.

The proposals make up a balanced package consisting of a series of measures for immediate action and an agreement to be reached in the near future on other action. The aims are as follows:

- to take a series of measures to strengthen convergence;
- to resume the financial integration process by easing the restrictions on capital movements and by gradually extending Member States' obligations with regard to the liberalization of capital movements;
- to develop the role of the public ECU, in particular by improving the conditions for its use between central banks, by increasing its remuneration and by making it accessible to other central banks in Europe;
- promoting the private use of the ECU through wider quotation, the establishment of a clearing system, the introduction of greater transparency on the market in ECU securities and the subsequent diversification of such securities.
- In addition, the Commission proposes that early solutions be found on other key questions:
 - participation of sterling in the exchange rate mechanism and reduction in the margins for the lira,
 - intramarginal interventions in ECUs,
 - abolition of the ECU's acceptability limit,
 - removal of existing obstacles, particularly in the Federal Republic of Germany, to the private use of the ECU,
 - adjustments to the Community instruments providing balance-of-payments support.

The Commission requests the European Council to lend its support to this initiative: following the progress achieved at the Fontainebleau meeting, it would make an important contribution to restoring vitality to the Community and would help secure greater stability in international monetary relationships.

The most timely occasion for reaching an agreement on significant strengthening of the EMS is the Council meeting of Ministers for Economic and Financial Affairs to be held on 10 December. This is an opportunity which must not be missed.

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, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	3.2	3.2	-1.1	1.1	4	1.5	1.0
DK	2.3	-4	-7	3.6	2.5	3.8	2.9
D	2.8	2.0	0	-1.0	1.0	2.4	2.5
GR	4.7	1.6	-4	0	3	2.2	2.0
F	3.6	1.7	3	1.6	7	1.4	1.7
IRL	4.1	1.7	1.6	1.2	6	3.1	2.6
I	3.1	3.9	1	3	-1.2	2.9	2.1
NI	1.1	1.7	-1.8	-1.1	-1.4	2.0	1.9
NL	3.4	9	-7	-1.6	6	2.0	1.8
UK	1.9	-2.6	-1.3	2.3	3.3	2.0	3.0
EC	2.9	1.1	-3	5	9	2.2	2.3
USA	2.9	-2	3.0	-2.4	3.3	7.0	2.9
JAP	4.8	4.9	4.0	3.2	2.9	5.5	4.4

TABLE 2 : DEFATOR OF PRIVATE CONSUMPTION (PERCENT CHANGE ON PRECEDING YEAR, EC, USA, JAPAN, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	7.1	7.0	8.7	7.5	6.8	6.4	5.5
DK	10.2	9.8	11.7	10.3	6.7	6.0	4.3
D	5.2	5.4	5.7	5.1	2.9	2.3	2.2
GR	13.4	22.1	22.3	21.1	19.0	18.5	18.0
F	9.4	13.1	12.7	11.1	9.3	7.6	5.7
IRL	11.9	18.6	20.1	17.1	9.7	8.8	7.0
I	14.6	20.1	19.2	16.7	15.1	10.3	7.1
NI	6.7	7.7	7.7	10.0	8.4	6.7	9.9
NL	7.7	6.7	6.2	5.5	2.9	3.2	2.3
UK	13.3	16.8	11.1	8.3	5.1	5.1	5.6
EC	9.7	11.1	10.1	8.8	6.2	5.1	4.2
USA	6.9	10.2	8.9	5.8	3.9	3.4	3.6
JAP	8.6	6.8	4.8	2.4	1.4	2.9	3.3

TABLE 3 : NUMBER OF UNEMPLOYED AS PERCENTAGE OF THE CIVILIAN LABOUR FORCE (EC, USA, JAPAN, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	5.7	9.1	11.2	13.1	13.4	13.4	13.8
DK	3.6	6.7	8.9	9.5	10.5	10.2	9.8
D	2.6	3.3	4.7	6.8	8.4	8.5	8.5
GR	-	-	-	1.5	7.9	8.4	8.8
F	3.6	6.4	7.8	8.8	8.4	10.0	11.6
IRL	7.2	8.3	10.2	12.4	14.8	16.3	16.3
I	5.9	8.4	8.8	10.5	9.7	10.2	10.5
NI	3	7	1.0	1.3	1.6	1.7	1.8
NL	3.3	6.2	8.8	11.7	15.6	15.9	15.9
UK	4.1	6.3	9.3	10.7	11.7	11.7	11.8
EC	4.0	6.1	7.8	9.5	10.4	11.0	11.4
USA	6.2	7.1	7.6	9.7	9.6	7.5	7.1
JAP	1.8	2.1	2.2	2.4	2.7	2.6	2.5

TABLE 4 : BALANCE ON CURRENT ACCOUNT (PER CENT OF GDP, EC, USA, JAPAN, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	0	-4.5	-4.3	-3.4	-9	-4	5
DK	-3.0	-3.7	-3.1	-4.1	-2.1	-2.8	-2.2
D	7	-1.8	-1.0	6	7	6	1.1
GR	-2.8	3	3	-3.9	-4.5	-4.7	-4.9
F	-4	-1.4	-1.4	-3.0	-1.5	-1.2	-7
IRL	-4.9	-11.3	-14.4	-10.1	-5.9	-4.4	-3.3
I	-3	-2.4	-2.3	-1.6	1	-4	0
NI	22.5	22.6	28.2	40.2	39.0	39.1	37.5
NL	1.1	-1.5	2.2	2.8	2.8	3.8	4.4
UK	-8	1.8	2.5	1.9	1.0	2	2
EC	-2	-1.3	-6	-5	1	0	4
USA	1	2	1	-3	-1.2	-2.5	-3.6
JAP	7	-1.0	5	7	2.0	3.0	3.3

NATIONAL ACCOUNTS DEFINITION

TABLE 5 : GENERAL GOVERNMENT LENDING OR BORROWING (-) AS PERCENTAGE OF GDP (EC, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	-4.9	-9.9	-12.6	-11.1	-12.2	-11.5	-10.5
DK	-1.0	-3.3	-7.1	-9.3	-7.6	-5.5	-3.7
D	-1.7	-3.1	-3.9	-3.4	-2.7	-1.7	-1.8
GR	-4.6	-5.4	-10.6	-9.7	-9.2	-10.0	-10.1
F	-5	3	-1.8	-2.5	-3.3	-3.4	-3.6
IRL	-9.1	-11.8	-15.8	-14.2	-12.3	-10.8	-10.9
I	-8.7	-8.4	-11.7	-12.7	-11.8	-13.6	-12.2
NI	2.0	-8	-2.3	-1.4	0	1	9
NL	-1.6	-4.0	-5.2	-6.9	-6.1	-5.6	-6.0
UK	-3.1	-3.4	-2.7	-2.3	-3.4	-3.0	-2.4
EC	-3.2	-3.5	-5.4	-5.6	-5.5	-5.4	-4.8

TABLE 6 : MONEY SUPPLY M2/M3 (PERCENTAGE CHANGE AT END OF YEAR ON TWELVE MONTHS LATER, EC, USA, JAPAN, 1971-1985)

	1971	1980	1981	1982	1983	1984	1985
B	10.3	2.7	6.6	5.9	7.1	7.8	7.3
DK	11.7	10.9	9.6	11.7	24.7	11.0	8.0
D	10.0	6.2	5.0	7.1	5.3	4.7	4.7
GR	23.8	24.7	34.3	29.0	20.3	24.2	24.1
F	14.8	9.7	11.4	10.8	11.2	7.0	6.5
IRL	18.4	16.9	17.4	12.9	5.6	13.2	11.0
I	19.5	12.0	16.0	17.2	13.2	12.0	10.8
NI	-	-	-	-	-	-	-
NL	10.8	3.6	5.2	7.6	10.5	7.0	6.0
UK	14.5	18.6	14.6	9.2	10.3	8.5	7.0
EC	13.8	10.5	10.8	9.7	10.0	8.0	7.2
USA	9.5	8.9	10.1	9.2	11.5	-	-
JAP	16.9	7.2	11.0	7.9	7.4	-	-

F, NI, USA: M2; D, GR, IRL: M3; B, DK: M2H; UK: STERLING M3 (FISCAL YEAR); I: M2 (71-79), M3 (80-85); JAP: M2 AND CD.